

Welcome to *Policy Matters*, an engaging and informative monthly e-newsletter featuring expert insight and analysis on emerging relocation products, policies and services that can provide immediate benefit to your organization.

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Navigating the Changing Mortgage Landscape

As the mortgage industry continues to evolve in the aftermath of the credit crunch and real estate crash, it is critical to remain up-to-date on the latest mortgage industry news and additional legislative changes taking affect that will impact the home purchase process and transferees.

Throughout 2009, the mortgage industry has seen several changes surrounding regulation, disclosure and underwriting guidelines. The seeds of these changes were planted in 2008 as the credit crunch and subsequent Wall Street troubles escalated. Now, over the course of 2009, the new rules and regulations have begun to take effect. These changes affect all lenders and will impact almost all facets of the mortgage process itself. Anyone applying for a loan will be impacted by these new rules, and those buying a home will need to be educated on proper expectations throughout the home purchasing process. Many of these changes might affect the home closing timeframe; therefore, it is important to understand the process as the timing of a move can be very urgent.

This issue of *Policy Matters* will outline four significant changes in the mortgage industry, which have been implemented in 2009, and emphasize the key impacts these changes have on the employer and transferee.

Topic One: New Hire Income Documentation Requirements

A recent mortgage underwriting guideline change impacting new hire transferees is the tightening of documented income requirements. Effective as of September 1, 2009, all new hires must have pay stubs documenting a minimum 30 day period with their new employer before they can close on a loan. This has been a long standing guideline from Fannie Mae and Freddie Mac. However, up until now it was viewed as just that—a guideline. The practice historically accepted for relocation loans was that the transferee needed both a documented employment history from his or her previous job, and an employment offer letter with documented salary and start date from the new company. As long as the transferee had both, this was deemed acceptable and the loans were approved and closed.

Impact to the Employer and Relocating Transferee

The pay stub documentation requirement means, that in order to close on a loan, the employee must be able to document 30 days of pay with their new employer. Therefore, realistically, it may not be possible to close on a new home until 4-6 weeks *after the start date* for new hire

transferees.

What SIRVA is Doing to Assist

Throughout 2009, we have seen mortgage investors (including Fannie Mae and Freddie Mac) continue to eliminate variances or exceptions historically made for relocation lending, and take a hard approach to traditional mortgage lending. Our loan counselors are working with transferees who are confronting this situation to set the proper expectations at the beginning of the move process. In addition, we continue to have dialogue with our investors to see if they will accept other solutions.

Topic Two: Home Valuation Code of Conduct

On May 1, 2009, Fannie Mae and Freddie Mac initiated a new policy to only purchase loans that have been appraised under the Home Valuation Code of Conduct (HVCC) guidelines. The HVCC was the product of a lawsuit filed by the New York State Attorney General, Andrew Cuomo, against Washington Mutual and was designed to improve the reliability of home appraisals, according to the Federal Housing Finance Agency, Fannie and Freddie's regulator.

The intent of the HVCC is to reduce fraud in the mortgage origination process by tightening regulations around the appraisal process.

Impact to the Employer and Relocating Transferee

The HVCC guidelines will directly impact the mortgage process for relocating employees in a variety of ways.

- 1) Lenders will now be required to provide borrowers with a copy of the appraisal report at least three days prior to closing. If the report is not available or cannot be delivered in that time frame, the lender must now obtain authorization from the borrower waiving this right.
- 2) During the relocation process, it is not uncommon to have a shorter time frame between the purchase contract date and the closing date. So, it's important to note that this new stipulation not only has the potential to add additional paperwork to the process but also increases the potential for delayed closings. For example, if a transferee determines they would like three days to review the appraisal prior to closing, instead of signing the waiver, they would need to request that the closing be moved to accommodate the three days. The seller, depending on the purchase agreement may or may not agree to this, which may create closing or contract issues.
- 3) Another area that will impact a transferee will be how the appraisal results are handled. In the past, if the value came in lower than the contract price, lenders would have the opportunity to submit additional comparable sales to the appraiser for them to consider for additional value. This practice is now significantly limited under the HVCC. Once the appraisal is completed, the original value will most likely stand. The lender is also not permitted to order a second appraisal on the same property unless there is a reasonable basis to believe that the initial appraisal was flawed or incorrect and such basis is clearly identifiable. As appraisals continue to challenge perceived market values, sellers will have less negotiating power when a property appraises for less than the agreed upon purchase price.
- 4) An additional area of concern for transferees and employers is the possibility of the HVCC controlled appraisal process resulting in the need for more negotiations later in the home sale process, consequently increasing the pressure on a seller in order for the seller to not lose the sale and for the buyer not to be in breach of the contract. The failure of a property to appraise also raises the risk of a client experiencing fall-throughs in the two transaction home sale process.

What SIRVA is Doing to Assist

SIRVA Mortgage understands the critical importance of staying up-to-date on the changes in the mortgage industry, and is dedicated to ensuring employers and transferees understand how these changes will impact them. Relocating transferees should be cognizant of the HVCC guidelines, along with the general tightening of appraisal rules, and the ultimate effect that they may have on their home sale price. Employers should also be aware of these guidelines and appraisal rules, and the ultimate impact that they may have on their relocation home sale programs.

Topic Three: Trailing Wage Earner Income

As of September 1, 2009, Fannie Mae no longer allows trailing wage earner income to be considered for mortgage qualification. Freddie Mac has followed suite, and beginning October 1, 2009, will no longer consider trailing wage earner income for new applications. Trailing wage earner income has been an important component for a relocating employee who is part of a two-income household that requires both applicants to qualify for a new mortgage.

