

Nonprime Loans Can Expand the Client Pool

These mortgages can be profitable if properly underwritten

By Ryan Kelley

Any mortgage bank can underwrite conventional or government loans. It's commonplace and necessary to stay competitive. A mortgage company, however, that can underwrite their own nonprime loans? That's where the money is in 2019.

Nonprime loans include products such as the "bank-statement" mortgage with expanded credit and debt-to-income ratio guidelines. These loans are not what you might remember when you think of the subprime boom and bust of the 2000s.

These are solid loans based on the borrower's ability to repay, as every loan should be. Although subprime loans eventually killed the market, nonprime loans are forcing banks and mortgage companies and, in turn, mortgage originators, to rethink how they deal with borrowers that may not fit perfectly into the conventional or government loan space.

These loans are performing well and have low instances of default. They are make-sense loans with make-sense underwriting. Nonprime loan underwriting is a new frontier for many mortgage companies and banks. If they aren't trained properly, it can be a minefield. A lender can quickly wind up doing business with the wrong borrowers, without oversight or a rigid structure.

Nontraditional borrowers

The "nonprime" label doesn't have to be associated with a low credit score. These loans serve people who may have had trouble buying a home or getting a home that they can afford because of limits on access to credit imposed after the subprime crash.

The bank-statement mortgage is a perfect example of this. It's a nonprime mortgage with a nontraditional borrower. In these complicated days where everyone has a side hustle of some sort, it's harder and harder to determine the exact amount people earn and qualify it as income.

Millennials, in particular, tend to ride the gig economy, making them very difficult for traditional lenders to capture as clients. Borrowers with multiple sources of income can be very difficult to underwrite with a pay stub and a W-2 form.

When borrowers who own their own business apply, their income is always skewed by their write-offs. It's a Catch-22 for them. In order to keep their business profitable, they need to write off income for taxes, but to qualify for a mortgage they need to prove that they have a certain level of income.

The solution for these problems is the bank-statement mortgage, and companies that can underwrite this in-house and do it quickly have a huge

advantage over those waiting for approval. If you can underwrite bank-statement loans yourself, you'll stand a good chance of ruling your market in 2019.

Verifiable income

A bank-statement mortgage is just that — a mortgage that relies on the borrower's bank statements over a 12- to 24-month period as a snapshot of their income. It dispenses with the traditional underwriting requirements of hundreds of documents, W-2s and financial statements, and instead asks a fundamental question: How much do you make each month?

Using the borrower's bank statement as proof of income to underwrite their loan makes it possible for borrowers who have built their businesses themselves or work in the nontraditional gig economy to afford a home. It also allows lenders to reach a much larger pool of borrowers than before.

Make sure you are offering the most innovative products. At the same time, you have to make sure every other part of your operations process is as efficient and cutting edge as possible to reduce turn times and costs, and ultimately increase profitability.

Timesaving tools

One of the keys to being successful at this is if both prime and nonprime loans move quickly through the system. Fortunately, there are a variety of tools that can help to make this happen.

For prime loans, programs like Day 1 Certainty have cut down on the amount of paperwork that a borrower needs to submit to an originator. For instance, a work phone number can be used by Day 1 Certainty to verify employment. If underwriters and processors aren't hunting down employment documents and W-2s, they can spend more time on more complicated mortgages.

Aggressive mortgage companies also are attempting to move loans through the pipeline by cutting down on conditions pulled from Loan Prospector and Desktop Originator findings (the systems used by Freddie Mac and Fannie Mae, respectively). This allows underwriters more time to close loans and requires less time clearing up unnecessary conditions.

Appraisal waivers, or mortgages where Desktop Originator and Loan Prospector don't require an appraisal on the property, really help speed up the process as well. The waivers are applicable on certain properties and have restrictions, but you can close loans much faster rather than sometimes waiting for weeks for an appraisal.

Many tools also can speed up the processing of nonprime loans. Companies using programs like AccountChek can pull bank statements for their borrowers. This is a huge timesaver and limits both the borrower's time spent chasing down paperwork and the lender's time spent chasing down the borrower for their paperwork. For a bank-statement mortgage, this step is crucial, speeding up the underwriting process and getting the paperwork in the hands of the people who need it.

Another tool for self-employed borrower's loans is LoanBeam, a program designed to look at self-employed borrowers' tax returns to extrapolate their true income. The returns can be used for income verification and allow the borrower to take out a mortgage at the proper interest rate and amount. ■

Definition

Bank-statement mortgage

A mortgage product that is useful for self-employed or gig-economy workers. It relies on reviewing 12 to 24 months of bank deposits to establish income, instead of using tax returns, W-2s and payroll checks.

Source: USA Today



Ryan Kelley is the founder of The Home Loan Expert LLC. In less than a decade, Kelley has gone from selling mortgages door to door to his neighbors to running one of the fastest-growing mortgage banks in America. Kelley rose to prominence with hard work and dedication, along with pioneering new techniques to get mortgages closed faster than anyone else in the business. With the addition of Hero.Loan, the rapidly expanding Veterans Affairs loan product, his company is growing every day. Reach Kelley at (800) 991-6494 or info@thehomeloanexpert.com.