

Understanding Mortgage Loan Qualification

To obtain a mortgage loan from our company you must meet our requirements for the particular loan program for which the application is made. These requirements are referred to as “guidelines”. This process is referred to as being “qualified” for the loan and the process of meeting the requirements is referred to a “qualification”. “Pre-qualification” refers to applying for a mortgage loan for the purpose of determining that you meet the lender’s requirements for the loan prior to making an offer to purchase a home.

The entire process of making an application for a mortgage loan and determining your qualification for a particular loan program is called “processing” the application. This process begins by submitting an application (either face to face with a lender representative, by mail, telephone or via the lender’s internet website). You typically will be required to provide the lender with some documentation to verify the accuracy of the amount of income and assets you stated in the application. In some cases the lender’s “processor” will do additional internal verifications and audits. Historically, this information was then presented to an “underwriter” (a person specially trained to determine whether you meet the requirements for the mortgage program for which you made application). This underwriter would then decide whether to approve or decline your request for a particular mortgage loan. The general process of this person reviewing the information and deciding whether to approve your request is referred to as “underwriting”.

Automated Underwriting (AUS)

Today, this process is usually somewhat different. Technological advancements now permit the lender to receive your application and submit it to an “automated underwriting system” (a complex computer program designed to determine your qualification for a mortgage based on many different factors contained in the application). Based on the information provided in the application the automated underwriting system (“AUS”) then obtains your credit file and credit scores from up to three credit reporting agencies and then based on this information decides whether you are qualified for the requested loan (based on the information provided in the application) . The system further generates the type of documentation or actions required to verify the validity of the information set forth by the borrower in the application. When a loan is underwritten in this manner the purpose of the underwriter is primarily to determine whether the requirements for documentation and verification generated by the automated underwriting system have been satisfied.

The most important factor in this process is the applicant’s credit score, which is an empirically determine score designed to rank the creditworthiness of an applicant based on the information contained in his credit file at a credit reporting agency. If an applicant’s credit score is sufficiently high the system may indicate that no documentation to verify the stated income and assets is required. For applicants with slightly lower (but still satisfactory) credit scores the system may request very limited documentation such as a single paycheck stub. In other cases, such as where the applicant is requesting a loan with an extremely high loan-to-value ratio or where the credit scores are below average, the system may require multiple check stubs and bank statements and up to two years’ of W-2’s and tax returns for certain applicants

Based on the features of the requested loan (e.g. the LTV ratio and the occupancy type), the location of the property that will secure the requested loan, and other factors contained in the application such as applicant’s credit scores the automated underwriting system will determine the type of property valuation determination that

is required. In some cases, a determination of value (such as a written appraisal report) may not be required. In other cases, the system will require a full or summary appraisal report.

This automated underwriting procedure sounds convenient and has proven to be far superior to the traditional system of using “underwriters” to determine a borrower’s qualification. The empirical data on which the systems are based take the “guesswork” out of determining whether a borrower is qualified for a particular loan program.

There are, however, drawbacks to this system. Because it relies on the information provided in the application, if the information is later determined to be inaccurate from a review of the documentation later provided, the system may generate an entirely different response, including the type of documentation required to verify income and assets. When this occurs, the lender representatives will then have to obtain the additional documentation from the applicant. For this reason, automated underwriting places higher demands on the loan originators and processors to verify through inquiries made during the application process that the information being provided in the application is accurate and is computed in the manner required by the program’s qualification guidelines. Loan officers who are adequately trained will make the necessary inquiries to determine during the application procedure that the information being stated in the application will likely be supported by the documentation later provided by the applicant.

Many lenders still do not use these automated underwriting systems to determine applicant qualification at the time of application since it requires the originating lender to possess a certain level of technological capability. In many cases lenders still request the maximum amount of documentation that the system might require at the time of application and do not actually submit the application to the AUS until several days (or weeks) after the application is received. This is not how the systems were designed to be used and obviously

Our company is always on the cutting edge of technological advancements. We began using automated underwriting at the time of application to determine a applicant’s qualification in 1993, more than a decade before the majority of lenders in the United States would employ such a procedure. As a result, we have developed procedures and trained our personnel to insure that the procedure works as envisioned by the creators.

As result our telephone and online application procedures are the easiest and most reliable in the industry.