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Learning From Rejection



By LISA PREVOST  
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The New York Times

A rejection from a mortgage lender is no cause for shame. Instead, think of it as a call to action.

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Rejected borrowers should find out exactly why their loan application was denied, then try to remedy or work around the problem. Lenders are required to detail the cause for denial in a formal rejection letter.

In reviewing the letter, borrowers should keep in mind that the larger banks often have overlays, or tighter

requirements, than the minimum qualification standards set by Fannie Mae and the Federal Housing Administration, said John Prom, the Manhattan branch manager for the Real Estate Mortgage Network. For example, the bank's credit score cutoff might be higher than F.H.A.'s.

A borrower rejected by a big bank might be approved elsewhere. Mr. Prom recommends taking your application paperwork to an experienced loan officer for a second opinion. "Last year I picked up a couple of deals because some of the larger banks wouldn't do 20 percent down on a two-family," he said. "They wanted 25 percent down. We were able to do it for 20 percent."

If the rejection is based on insufficient income, then the borrowers might simply downsize their expectations of how much house they can afford. "The next question should be, well, how much do I qualify for?" said Don Frommeyer, the senior vice president of Amtrust Mortgage Funding in Carmel, Ind., and the president of the National Association of Mortgage Brokers.

When it comes to refinancing applications, appraisals are often the sticking point. If one lender denies your application on the basis of an appraisal that came in low, it may make sense to try another bank "if you truly feel the value is there and your credit and income

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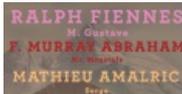
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are decent," Mr. Prom said.

If the rejection letter identifies a credit issue, the borrowers should get a copy of the credit report used by the bank. They can do that by asking their lender for the phone number of its credit report retrieval service, and contacting the service directly, said Tracy A. Becker, the president of North Shore Advisory, a credit education and restoration company in Tarrytown, N.Y. The service is required to provide the borrower with a free copy of the report.

Whether the problem is a negative credit history, high credit-card balances, or a lack of credit history, borrowers should try to figure out — on their own, or with the help of a professional — how to raise their FICO score.

Seemingly inconsequential credit events like a medical collection for \$100 can diminish your score enough to keep you from getting a loan, Ms. Becker noted. But she added: "Credit is never terminal. It can always be fixed or improved."

Borrowers whose credit took a beating from a foreclosure, a bankruptcy or a short sale may not have to wait as long as they think to qualify for another loan if their financial problems were a result of job loss during the recession. The F.H.A. recently issued rules for a "Back to Work" loan program that extends borrowing privileges to otherwise ineligible applicants who can prove that their past financial problems were beyond their control, and that they are back on more sound financial footing.

"F.H.A. recognizes the hardships faced by these borrowers, and realizes that their credit histories may not fully reflect their true ability or propensity to repay a mortgage," the agency said in the Aug. 15 mortgagee letter laying out the program's underwriting standards.

So far, lenders have been hesitant to offer the program, according to Mr. Frommeyer. "Just because F.H.A. says we can do that doesn't mean the lenders are going to allow it," he said. "They want to make sure they have good quality loans."

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