For Mortgage Companies

Mortgage underwriting is based on a qualified lender’s ability to carefully examine a loan applicant’s ability to repay a loan. This process is commonly referred to as the Debt to Income Ratio. The underwriter makes sure all loan requirements are met. Sometimes an underwriter needs additional information to make a decision. Two typical scenarios the lender might present to a borrower are:

1. Information is needed before the loan is approved. It is critical that you provide the additional information as quickly as possible in this situation.

2. The underwriter approves the loan "with conditions." That means you will need to provide additional information at closing before the loan can become final.

What is Debt to Income Ratio?

Debt to Income Ratio is the mathematical measure of a person’s monthly payments on debt obligations divided by their gross monthly. Despite Debt to Income Ratio being one of the determining factors of the loan approval process, mortgage companies are using alternative methods to determine the loan approval process.

Alternative Loan Approval Process

- Research shows that millennial don’t use credit cards because they have chosen to save their money for a rainy day. Therefore, this makes them an excellent target market for a credit risk

- New mortgage lenders like Sofii prefer to use a model that looks at the perspective borrower’s educational background, course of study, post-graduation employment and income to approve customer loans.

Lenders such as Earnest prefer to look at how their clients manage their monthly cash flow and how they spend it to determine if someone could afford to make payments.

Common Problems

1) Unstable clients - collateral, credit, and capacity – known as the "three C's" are the three fundamental steps that any reputable mortgage company must follow during the underwriting process. If one of these processes is over looked, it can be quite costly. Mortgage companies have the capacity to access a potential loan applicant's qualifications based on their job and income.

2) Communication issues - communication problems usually occur when an insurer fails to ask customers for the appropriate information or listening to customers' specific needs.

3) Failure to utilize resources properly - A mortgage company is just asking for trouble if their employees don't know how to price a loan during the underwriting process properly. Additional problems include failing to discuss proper loan structures with seasoned account executives.

Best Practices

- Make sure that customer information is complete, accurate, and updated on a regular basis.
- Ask questions if inconsistencies have been discovered regarding customer information.
- Provide all necessary income documentation in the mortgage file adequately support property value with legitimate comparables.