

**Ron Shaw [rshaw@mmcdcorp.com](mailto:rshaw@mmcdcorp.com) of Mason McDuffie Mortgage Corp passed on this article by Kenneth R. Harney in Regard to Credit Screening. It is well worth the read if you are applying for a home loan any time soon.**

## **Applying for mortgage? Starting June 1, you could face another credit screening**

By [Kenneth R. Harney](#)  
Saturday, May 15, 2010

If you're thinking about applying for a home mortgage, here's some important news: Beginning June 1, your lender is likely to order a second full credit screening immediately before closing.

The last-minute credit report will be designed to find out whether you have obtained -- or even shopped for -- new debt between the date of your loan application and the closing. If you've made applications for credit of any type -- for furnishings and appliances for the new house, a car, landscaping, a home equity line, a new credit card, you name it -- the closing could be put on hold pending additional research by the lender.

If you've actually taken out new loans that are sizable enough to affect the debt-to-income ratio calculations used in your original mortgage approval, the whole deal could fall through. The added debt load could render you ineligible for the mortgage because you suddenly appear unable to handle the payments without a strain on your household budget.

The June 1 changes are part of a new effort by mortgage giant Fannie Mae to cut down on slipshod underwriting by lenders and fraud by borrowers. Fannie's "loan quality initiative" will require lenders not only to pull two credit reports for each mortgage transaction but to perform additional verifications of borrower occupancy plans for the property, Social Security numbers and Individual Taxpayer Identification Numbers.

"There's an almost irresistible urge" for many mortgage borrowers, said Don Unger, chief executive of Advantage Credit of Evergreen, Colo. "The lender says, 'Okay, you're approved for the loan,' and you immediately think about shopping for all the things you need for the house. You go to Home Depot" or other major retailers, "and you put in an application."

In the past, that might not have raised an eyebrow -- or even been detected. But under the new double-check policy, when the Home Depot application shows up as a "hard," or borrower-initiated, inquiry on a credit report, Unger said, the lender "is going to have to contact" the merchant and determine whether credit was extended, in what amount, and how this might affect the applicant's home financing transaction.

Marc Savitt, president of the National Association of Independent Housing Professionals and a mortgage broker in Martinsburg, W.Va., said it's not an uncommon scenario. "Most often the

new debt involves furniture or other goods for the house," Savitt said. "However, we have seen debt for new cars and other major purchases."

Terry Clemans, executive director of the National Credit Reporting Association, recalls one case in which the home buyers "went out and gorged on \$40,000 worth of new furniture and all types of stuff" after their loan approval -- incurring monthly payments far beyond what they could possibly afford. Under the new policy, they would likely be shot down before closing.

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Fannie Mae spokeswoman Janis Smith said lenders "will have to look for things like new credit accounts, increased credit lines, increased balances on existing accounts, undisclosed or newly recorded liens, second mortgages -- anything that may have changed since initial application that might impact a borrower's debt-to-income ratio."

As a practical matter, some lenders are likely to ask their credit reporting vendors to perform the actual investigations when new debts or inquiries pop up on borrowers' files. Fannie Mae's instructions say that "lenders must determine that all debts of the borrower incurred or closed up to and concurrent with the closing" are considered in the final loan analysis.

Unger, however, said all this may not be as straightforward as it sounds. For example, if the credit report is pulled immediately before closing to comply with the "up to and concurrent" requirement, there may not be sufficient time to check out inquiries -- especially those in which no actual drawdown of debt has been reported to the national credit bureaus. He also questioned whether entire loan packages might need to be re-underwritten -- a time-consuming process -- based on credit data discovered at the eleventh hour.

In that event, poof goes your closing.

How should home buyers and refinancers prepare for the new credit check procedures? Lenders and credit reporting company executives say everybody needs to follow just one basic rule: abstinence. Between your application for a mortgage and the date of closing -- which might be a span of 45 to 60 days or more -- resist the irresistible.

Don't apply for new credit unless you discuss it in advance with your lender and get a green light.