

## What Ever Happened to “Make Sense” Underwriting?

Only months ago an underwriter’s primary job description was to review a loan application and determine the borrower’s ability to repay a mortgage. It was very simple, if the loan file made sense and met most of the lenders guidelines, then it was approved. This was referred to as "make sense" underwriting. Many investors and home owners alike have recently experienced that this is no longer the case.

If you were to read an underwriters job description today, it would read something like this:

*“As an underwriter, your one and only job description is to make sure that every loan fits exactly into our company’s guidelines. There will be no exceptions of any kind. If you find anything that sends up a red flag, no matter how big or small, you are to ask for a thorough explanation with appropriate documentation. Only after ever part of the file has been picked through line by line, will you be able to approve a loan.”*

Underwriters had the authority to grant minor exceptions if something in the loan application did not precisely match their guidelines. Higher credit scores and sufficient assets would be considered a compensating factor for something that otherwise would have disqualified the applicant. Likewise, if a borrower’s credit score was a few points short but all other guidelines were met or exceeded, the underwriter had the ability to grant a credit score exception.

In today’s market the first priority for lenders is the ability to sell their loans on the secondary market, therefore relying heavily on either Fannie Mae or Freddie Mac guidelines. Therefore anything that falls outside of these guidelines are rarely approved. Fannie Mae and Freddie Mac are for-profit, privately capitalized government-sponsored enterprises that purchase the majority of these conforming loans.

Due to the changes in these guidelines mortgage brokers are required to submit new loan applications through automated underwriting engines with parameters created by Fannie Mae and Freddie Mac. These engines will issue an “approve” or “accept” if all current guidelines are met based on the borrower’s credit and loan application. All lenders require approval from these engines before being able to submit a new loan. These automated underwriting engines do not issue final approval; therefore it is the responsibility of the mortgage broker to analyze every aspect of the file prior to submission to ensure nothing is missed. The automated underwriting engines guidelines change rules so rapidly that an application which meets all guidelines upon loan submission may not by the time it actually gets to an underwriter’s desk.

More so than ever, investors should seek the assistance of an experience mortgage professional who not only understands these guidelines, but specializes in financing of investment properties.