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Make Client Education Your New Year's Resolution

The right tools can help poor-credit applicants improve their financial position

CREDIT-SCORE REQUIREMENTS, REGULATIONS and interest rates will likely increase in 2011, posing additional challenges for mortgage applicants. Mortgage brokers who make it a priority to help potential borrowers identify specific ways to improve their financial position in an ever-changing environment can profit by serving a large and lucrative market sector.

Even with this year's historically low interest rates and homes priced to sell, a recent consumer-data analysis suggests that for almost one-third of Americans, a home mortgage remains out of reach. Nearly 30 percent of consumers who entered data on a mortgage loan-quote Web site this past September had credit scores less than 620. These applicants likely won't qualify for a home loan, even with a large downpayment.

Things will probably get even tougher for prospective homeowners. Look at the past year: Fannie Mae set its new 620 minimum-score requirement in December 2009. Conforming, Federal Housing Administration (FHA), U.S. Department of Veterans Affairs and U.S. Department of Agriculture mortgages had the same minimum requirement by midyear. Then this past fall, many banks and other lenders began requiring a minimum midscore of 640 on FHA loans.

Many industry veterans attest that they've never seen mortgage qualification as closely tied to credit scores as it is today.

Steady rates, sluggish growth

Credit scores aren't the only factor that will

impact the mortgage industry in the coming year. Here are some other ways the industry is shaping up for 2011:

- **Interest rates:** Interest rates may start to increase in 2011 but not as dramatically as has been predicted the past two years. This past spring, many prognosticators were expecting 30-year mortgage rates to begin an uptick during the summer and to reach as high as 6 percent by the end of the year. Clearly, that didn't happen. Rates instead declined to record lows this past fall. Mortgage rates should remain steady for much of 2011, however, perhaps edging to more than 5 percent by the middle to end of the year.
- **Home sales:** Look for home sales to increase only slightly from 2010 levels, given the slower-than-expected pace of the economic recovery and modest employment growth. Distressed properties will continue to be a factor in market sluggishness next year. New-home inventories are near a 40-year low, but we are likely still a year away from demand becoming robust enough to encourage homebuilders.
- **Refinancing:** Home-loan refinancing accounted for about 60 percent of all mortgage activity this past year, but many economists expect that percentage to dip to about 40 percent in 2011. One reason: Even a slight interest-rate increase can curtail the number of homeowners choosing to refinance.

- **Regulation:** We are just beginning to understand how the Dodd-Frank Wall Street Reform and Consumer Protection Act will change the industry, and additional reforms are taking place at the state level. Expect more regulatory changes and stringent enforcement in 2011.

Market opportunity

Given all the hurdles that potential homebuyers will face in the coming year, it may seem counterintuitive that nonqualifying loan applicants represent a large and important market for mortgage brokers. With the right kind of education and customer service from their mortgage broker, millions of these applicants can obtain a qualifying credit score.

That education involves explaining credit-scoring to borrowers and ensuring applicants' credit files are complete and accurate. Correcting even one piece of outdated or misreported information in applicants' credit files can make the difference.

There are numerous tools available to brokers to help them educate clients, including programs that enable brokers to guide and monitor applicants as they work to get the credit scores they need.

Generally, participating brokers send an applicant's financial information through the program, and credit-scoring experts conduct an in-depth analysis of the positive and negative factors influencing the applicant's credit scores. Some programs also evaluate the impact of various applicant actions, such as paying down the balance of revolving credit lines. The broker

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and client then receive a personalized, step-by-step action plan and timeline to review and track together.

Building business

There is considerable goodwill generated when a mortgage professional shows low-credit-score applicants how taking specific steps, such as correcting file errors, will help them qualify for a mortgage. This extra level of customer service on the part of

a broker also can be a tremendous source of referral business.

Further, in a re-review of 500 loan applications declined because of low credit scores, a study found that 83 percent could have reached their target score with the help of a credit-monitoring program.

This suggests another way that mortgage brokers can profit. You can mine previously pulled credit reports to identify applicants who, although turned down

earlier, have credit scores within a certain threshold and will likely benefit from a financial-roadmap program. Brokers can use data they already paid for and contact highly motivated homebuyers.

Going the extra mile to educate and assist clients has always been a smart business strategy. Thanks to credit-scoring tools, it also can make an immediate impact on your bottom line in 2011. ●