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Lenders Call Push By Fannie on Loan Quality Redundant

■ BY KATE BERRY

A month or two before **Fannie Mae's** new quality-control requirements take effect, lenders are grumbling that the changes will delay closings and reduce originations without much improving loan quality.

The government-sponsored enterprise's "loan-quality initiative," announced in February, was designed to reduce loan repurchase requests. If lenders do a better job on the front end of making sure the loans they deliver meet Fannie's guidelines, it said, the GSE would not have to make lenders buy back defective mortgages after the fact.

Starting June 1, lenders will be required to confirm 10 basic data elements for every loan, such as a borrower's identity and Social Security number.

The biggest changes, which are to take effect July 1, require that lenders audit loans with high-risk characteristics — both before and after funding — and give monthly "defect" reports to their senior management. Fannie said in a March note to lenders that, when defects are found, senior managers must write an "action plan" to stop them from recurring.

Lenders, however, question whether these changes will actually uncover material deficiencies, especially since large-bank aggregators and mortgage insurers have added their own stiff requirements since 2009.

"I don't know what more we can possibly verify and check before issuing a loan," said Kevin Marconi, the chief operating officer at **United Fidelity Funding**, a wholesale and retail lender in Kansas City, Mo.

Lenders are double- and triple-checking loan files for fraud, he said, reverifying data before a loan is funded, "and the agencies and mortgage insurers still push back" with loan repurchase requests and rescissions of coverage. "I do not have any hope that LQI

will come in like some white horse and save us," he added with reference to Fannie's loan-quality initiative.

Another new Fannie requirement, that lenders pull a second credit report right before a loan closes, will mean some applications will have to be re-underwritten if debt-to-income ratios have gone up because the applicant took on more debt.

John Walsh, the chief executive of **Total Mortgage Services**, a Milford, Conn., lender, said the big banks that buy his loans will take longer to do their reviews and examine a larger number of loans, thus delaying closings. "This just elongates the process for everyone," he said, "and the additional time it takes ends up costing us money in the long run."

Janis Smith, a Fannie spokeswoman, said the initiative "will help us better manage our risk and in turn support housing market stability." The GSE will also offer training before implementing the requirements, she said.

Lenders will have to do more frequent reviews before and after funding loans with certain high-risk characteristics, including those with loan-to-value ratios above 90%, cash-out refinancings, investment properties, condominiums and the originations of new hires and third-party companies.

The prefunding audits could, at least initially, cut origination volumes, which are already down this year. Karen Deis, a former loan officer, said some loans that come up for review will simply not get funded. "There are a lot of things that should have been 'caught,' if only there was a second or third review," said Deis, now the publisher of **Mortgage Currency**, a Hudson, Wis., website that translates regulations to plain English.



Anna DeSimone
President, Bankers Advisory Inc.

Lenders will also have to do monthly reviews on a statistical sampling of their loans rather than a random 10% sample. For example, lenders must review a certain share of all types of properties such as condominiums and manufactured housing.

Anna DeSimone, the president of **Bankers Advisory Inc.**, a Belmont, Mass., consulting firm, said lenders should not be complacent about quality control. "Underwriter weaknesses are the reasons we have bad loans. It means someone is not doing their job," she said.

And there could be an upside to having loans underwritten two to three times by various auditors.

"If you fast-forward two years and the investor says they want the lender to buy back a loan because it's 90 days delinquent, you can always say, 'But you [quality-controlled] it when you bought it from me,'" said Scot Baker, the national sales director at **ESP Audits LLC** in Reno. ■



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