

Special Report



Don't Blame Us, We Just Work Here *by Mitch Kossar CFA, Broker, CIG Realty and Loans*

Dear Friends and Past/Prospective Clients:

This newsletter is a bit more defensive than past newsletters. We are telling all our old and new clients that doing a loan these days is not like days of old, not even like 6 months ago.

We say it, but then as the process goes on, and on, and on, this is forgotten. So a newsletter may be in order to remind folks out that service levels will be miserable, but it's not our fault....really!! Here are some of the worst examples:

1. **Non-Permitted Additions.** If you happen to live in the Sunset/Richmond area of San Francisco, you may have an illegal in-law unit. Appraisers rightly ignore the value of these units in appraising the property BUT a recent Fannie/Freddie guideline does not allow refinancing an illegal unit, and if you have a stove or bathroom this is tough to get around. So basically, a large chunk of San Francisco cannot be refinanced. We have been able to get around this sometimes, but not always. Some clients are going as far as removing stoves before the appraiser arrives.
2. **Appraised Values.** Appraisers have flexibility so the appraised value may simply not be the real value of the home. For example, if you own a townhouse in a beautiful neighborhood of single family homes, and 1/2 mile away is a weaker neighborhood full of townhouses, your townhouse will be "comped" to the worse neighborhood and will lose value. Now, it's "rules over sense" because using common sense leaves wiggle room for gaming the system.
3. **Appraisal inflexibility.** We have talked ad nauseam about the new laws forcing third parties to order appraisals. These companies charge \$450 but pay the appraisers under \$200, and often use out-of-town appraisers. In one case, a Modesto appraiser did a San Francisco property. If there is a mistake, the third party made its money and the appraiser couldn't care less since he is underpaid and overworked. This means it's nearly impossible to overturn a poor appraisal. The big lenders own their third party appraisal companies, and the service levels are even worse for appraisals for Wells Fargo, Citi and the rest.

The link between the originator and the appraiser is gone. This reduces fraud, true enough, but reduces service as well. This law has been devastating to the industry and consumers.

4. **Guilty until proven innocent.** Underwriters second guess everything, slowing down the process. If your bank statements have irregular large withdrawals or deposits, you better have an explanation why. Your driver's license address better match your home address for primary residence. If you have rental income, you will have to show your full tax return and everything in there will be questioned. No lease? No rental income. Is the tenant on a month-to-month lease? No rental income if there is an out of date lease. Even when there is a reasonable explanation, underwriters focus on the likelihood that your explanation COULD be wrong, not whether it's right or wrong. Anything that could be construed negatively will be.
5. **Rate Locking:** New rules make it nearly impossible to lock a loan ahead of time. New disclosure rules and lender-ordered appraisal rules, along with pickier underwriting has stretched closing times out to over a month. So the combination of long closing times and late lock periods adds uncertainty and stress to the process.
6. **Subordinating Second.** If you have a second position loan, it will take over a month to subordinate it, and even then the bank may deny it non-sensibly, making it difficult to lock rates.

The upside to all of this is, of course, the record low rates, particularly for loans between 417,000 and 729,000, and loans with only 10% equity.

Although new rules and new attitudes makes life miserable for the broker and his clients, the conciliation prize is that borrowers working with banks have an even more miserable experience.

Bank overhead is small; volume, huge, so it takes six months or more to do a loan. The originators tend to be incompetent and processing departments (not processing individuals) are 2000 miles away. Title companies, escrow offices and notaries are picked at random. We don't like to trash the competition, but working directly with a bank is worse then I ever remember it.

Bottom line: Great rates, Lousy experience. Working with a competent mortgage broker with deep underwriting knowledge and lender relationships is more important than it has ever been.

CIG REALTY & LOANS

1350 Old Bayshore Hwy.,
Suite 150 Burlingame,
CA 94010

O (650) 931-8700
F (650) 931-8701

www.cigcorp.net



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