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How the Right Tools Help Reduce FHA Lending Risk

FHA insured loans, which in the past have accounted for just 3 percent of total mortgage loan volume, have already reached 10 percent and could grow to as much as 25 percent this year. Clearly, lenders see FHA lending as a great opportunity to grow volume and reduce fallout from customers who don't neatly fit into conforming loans.

FHA loans are the perfect solution for borrowers with imperfect credit who can no longer access a sub-prime loan, but they're also perfect for first-time borrowers and those with a minimal down payment. Plus, changes in loan-to-value ratios, now up to 97 percent, as well as higher loan limits – over \$700,000 in some counties – are making these loans appealing for a wider range of homebuyers.

Are there other potential problems for the inexperienced lender? Absolutely. Even though FHA insured mortgages offer many unique benefits, the lender still runs the risk of having to buy back the loan if the homeowner defaults on the loan and the originator failed to follow FHA's many rules and regulations. To make matters even more complex, these rules change all the time; for example, FHA recently increased mortgage loan limits, and these limits are different for each U.S. county.

“Lenders have to ask themselves: do they really know FHA lending today?” said Dan Thoms, senior vice president of AllRegs, which offers FHA training and online industry guidelines. “FHA is a government agency and they certainly act like one – they create complicated policies and change them all the time. You have to stay current with all of the changes.”

Technology to the Rescue

Today's loan origination platforms take much of the risk and guesswork out of originating FHA loans. Combined with smart processes and trained loan officers, a solid platform could help any bank expand its FHA loan business and reduce its exposure to risk. Technology helps streamline the loan process and minimize the chance of making mistakes, which saves the lender time and money in the end. Plus, lenders can expedite the number of loans they can handle at any one time.

Stephen C. O'Halloran, a HUD spokesman, said lenders using origination systems that don't support FHA should “convert or obtain the software necessary to originate FHA loans.”

“Technology enables smaller lenders that lack experienced staff to get into FHA lending,” said Steve Mase, president of Dexma. “Large lenders with big mortgage departments do FHA loans all the time, so they benefit from repetition. Smaller lenders do less of these loans, so they need another strategy.

“Technology is the great equalizer,” Mase said. “It enables smaller lenders to get in the game without having to hire their own in-house underwriters that know FHA loan programs. And it enables them to keep up with the increased demand for these loans.”

Start with the Basics

Many smaller lenders need to know the basics, starting with whether the borrower qualifies for an FHA loan. Others need to understand the intricacies of originating FHA-insured loans and keep up with the changing rules, which takes up valuable staff time.

For these reasons, training staff on FHA loans becomes vital when lenders add FHA programs to their product offerings. “Lenders need to understand the program options and the guidelines that accompany them in order to meet the borrower qualifications and comply with the program rules,” says Dan Thoms with AllRegs. “Originators need to be well-versed on the history of FHA loans, the basics of originations, property eligibility, qualifying the borrower, loan limits, mortgage transactions, insurance premiums and more.”

Even lenders that have been offering FHA programs for years admit that they’re not that simple.

“FHA is more labor intensive than your traditional subprime product,” says Jon Paukovich, vice president of mortgage lending for Ent Federal Credit Union, Colorado Springs, Colo. “FHA has tried to make it a little easier, but the guidelines are still guidelines,” Paukovich said. “There is a whole cadre of originators who have entered this business and don’t know anything about income verification or verification of issues on appraisals.”

“We teach our people to trust the system,” said Cate Burrows, mortgage origination manager for America First Credit Union, Ogden, Utah. With 77 branches, America First is one of the largest credit unions in Utah. While America First has been writing FHA loans for over 20 years, their FHA loan volume increased by 77 percent in the first few months of 2008, compared to the same time last year.

Through a partnership with Dexma, small or mid-sized organizations can now leverage comprehensive, searchable FHA guidelines combined with FHA training opportunities offered by AllRegs. “Students taking advantage of these opportunities can return to the office the very next day and be empowered to put FHA loans in and through their pipeline,” Thoms said.

Scalable Power to Serve

Years ago, America First employed only 15 loan officers capable of writing FHA loans. They’ve been able to handle the enormous increase in loan volume with a combination of technology and trained staff. They now have one loan officer trained to originate FHA loans in each of their 77 branches. “Our loan officers don’t have to remember all of the ins and outs of FHA. All of that information is centralized,” Burrows said.

Kelly Crawford, real estate systems administrator for Ent Federal Credit Union agrees. “County limits were problematic. With technology, all of those things are built in, so the loan officer just has to submit the loan amount. If it’s not accepted, the system comes back with a counter offer.”

Technology enables institutions to succeed in their mission to serve their customers by offering FHA loans and other products that their customers are requesting. Both Ent Federal Credit Union and America First CU implemented the Dexma Lending Suite as a solution to their FHA and other

mortgage lending needs. In the process, both institutions say they overcame the government-insured lending challenges and reaped the benefits.

Specific FHA processing tasks and conditions are automatically built into the platform's workflow for an FHA loan. This information is made available to the loan officer, which makes even an inexperienced employee adept at the FHA lending process.

The technology also gives lenders one-click access to the essential services lenders need to originate FHA products, including disclosures, closing documents, fraud prevention and quality control through pre-arranged agreements with leading service providers. In addition, Dexma is able to give lenders electronic access to about 9,000 FHA-certified appraisers.

Doing More Loans with Less

Even with a small cadre of loan officers trained in FHA loans, lenders can use technology to reach online customers, who are getting more comfortable with the online mortgage application process.

“Our members can apply through the Internet, submitting their loan applications on their own,” said Crawford. “They immediately know if their application is viable and can get an automatic decision at that point.” America First has a similar story. “About 13 percent of our loan applications are coming in from the Web,” Burrows said.

Loan officers for both credit unions are also using the system to send new applications directly into the Dexma Lending Suite instead of handing the file to an underwriting. “Our LO's find out if a loan might work before they ever talk to an underwriter,” Crawford said.

“FHA loan volume at Ent is up 400 percent, but technology is making it possible for my team to keep up with the demand,” Paukovich said.

Find Out More

Dexma has put together a comprehensive technology, services and training package for lenders that want to quickly become expert at originating FHA loans.

For more information on how Dexma can help you get ready for FHA, contact us at 952-229-1400 or 888-831-0955 or via e-mail at sales@dexma.com.

About Dexma

Founded in 1995, Dexma helps mortgage industry players compete for business by helping them grow volume, trim expenses and reduce risks. Dexma powers the retail, wholesale and correspondent platforms for several top lenders, real estate companies and mortgage insurance companies. Dexma has also built creative business models and a comprehensive solution that fits the needs of smaller lenders such as credit unions and community banks. For more information, visit www.dexma.com.