

Before You Apply for a Mortgage, Learn More about the New Standards — and How They Affect You

New Ability-to-Repay/Qualified Mortgage standards were enacted in January. The standards are the latest federal regulations written to provide added stability to the mortgage industry.

“These standards make it a more complex mortgage process,” said Paul Gershkowitz of Berkshire Bank and partner in the MTA Mortgage Program. “The creditor must now conduct pointed analysis to ensure that the consumer has the ability to repay the loan. There is also less diversity in mortgage products so as to meet qualified mortgage standards, which provide creditors some protection against failing.”

Gershkowitz added, “The lack of precise financial standards was one of the contributing factors to the housing collapse that began in 2007. The mortgage industry is now in a strong recovery position — and these new standards will help keep it that way.

“Smart applicants will be prepared before they start the process so they know what to expect and what they should do to be successful,” he noted. “Rates are still low, so it is a good time for qualified consumers to apply for a mortgage.”

How the Mortgage Process Works

The consumer deals with only one person at the beginning of the mortgage process: a loan officer licensed by the Nationwide Mortgage Licensing System. The loan officer is also known as the “originator.” The loan officer:

- Guides the consumer through the steps of the process, from application to closing.
- Explains the mortgage process and discusses what is required of the consumer.
- Helps the consumer fill out the mortgage application completely and accurately.
- Is the only individual allowed to discuss terms of the loan with the consumer, including the quoting of rates, points, fees, annual percentage rates and other terms.
- Obtains a credit report on the applicant and initially recommends the information and documentation needed to verify the consumer’s finances, job status and other relevant data.

The processor is responsible for disclosure information — a major consideration in evaluating a loan. This individual compiles the documents needed for underwriting and has them delivered to the client. When the consumer returns the documents, the processor makes sure they are filled out accurately and completely and then presents them to the underwriter. The processor also communicates with the borrower to answer questions about disclosure and documentation needs. The loan officer may also be a part of the communication process.

As the ultimate decision-maker — the only person who can approve the loan — the underwriter makes sure that the loan meets compliance regulations as set forth under federal and state law. This involves determining that the consumer qualifies for the loan by analyzing the borrower's income, assets, liabilities, employment status, debt-to-income ratio and credit history, as well as examining the property appraisal. After reviewing the information, the underwriter usually goes back to the processor with a list of items that require further review. Before signing off on a loan, the underwriter needs to ensure that the applicant meets the bank's underwriting guidelines and has the ability to repay.

Once the underwriter has cleared the loan, it goes to a separate department for a quality control review. This due diligence is necessary to make sure the mortgage meets all of the requirements of investors and others with an interest in the loan, such as Fannie Mae and Freddie Mac, the Department of Housing and Urban Development and the Department of Veterans Affairs, as well as government agencies that oversee the mortgage industry.

Once the Quality Control Department clears the loan, it goes to the closer. The closer coordinates with attorneys and/or title companies and produces all documents to be signed at the closing. The attorney or title company personnel will contact the consumer to coordinate the closing date and the amount of money that the consumer will need for the closing. Remember, the attorney present at the closing represents the bank, though he or she is acting indirectly in your interest as well. You may wish to consider consulting with your own attorney at the time of closing.

Direct line to Paul Gershkowitz. "MTA members are welcome to contact me for more information at 866.475.HOME (4663), ext. 125," said Gershkowitz. "We're here to answer any questions — before, during and after the mortgage process."

Berkshire Bank is a Massachusetts-based, FDIC-insured institution for more than 165 years, with approximately \$6 billion in assets and 92 full-service branch offices throughout New England and New York. The newest branch will open in the fall of 2014 in Westborough.