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Sometimes "No" Isn't The Final Answer When it Comes to Getting a Loan

The following is a true story (though the names have been changed to protect privacy) of how Carey and Jan bought their new home despite no down payment, and a 586 credit score, and an undisclosed old meth lab on the property.

Jan sounded down when she called me last February. She and her husband Carey were both 100% disabled US veterans, and had endured great hardships during and after their service. They were trying to buy a home for their family using VA financing. Several lenders had already declined their loan, citing their credit scores, some collections/charged off accounts, and a 6 year old short sale on Carey's prior home.

Once Jan and I finished our initial conversation, I dove into their credit. Sure enough, **Carey's mid score was 586**, just as the lenders said. They told Jan they required scores of 620 to 640 for VA loans, a sizable deficit from Carey's current score. My bank, however, only required a 600 mid score, which I was optimistic Carey could reach.

We reviewed their credit report, which showed several credit cards with balances exceeding 70% of the credit limits. Since available revolving credit constitutes 30% of credit score criteria, it was likely reducing those balances would boost his score. I ran the report through my credit vendor's score simulation, which predicted minimal balance reductions **would boost his score over 600**. Jan started to get excited, but I cautioned her; it wasn't time to start packing boxes yet.

Carey and Jan paid down three accounts by a total of $400, then got me the prior statements and account activities since the statements. Step one complete, balances where we want them! I submitted the documentation to our credit vendor, who did a rapid rescore with Experian, Equifax, and Transunion (as most credit vendors can). Two days later, we had our answer: **Carey's mid score was now 602!**

VA, somewhat surprisingly, **does not** place minimum score requirements on borrowers. Lenders, however, must document that borrowers' scenarios fit *VA underwriting guidelines*. One way lenders avoid closing loans they fear might default is to add restrictions to VA's guidelines, including minimum scores of 600, 620, or even 640. Lender requirements added to agency (FHA/Fannie Mae/Freddie Mac/VA/USDA) criteria are called **overlays**. Those overlays are the reasons one lender might say VA loans require 640 credit

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.16%	+0.01	0.00
15 Yr. Fixed	6.64%	+0.01	0.00
30 Yr. FHA	6.62%	+0.01	0.00
30 Yr. Jumbo	7.40%	+0.01	0.00
5/1 ARM	7.33%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	7.09%	-0.35	0.00
15 Yr. Fixed	6.38%	-0.38	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/10

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

scores while another says 600.

		Value	Change
Builder Confidence	Mar	51	+6.25%

In Carey's case, we now hit the **"magic" 600 credit score**, but their loan was far from approved. The next step was running it through Desktop Underwriter (DU), an automated underwriting program. I didn't expect a DU approval, given their credit history/marginal scores, but did hope for the next best thing: a "Refer/Eligible" (R/E). Fortunately, that's what we got.

Just as lenders can place minimum score requirements on VA loans to limit defaults, many also only accept loans that DU (or the alternate underwriting engine Loan Prospector) approves. The ideal finding is "Approve/Eligible" (A/E). An A/E means DU has approved the loan; the underwriter must only document the items requested (barring any inaccurate, incorrect, or omitted loan details).

The Refer/Eligible approval for Jan and Carey meant their loan **MIGHT** meet VA guidelines, subject to a complete review by our underwriter, who would then approve or deny the loan (as opposed to DU issuing the approval). This process is called manual underwriting; many lenders don't offer it, but mine (and others) do. Manual underwriting was Carey and Jan's best shot at home ownership for some time, since a DU approval would require many months of credit improvements.

Before I submitted their loan to underwriting, I made sure Jan and Carey were thoroughly prepped. We'd need many letters of explanation. Their debt ratios couldn't exceed VA's guidelines of 29% of gross income for housing expense and 41% for total debt ratios (unlike loans with A/E findings). We'd have to pay outstanding collections off, and prove their timely rental payment history. They both agreed: some documentation and effort **would be well worth it** to achieve their goal of buying a home on acreage near Carey's family. Leaving their woefully inefficient New England rental home (they were spending nearly $1000/mn on heating costs!) was an added benefit.

Patience is a virtue, and fortunately Jan and Carey, their awesome agent and the home's seller **all realized that**. They set realistic time frames for loan commitment and closing. Jan and Carey wrote the numerous letters of explanation. My resourceful processor made sure our underwriter understood all the loan's details, and the underwriter patiently explained exactly what she needed for loan approval. Jan paid off their collections, and provided canceled rent checks (adding letters from their landlord documenting the months they paid in cash). She was a trooper during the process; it's critical I point out her cooperation, assistance, and timely responses were huge factors in getting their loan closed.

Our loan was virtually approved by the time we got the appraisal back. Their new home was fairly unique, a very large ranch home on 25 acres, with an adjoining 2 acre parcel included, with a sales price of $318,000. I wondered if there were nearby comparable sales, but the VA appraiser found them; the home's value met the sales price. It appeared we were home free, until our last challenge popped up.

When the appraiser inspected the home, the seller mentioned (probably thinking he was providing helpful information): "They took out the trailer where that guy got **arrested for cooking meth** before we bought the extra parcel." The implications of that statement may merit a future article, but suffice to say they meant considerably more effort by everyone prior to final loan approval. (Hint to home sellers: If your property is likely meth contaminated, don't forget to list it on the seller's disclosure)!

By early May, Carey and Jan were in their new home. They returned to the Midwest, and their family has ample room to roam and grow. They haven't been through a winter there yet, but I'm sure the monthly heating bills will be far less than $1000!

Lenders' score requirements for VA borrowers vary widely. Many won't manually underwrite loans. Thankfully, Carey and Jan **didn't give up** before we met, and it was a privilege to help them purchase their dream home. If you're in a similar situation, don't lose hope if a lender or two says you don't meet their loan criteria. Ask why not, and if the reason is a lender overlay, rather than a VA guideline, look for a lender without that overlay. Remember, patience is a virtue, Jan and Carey proved that!

Responsive service, experienced expertise

I've dedicated my 22 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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