

# Government is trying to automate home loans



DAVID C. MULLY

**MORTGAGE SHOPPING**

I recently received a press release that should be of interest to potential FHA home buyers. Here's some of the information on a new program.

The Federal Housing Administration (FHA) and Freddie Mac will begin a six-month pilot program using an FHA-specific version of Freddie Mac Loan Prospector to automate the underwriting of FHA loans. The cooperative effort is aimed at studying how automated underwriting technology can help expand markets to more credit-worthy buyers; making the origination of FHA loans efficient and affordable; and, ensuring that the use of automated underwriting technology will not adversely affect borrowers served by FHA.

"This pilot represents the National Partners in Homeownership at their best," said Henry G. Cisneros, Secretary of the Department of Housing and Urban Development.

"Pooling the resources of the private sector with those of government, we are striving to increase the nation's home ownership rate to its highest level ever. This pilot, along with other Freddie Mac, mortgage lenders, and the FHA in a test of how new technologies can make the FHA work better for more American families.

"This joint initiative offers a glimpse of the mortgage market of the future—a future where FHA loans can be processed by lenders in days instead of weeks," said Leland C. Brendsel, chairman and CEO of Freddie Mac. "By reducing costs and bringing greater efficiencies to the mortgage market, we will enable more people to own their own home."

What this all means to you, the prospective homeowner, is that mortgage lenders will be able to respond much more quickly to mortgage requests and have much of the information they need to evaluate an application at their fingertips.

Loan Prospector, Freddie Mac's automated underwriting service, provides lenders with risk evaluations, using loan application, credit and property information to evaluate a potential borrower's ability to meet a mortgage obligation. Freddie Mac is actively working to expand the uses of Loan Prospector to meet the needs of lenders. Freddie Mac took a sample of FHA loans and built a statistically-based mortgage scoring model to predict the likelihood of default for FHA loans. This model was integrated in software that allows Loan Prospector to perform risk evaluations on FHA mortgages within four minutes.

"With this initiative, Freddie Mac takes a big step forward in underwriting FHA loans with Loan Prospector," said David Glenn, president of Freddie Mac. "We're well on our way to providing lenders with a single, automated underwriting service to process virtually all of their mortgages."

Lenders will be able to access Loan Prospector for FHA Loans by linking directly through their loan origination system. In addition to risk assessment, the system will evaluate the application against FHA statutory requirements such as down payment, geographic loan limits, maximum amount, as well as eligible product types and any additional FHA credit guidelines.

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The system will report its assessment to the lender, who will make the ultimate credit decision. During the pilot, FHA will agree with individual lenders to modify some of the documentation or credit requirements for loans that receive a favorable risk assessment.

Freddie Mac and FHA said that they expect that eight, geographically diverse, FHA-approved lenders, including current Loan Prospector users and new users, a housing finance agency and a non-profit, will participate in the six-month

pilot, with 4,000 to 6,000 loans being made under the demonstration.

"FHA presents a unique opportunity to demonstrate to the market a responsible approach to integrating automated underwriting into the mortgage business," Federal Housing Commissioner Nicholas P. Botasine said. "We must move forward with new technologies, but only after we carefully evaluate the impact of their use and design strategies to ensure that their use serves our mission of expanding home ownership opportunities."

The FHA was created in 1934 to provide mortgage insurance on home mortgage loans. For more than 62 years, FHA has pioneered low down payment and long term mortgages allowing more than 24 million American families to achieve home ownership. Today, FHA insurance allows lenders to make loans using more flexible underwriting than they use for conventional loans, including lower down payments, closing cost financing, and higher debt-to-income ratios.

Last year, 70 percent of FHA-insured purchase money mortgages were made to first-time home buyers.

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of home ownership and rental housing. Freddie Mac purchases mortgages from lenders and packages them into securities that are sold to investors. Over the years, Freddie Mac has helped finance one in six American homes.

Write David Mully at P.O. Box 485, Novi, MI 48376-0485. Mully is a southeast Michigan area mortgage expert concentrating on financing for FHA approved condominiums. For an up-to-date list of approved FHA condos in your area or help financing, call Mully at (810) 488-9712 or (800) 405-3051. You can access Mully's previous mortgage shopping articles at on-line at <http://ononline.com/emory/mully>

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