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Fannie, Freddie Say No; Lenders Say Yes

BANKING: Unusual Income Streams Don't Stop Mortgages
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Borrowers who can't meet stricter federal guidelines for "qualified mortgages" are now being courted by mortgage lenders willing to make the loans, but at a higher price.

Michael Slavin, chief executive of Privlo, a Pasadena-based mortgage bank doing business in San Diego, said his firm is focused on helping those borrowers who have been effectively excluded from obtaining a mortgage because their incomes as self-employed small business owners or contract workers put them outside the parameters for most traditional lenders.

"These are borrowers who have complicated incomes," Slavin said. "They're not the typical W-2 wage earners, and are taking lots of tax deductions that make their income look lower than what it truly is."

Because of new rules put in place under the Dodd-Frank banking reform law to avoid another housing bust, mortgages that do not conform to the new guidelines, such as the amount of the down payment or debt-to-income ratios, are classified as non-qualified or non-QM.

Fannie Mae, Freddie Mac Pass

Lenders who make non-qualified mortgages cannot sell the loans to the two largest mortgage purchasers, Fannie Mae and Freddie Mac, and must either hold them or sell the loans to private investor groups.

While most of the largest mortgage lenders are extending non-QM loans to customers, they are apparently keeping a low profile about this segment. Of five major banks contacted for this story, only Wells Fargo Bank responded, saying it has been making such loans and doesn't charge higher rates.

"We have confidence in our ability to manage both QM and non-QM lending," said Luis Gonzalez, a Wells Fargo spokesman. "We want to have options available for buyers with varied circumstances and financial needs, and still adhere to our underwriting principles to meet the ability to repay standards on every mortgage."

Privlo, which was founded in 2011 as a peer-to-peer lender, acting as a connecting entity between borrowers and investors, evolved in recent years to become a direct lender. It began making loans in September 2014, Slavin said.

So far, the firm has accepted applications for about $250 million in mortgages, but Slavin declined to provide its total originations. Some of the loans are QM, he said.

The business, which obtained venture funding from QED Investors and Spark Capital, said the company uses a variety of financial metrics and alternative documentation as well as career-specific data for its underwriting.

Not Subprime Mortgages

The process has nothing in common with the stated income and subprime mortgage lending that was rampant earlier in the decade, Slavin said. “We still have to make sure the borrower has the ability to repay the loan,” he said.

Privlo also uses proprietary pricing software that quickly assesses a borrower’s credit risk, and allows for fast turn-around on approvals. In most cases, borrowers can obtain funding in three days, he said.

Slavin said interest rates for either a five-year or seven-year adjustable rate mortgage could range from 5.25 percent to 9.25 percent.

Mark Goldman, a San Diego mortgage broker and lecturer on real estate at San Diego State University, said he’s noticed more lenders making non-QM loans, although most of his clients aren’t willing to pay the premium for the money.

Higher Rates

“The thing about these loans is that they’re a lot more expensive,” Goldman said. Rates on a five-year adjustable non-QM loans could be 2.5 percent to 3.5 percent above the going rate for a 30-year fixed loan that’s been hovering below 4 percent for months.

“The positive thing is that we’re seeing more alternative documentation lenders coming to the market,” he said. “The good news for consumers, especially self-employed workers, is there’s a place for them to go.”

Michael Stowers, branch manager for imortgage, a mortgage bank with five offices in San Diego, said he’s noticed a rush by more alternative lenders targeting the non-QM market.

“We’re definitely interested in pursuing options for loans like this because we know the need is out there,” Stowers said.

Last year, imortgage originated some 20,000 mortgages nationally for about $5.5 billion, he said.

The firm, a division of loanDepot LLC of Foothill Ranch, is developing a non-QM product that will use a real estate investment trust to hold the loans, Stowers said.