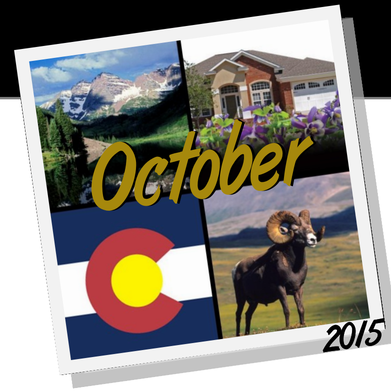
Newsletter
Written by Bruce Jordan
FIDELITY® NATIONAL TITLE COMPANY



The Pendulum is Swinging…

There has been plenty of press coverage since 2006 about the "mortgage meltdown," the "financial crisis" and the "great recession" all tied to and precipitated by, many would say, lending standards that were far too loose in granting credit to ill-equipped borrowers. The resulting waive of foreclosures had devastating impacts on communities far and wide. In the aftermath, there seemed to be an unchallenged consensus that residential lending guidelines would have to be significantly tightened up, with greater documentation, more restrictive criteria, increased down payment requirements and so forth.

As we get further and further away from the onset of the "meltdown" there seems to be more and more indications that lenders, and the mortgage agencies which define their underwriting guidelines, are moving in a direction that is less stringent than the direction taken soon after the years following 2006.

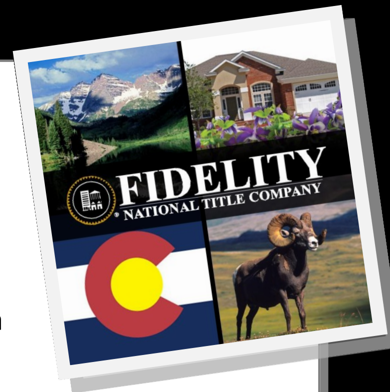
For example, Fannie Mae has relaxed its guidelines in a number of areas, making it much easier for certain borrowers to obtain a mortgage loan, including the following:

- <u>Conversion of Principal Residence</u>: Previously, an owner of a principal residence which was going to be retained as a rental had to have at least 30% equity in that property in order to use the rental income to offset their other obligations. That requirement has been removed as of July, 2015.

- <u>Stocks and bonds for reserves</u>: Underwriting guidelines frequently require demonstration of "reserves" or funds available to the borrower post-closing, should those funds be needed to address obligations on other properties, etc. Until recently, the borrower could only rely upon 60% of the vested value of stocks, bonds, mutual funds and 401k accounts to satisfy that requirement. Going forward, 100% of that value can be used to satisfy the reserve amount.

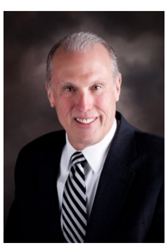
- <u>Payoff of Consumer Accounts</u>: When a consumer was trying to qualify for a loan by paying off monthly revolving debt (credit card accounts) the guideline required that the account be paid to zero AND closed out altogether. This avoided the possibility of further advances right after closing that could again affect the borrower's ability to service the new loan obligation. Here again, that requirement was relaxed in May 2015 to allow the account to remain open when the balance was brought to zero.

The **Federal Housing Administration** (FHA) has recently reached out to residential lenders to provide some assurances that it would relax its enforcement efforts where lenders made minor errors on those loans, rather than more serious mistakes. In the wake of the financial crisis, Federal prosecutors had aggressively brought actions against lenders seeking to impose serious penalties for underwriting failures. In some cases, the False Claims Act was used to make banks responsible for the loss arising out of the default, as well as penalties representing three times the outstanding loan balance. That effort had a chilling effect on the willingness of many lenders



to offer FHA financing, given the potential financial exposure. Although FHA is hoping to be viewed as a “kinder and gentler” agency, many of the larger banks have already been bitten by enforcement actions and are being very guarded in their willingness to expand FHA lending efforts.

Non-Bank Lenders are starting to appear on the residential scene offering loans to borrowers who are just emerging from a foreclosure, short sale or a bankruptcy proceeding. These borrowers are typically sidelined for various periods of time, depending on whether the loan program is FHA, VA, Fannie Mae or Freddie Mac. However, these non-bank sources are offering loan products specifically to this genre of borrower, with the knowledge that they can command significantly higher interest rates than would otherwise be available with mainstream products.



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