Don’t Go To Home Depot Yet! Lenders Pulling Second Credit Reports Under Fannie Mae Loan Quality Initiative (LQI)

Fannie Mae’s new ***Loan Quality Initiative*** (LQI) mandates become effective on June 1, 2010, and these rules are really taking the mortgage industry by surprise. The new rules could derail some closings for buyers who rack up purchases or even take out new store credit cards before their home sales have closed.

The June 1 changes are part of a new effort by mortgage giant Fannie Mae to cut down on slipshod underwriting by lenders and frauds by borrowers. Fannie’s so-called “loan quality initiative” will result in lenders pulling last minute credit reports and additional verifications of borrower information. These last minute credit checks could result in a closing delay, pricing adjustment, or, worst, loan approval cancellation.

- The **last-minute credit report** will be designed to find out whether a borrower has obtained — or even shopped for — new debt between the date of the loan application and the closing. If borrowers have made applications for credit of any type — for furnishings and appliances for the new house, a car, landscaping, a home equity line, a new credit card — the closing could be put on hold pending additional research by the lender. **Our advice**: save the trip to Home Depot, Restoration Hardware and Crate & Barrel until after the closing.
- If you’ve taken out new loans that are sizable enough to affect the debt-to-income ratio calculations used in your original mortgage approval, the deal could fall through. The added debt load could render you ineligible for the mortgage because you suddenly appear unable to handle the payments without a strain on your household budget.
- Many lenders already pull second credit reports right before the closing, but the Fannie Mae mandate will likely result in a markedly increased number of lenders pulling second credit reports and performing other last minute verifications.
- Borrowers should be counseled to avoid obtaining or applying for new credit, or even increasing utilization of existing credit, before their closings. Lenders may view this added debt as a strain on a household budget sufficient enough to make a once qualified borrower now appear unable to handle the payments. If these new loans are sizable enough to affect the DTI (debt-to-income) ratio calculations used in the original mortgage approval, then the deal could fall through.
- Under the terms of the standard purchase and sale agreement, a borrower who loses his financing just days before the closing due to LQI issues could potentially forfeit his deposit. Buyer’s attorneys should think about how to address this in their P&S riders.
- The mortgage and real estate industries are still trying to adjust to the dynamic changes in the economy, making it more important than ever to seek out professional,

knowledgeable mortgage brokers and to seek counsel from experienced attorneys specializing in real estate law. In the end, the best advice may just be avoidance; borrowers will be best off not obtaining any additional credit in the time between the application for a mortgage and the date of closing.