



Making Sense of **MORTGAGE LENDING** **in Today's Market**

By Daryle L Messina

Most of us have felt the pain of the current economic climate in one way or another. It seems nobody is immune. Maybe you have seen your 401(k) decrease in value by 40 percent or more over the past couple of years. Maybe you purchased a home at the top of the market with a 20 percent down-payment, only to see your down payment evaporate and the value of your current residence drop an additional 20 percent. Without warning, many lenders have eliminated the ability to draw on a home equity line of credit.

The world of real estate and mortgage lending has changed dramatically over the past 24-36 months. Changing rules and standards for qualifying for a loan has made what should be a simple experience for your clients an aggravating, painstaking waiting game. While some feel the credit markets are starting to loosen up, many of us close to the market are not seeing any significant improvement.

Buying a home is no longer a simplistic process and consumers need greater protection and awareness of what's at stake. Many credit card companies are monitoring spending levels and patterns and are decreasing credit limits, thus causing credit scores and consumers' ability to purchase a new home or refinance their current home to decline.

During the boom, mortgage lenders had volume and could afford to complete a loan on smaller margins. Many loan officers, who were closing fifteen transactions a month with minimal resistance, are now struggling to close two to three transactions a month, and having to put in a lot more effort per transaction.

Loan approvals are no longer handed out like candy and loan officers are desperate for additional business. In order for loan officers to bring their income anywhere near previous levels, they need to make more money on each transaction, and without proper guidance, that money will come at the expense of the consumer. It is not in the best short-term interest of the lender or loan officer to pass along the best interest rate. To make matters worse, it is virtually impossible for borrowers to shop and compare multiple loan offers on their own. It requires specific industry knowledge that's not available to them.

In a 2007 study, Fannie Mae estimates that 50 percent of those who were sold a high-cost mortgage had no idea they were sold a mortgage that was not in their best interest in exchange for a larger profit to the mortgage company and loan officer. Experts at the nonprofit Center for Responsible Lending estimate that fraud and deception has stripped \$9.1



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billion in equity from homeowners, largely from working-class families.

In addition to the lack of transparency in the loan costs, the documentation associated with a mortgage loan is overwhelming for most consumers. Loans and qualified buyers are few and far between. Realtors and loan officers have far too much to lose if a loan or home does not close escrow. Unfortunately, lenders have a tendency to tell a client what they want to hear in order to get the deal closed. This has been an ongoing problem for many years, and the current economic climate has only worsened the problem.

The government's attempt to bring suitability tests and transparency to the home buying and refinancing processes has been largely unsuccessful to date. While they are still looking for solutions, the only true solution is to have an independent third party involved in the mortgage transaction—someone who is looking out for your best interest and protecting you from predatory lenders and lending practices. Now, more than ever, you need one of these independent third-party organizations to look over your shoulder and guide you through one of the largest financial decisions you will ever make.

You, or your clients, no longer have to go it alone or rely on a family member or a friend who knows someone in the industry for advice. These independent third-party organizations will watch over each detail of the transaction to ensure the client is getting a fair deal. They review the Good Faith Estimate and review the

final HUD-1 against the Good Faith Estimate for your clients. They will act as your clients' personal trusted advisor and will guide them through their entire transaction, start to finish.

Although these independent third party organizations are experts in the mortgage and real estate industries, they don't close loans or sell homes. Instead, they may have personally vetted and approved a core group of preferred service providers, consisting of some of the top real estate agents and loan officers in your market, who not only agree to adhere to a strict code of conduct, but agree to share all relevant information and make changes based on their recommendations. They have done the legwork to find these highly qualified providers so you and your clients don't need to spend time finding them. While these providers do not work for the independent third party, they do share the same high standards.

Since the service is usually free to the consumer, the independent third party charges a small fee to the preferred service providers, who, in turn, agree to abide by the strict standards of ethics that the company stands for.

The ultimate mission is to obtain the most appropriate loan for the situation, at market interest rates, with reasonable costs, while gaining protection from unscrupulous, predatory, or exploitive lender practices.

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