

Ask Tommy: Your QC Expert



By Tommy A. Duncan, CMT

Will the borrower's credit score and ratios make any difference in my overall quality control performance?

The credit score and ratio may affect the risk you or the lender takes when funding the loan, but as long as you stay within the underwriting requirements, you will be fine. However, your quality control may be graded on how well the loan is packaged.

Let's compare non-bank lenders (non-supervised mortgagee) and bank lenders (a supervised mortgagee).

As of the writing of this article, non-banks' average credit score was 731 for 2009 and 732 for 2008, with ratios 23/33 percent for 2009 and 24/38 percent for 2008. Non-banks improved their "Excellent" risk ranking from 12.06 percent in 2008, to 24.48 percent in 2009, an improvement of 94.69 percent. Non-bank lenders were able to decrease their credit score average by one point and continue to improve significantly in an "Excellent" risk ranking. The only noticeable change was lowering the back-end ratio from 38 percent to 33 percent. The front-end ratio only decrease by one percent from 2008 to 2009.

Banks, on the other hand, had an average credit score of 764 in 2009 and 748 in 2008, with a ratio of 24/33 percent in 2009 and 28/40 percent in 2008. Banks required an average 16-point increase in their average credit score. This resulted in significant improvements in loans meeting the "Excellent" risk ranking that went from 29.81 percent in 2008, to 41.76 percent, an increase of 40.09 percent. Granted, the non-banks had a larger increase; however, they had fewer loans at 23.48 percent where banks had 41.76 percent of loans meeting the "Excellent" risk ranking. Banks significantly decrease their front-end and back-end ratios to obtain such high numbers. Banks had ratios at 28/40 percent in 2008 and 24/33 percent in 2009. As the numbers show, banks reduced their risks by requiring higher credit scores and lower front- and back-end ratios which resulted in higher percentages (41.76 percent) of their loans ranking "Excellent" in risk.

Let's compare non-bank brokers (non-supervised loan correspondents) and bank brokers (supervised correspondents) in the same area of risk. A broker's average credit score for 2008 was 725 and 721 for 2009, with ratios of 27/38 percent in 2008 and 25/36 percent in 2009, improving their "Excellent" risk ranking from 15.18 percent in 2008 to 26.31 percent in 2009. This is a 73.32 percent improvement in "Excellent" rankings. Brokers were able to achieve this by reducing their credit requirements, rather increasing the credit score and decreasing the front-end ratio to from 27 percent to 25 percent, and reducing the back-end ratio from 38 percent to 36 percent. Brokers performed exceptionally well as compared to other mortgage entities.

The bank broker average credit score increased from 749 in 2008 to 761 in 2009, a 12 point rise for getting a loan. The average qualifying ratio went from 24/36 percent in 2008 to 22/33 percent in 2009, and saw very low improvement in the number of loans qualifying for the "Excellent" ranking. Bank brokers had 27.62 percent in 2008 and 28.85 percent in 2009 of their loan ranking "Excellent," only a 4.45 percent improvement.

Therefore, brokers prove that a higher credit score does not necessarily mean that the risk is reduced. However, ratios appear to be where your loan will fall as it comes to risk. This data is available to the mortgage industry to study. You may compare the performance of different mortgage banking operations and compare overall industry reviews by going to www.qcmortgage.com. The data may change as Quality Mortgage Services continues to close out 2009 quality control reviews and audits.

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