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Expert States FHA Submission Errors Avoidable

By Brad Finkelstein

LANSDOWNE, VA—Most of the errors that result in loans submitted for Federal Housing Administration insurance approval are administrative ones that could easily be avoided. That is the message the chief executive of Horizon Consulting here would like to get out to loan originators.

Wanda Alexander said her company has been working with the Department of Housing and Urban Development for over 15 years, and it processes the majority of the loans that are submitted the home ownership centers for FHA endorsement.

That process, she explained, involves reviewing the binders that are sent in by FHA lenders, and making certain that every piece of information that is supposed to be included is there, that it is signed and dated and then stamped the way it should be. Those packages that are complete are provided with FHA mortgage insurance. The others are sent back to the lender with a notice of rejection with a list of reasons for the action. "Of course, they are allowed to fix that and send it back in," but Ms. Alexander said the government would like to see the rejection rates reduced.

She added the files that are rejected are quality controlled before going back to the lender to make certain they have been properly cited for not meeting the criteria.

Among the main reasons files are turned down are because of missing signatures and dates on the FHA insurance application or the supporting documentation.

Missing items are another reason why files are rejected. Builder's permits, statement of appraised value and needed photographs are not sent in with the application, Ms. Alexander said. But the most common missing documents are the real estate certification and the amendatory clause.

According to HUD, the amendatory clause is "a provision permitting the purchaser to escape the purchase obligation without loss if the appraised value is less than the contract sales price."

Sometimes the legal description of the deed is not included, she said, and the names and titles of the persons that are making certain certifications are missing as well.

Another thing that people submitting loans for insurance approval do not think about, Ms. Alexander pointed out, is to make certain the items they are including in support are legible.

If there is a verification of employment in the file and Horizon can't determine if it is the borrower's because the copy is understandable, the file goes back to the lender.

"Simple things like that, making sure the bank statement is legible, making sure that when you put the copies in the file that they can be read," she said.

Another error is when the person preparing the application transposed numbers in one of the boxes. There are times when things are submitted at the last minute and/or where a correspondent is involved is where things can get lost in the translation.

It is amazing that it's because of these small, administrative items that files are being rejected, Ms. Alexander continued.

"If you get rejected a couple of times for the same things, you'll fix it," she said.