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Freddie and Fannie make home loans tougher to get

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The residential real estate market may be recovering, but two of the powerhouses that control the mortgage market have tightened their belts again this year, making it harder for some buyers to get financing.

New rules and regulations from Fannie Mae and Freddie Mac, which buy a large percentage of conventional mortgages on the secondary market, went into effect at the start of 2011.

They include charging higher pricing adjusters so rates will be slightly higher even for buyers who have high credit scores, said **Anders Hostelley**, executive vice president of loan production at Honolulu HomeLoans.

It used to be that the buyer who had a credit score of 740 or better and put down 20 percent got the best rate.

Now, that same buyer has put 25 percent down for no pricing adjuster, Hostelley said.

“From that standpoint it’s getting a little bit tighter,” he said.

Because everything is risk-based, the lower a buyer’s credit score, the higher the interest rate, said **Mark James**, Hawaii branch manager of Mason-McDuffie Mortgage and president of the Mortgage Bankers Association of Hawaii.

Three years ago, a FICO score of 660 was pretty decent credit, he said. Now, if a buyer has a score under 660, it’s a problem.

“Basically, if you have really good income and really good credit you’ll have no problem getting a loan,” he said.

And the benchmarks keep going higher.

Fannie Mae’s minimum FICO score for a conventional loan is now 620. At one point it was 580, Hostelley said. For loans backed by the Federal Housing Administration, which typically attract first-time home buyers because of the lower down payment requirements, the minimum score is now 640, up from 620, he said.

Raising the credit score requirement eats into the buying power for that segment of buyers, Hostelley said.

Honolulu HomeLoans recently had a customer whose credit score was 620 when he was first approved for a loan, but when the firm pulled his report it was 618, two points too low to qualify for a loan backed by the U.S. Veterans Administration, also known as a VA loan. Now, that customer has to wait until his credit score goes up before he can reapply, he said.

Fannie Mae and Freddie Mac also are requiring mortgage firms to do more quality-control checks, James said.

“Every loan that closes, they require the lender to verbally confirm that the person is employed the day of the funding,” he said.

Lenders also are supposed to run a credit report on buyers immediately before funding to check for any changes in their finances such as large purchases or increased credit card debt.

“We tell people, just put your credit cards in the drawer, don’t even touch them,” James said.

He noted that most Realtors are trained to get potential buyers pre-approved before starting the process.

“Now, it’s an absolute necessity,” he said.

Realtor **Randy Prothero** of Century 21 Liberty Homes in Mililani said he always gets the loan officer involved early in the process.

But, even with excellent credit, some buyers are finding it harder to buy, especially condominiums. Fannie Mae, Freddie Mac and FHA require a condo project to have at least 51 owner occupancy for financing.

“I haven’t had anybody directly impacted by some of the other guidelines, but the 51 percent is becoming a real problem,” Prothero said.

The problem is most pronounced in areas where investors own a lot of units, especially Waikiki, but it also has popped up in Ko Olina and Mililani, he said.

“If you own one of those units and you’re trying to sell, you’re limited on who can buy them,” he said.

Self-employed buyers also have fewer options now than they did a few years ago, when the stated income/stated assets loans were easy to come by.

“Self-employed people are a huge issue,” James said. “They write off everything under the sun; they don’t have a lot of taxable income.”

And lenders also are dealing with other issues that make the mortgage process more complicated, such as shortening the time that an appraisal is valid.

“We’re getting shorter and shorter amounts of time for appraisals,” James said. “It used to be six months on an appraisal. Now, it's down to four months."

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