

Home buyers and refinancers beware of the last-minute credit check



The Home Front By Don DeBat

When it comes to managing debt, even the savviest American home buyer can be a rank amateur.

Take the hypothetical example of Betty Buyer, a novice Chicago-area home purchaser who failed to pay her credit card debt on time on the same month the closing was scheduled on the purchase her new house.

Betty said it was a dumb, but honest mistake. She was expecting a hefty income tax refund check from Uncle Sam and planned to pay off her credit cards in full after the closing.

Meanwhile, the ever-watchful mortgage lender said her credit score slipped below 620 because of the failed credit-card payment and now she couldn't qualify for the FHA-insured loan.

A new loan-quality initiative from Fannie Mae is making it harder for home buyers and homeowners planning to refinance to close on a mortgage, warned Brian Weis, vice president of mortgage lending for Guaranteed Rate, a Chicago-based lender.

"Beginning June 1, 2010, with all new applications, Fannie Mae wants lenders to verify that borrowers have not taken on new debt during the underwriting phase of the mortgage," Weis said. "If new debts are found, the mortgage is subject to a re-underwrite and a possible turnaround."

For Fannie Mae, the goal is to reduce the number of loans that go bad because of new, non-disclosed debt.

Lenders have the freedom to verify in whatever manner they wish, but in most cases, the verification process will amount to a last minute credit check made just prior to closing.

Weis said Freddie Mac loan underwriters will continue to scrutinize loan packages looking for the following three key items in particular—even after the loan is approved:

- First, your updated credit report will show your current credit-card bills and minimum monthly payments. Those numbers will replace your original numbers made at the time of application. If the debts exceed a certain threshold, your loan will be denied.

- Second, underwriters will be looking at your updated credit score. If your FICO has dropped below minimum lending standards, your loan will be denied. Or, you may be subject to a

new loan-level pricing adjustment. A loan-level pricing adjustment means a mandatory loan fee likely will be charged based on your credit score.

- And, lastly, underwriters will be looking at your credit report's Credit Inquiry section. The goal is to see if you've been applying for credit elsewhere. Underwriters can use this information at their discretion.

"Fannie Mae's Loan Quality Initiative is just one more way that the government-backed group is trying to improve its loan pools," Weis said. "Unfortunately, it'll mean more turndowns for mortgage applicants."

That's why it is important to take extra care of your credit between the time you apply for a mortgage and the closing date, Weis advises. "Don't buy new cars, don't buy new appliances, and—most definitely—don't open new credit cards," he said.

Be extra careful with your credit because a mortgage application that's supposedly cleared-to-close can be revoked at the eleventh hour, Weis warns. "When in doubt, talk to your loan officer about what may or may not trigger the Loan Quality Initiative. Your loan approval is at stake," he said.

Don DeBat's weekly real estate column is syndicated by DeBat Media Services. For more home-buying information visit his website at: www.dondebat.net.

U.S. housing starts plunge in May



WASHINGTON-- Fewer U.S. homes were built in May than anticipated as builders scale back now that government incentives have expired. Building permits, a sign of future construction, unexpectedly fell to a one year low.

Housing starts fell 10 percent, the biggest decline since 2009, to a 593,000 annual rate, the Commerce Department reported Wednesday. Single-family starts suffered the largest drop since 1991.

April's figure was revised downward to 659,000 and new building permits dropped 5.9 percent to an annual rate of 574,000. The struggle in the housing industry is a concern for the broader economy because fewer homes mean fewer jobs across various sectors.

Two of four regions had a decrease in starts last month, led by a 21 percent slump in the South and a 6.3 percent decline in the Northeast. Single-family starts were down in all regions.

Under the government's incentive program, which was renewed and expanded in November, buyers had to sign contracts by the end of April and close on homes by June 30 to qualify for a credit worth as much as \$8,000. Banks usually

require homes to be livable before they agree to closing.

Senator Harry Reid (D-Nevada) last week proposed a three-month extension to the closing deadline amid concern that a rush of buyers created too big a backlog for builders to compete projects by the end of the month. An extension would support housing starts and construction in the coming months.

The poor report on housing came despite more promising reports on the economy. Inflation at the wholesale level remains steady and industrial production rose for the third straight month. Output at the nation's factories, mines and utilities climbed 1.2 percent in May, the Federal Reserve said Wednesday.

Factories, the single biggest contributor to industrial activity, increased production to 0.9 percent. Production at utilities increased 4.8 percent as warm weather created more demand for electricity. Mining was the only component that lagged.

Falling energy costs are expected to keep inflation low in June, given that gasoline costs in June are down significantly from a month ago. The nationwide average for regular

gasoline is \$2.70 currently, down from \$2.87 a month ago, according to AAA's Daily Fuel Gauge Report.

The continued absence of inflationary pressure means that the Federal Reserve, which meets next week, can keep interest rates low to provide support for the economic recovery.

West Argyle Street gets national recognition

Chicago's West Argyle Street has been added to the National Register of Historic Places. The North Side stretch of West Argyle that gained the historic designation is bounded by Sheridan Road, Ainslie, Broadway and Winona streets.

Much of the area is now occupied by Vietnamese and other Southeast Asian restaurants and shops.

The area is significant because it shows how part of the city was transformed from a rural area to a dense urban one, says Jan Grimes, of the Illinois Historic Preservation Agency.