Based on Fannie Mae's guidelines, a trailing wage earner is defined as a co-borrower occupying a property along with the primary borrower who has taken part in a corporate sponsored move to another location. The trailing co-borrower is one who has been employed at the departure location (where the relocating borrower also resided) and intends to seek employment at the new location. In this situation, the loan would be underwritten considering the trailing wage earner's departure location income, even if they haven't secured employment in the new location. This helps to increase the applicant's mortgage qualification amount. For qualifying buyers, using this income allows for a smoother transition for families in the relocation process.

In the past, lenders had the ability to take into account up to 100 percent of the trailing borrower's income as long as it did not typically exceed a third of the total income required to qualify for a mortgage.

Impact to the Employer and Relocating Transferee

This underwriting change will impact relocating families in the following ways:

1. A transferee's purchasing power may be limited in the new area as the transferee may only be able to qualify for a significantly smaller home than their current standard of living.
2. Extended temporary living arrangements or short-term living arrangements may be necessary until the spouse is able to secure employment in the new area. This could lead to increased moving and storage costs.
3. The complexity of a move will increase. The seamless transition from home sale to home purchase will be lost. A break of what could be months between transactions may occur. For many transferees concerned about being able to sell their current homes in today's market, this is adding yet another layer of uncertainty and could potentially lead to a decrease in move acceptance.
4. Failed relocations may increase and the level of transferee satisfaction may drop, along with the transferee's quality of life, as qualifying and purchasing issues arise.
5. Administrative burdens and exceptions for corporations may increase. Possibilities include: exception requests for additional temporary living, storage costs, assistance for spousal job placement, and possibly even a spousal job guarantee.
6. The time it takes to complete a move may lengthen and subsequently, requests to extend the use of benefits may increase.

What SIRVA is Doing to Assist

SIRVA Mortgage continues to counsel transferees early in the relocation process and acts as an advocate in establishing a manageable timeline for their new home purchase. In addition, SIRVA Mortgage is acting as an advocate for the relocation industry, along with Worldwide ERC®, working directly with Fannie Mae and Freddie Mac to negotiate a reversal on this decision to eliminate the consideration of trailing wage earner income. SIRVA Mortgage is also working on a plan of compromise for our loans issued through Fannie Mae or Freddie Mac, in case an industry-wide reversal cannot be achieved.

Topic Four: Mortgage Disclosure Improvement Act and Amendment of Regulation Z

When Congress passed the Housing and Economic Recovery Act (HERA) in 2008, the bill included amendments to the Truth-In-Lending Act. These amendments are known as the Mortgage Disclosure Improvement Act (MDIA). The new MDIA regulations were created to provide increased transparency and fair regulation in the mortgage industry that would prevent deceptive lending practices and keep consumers more informed about their home financing choices.

On July 30, 2009, the Federal Reserve Board made amendments to Regulation Z (the federal law requiring lenders to fully disclose in writing the terms and conditions of a mortgage) in order to implement the requirements of the MDIA. All lenders must comply with these new rules beginning with new mortgage applications dated on or after July 30, 2009.

In essence, the new regulations attempt to standardize and further define the timeline for disclosing mortgage terms to applicants. In addition, other process steps of the mortgage application will be determined by these defined disclosure timelines.

Impact to the Employer and Relocating Transferee

The following are the new regulations and their potential impact:

- 1) Regulation: The closing on a purchase transaction may not occur prior to seven business days after the initial Good Faith Estimate (GFE) and Truth in Lending (TIL) disclosures are sent out to the applicant.

Historically, buyers and sellers have negotiated the closing date in the purchase agreement. This will continue, but now, the date in which the GFE and TIL disclosures are sent to the applicant will determine the earliest date that a new home purchase transaction can close. The buyer and seller will now need to abide by this regulation when negotiating a closing date. Realistically, we expect that the minimum time frame from the initial mortgage application to closing will now be 10 to 12 business days.

- 2) Regulation: With the exception of a credit report, lenders cannot collect any fees for a minimum of three business days after the initial TIL and GFE disclosure has been sent to the applicant.

This regulation will determine the earliest date a lender may order an appraisal on a new home purchase. The lender will not be able to proceed with the appraisal process until three business days after the initial disclosures have been sent out. This three day requirement will not affect transferees who receive home purchase assistance, which is direct billed as part of their move, and they will not incur any direct costs. However, transferees are subject to this three day requirement if they do not receive home purchase assistance or if they pay for closing costs out-of-pocket and are reimbursed after closing.

- 3) Regulation: The borrower must receive a final TIL and Annual-Percentage-Rate (APR) at least three business days prior to closing.

The MDIA rule defines the APR as being out of tolerance if it changes +/- .125% from the last disclosure to the final disclosure. If this occurs, then the TIL, which contains the APR, must be re-disclosed to the borrower, and the three business day requirement will begin from the re-disclosure date. This regulation may have the most significant impact on closing dates. Historically, title companies and attorneys wait until a day or two before the scheduled closing to prepare and list their final fees. Under this new regulation, if a title company or attorney were to add a fee this late in the process, it has the potential to impact the APR enough to cause the APR to be adjusted out of tolerance. In addition, if the borrower decides to increase or decrease the loan amount this will also change the APR. Again, if the APR adjusts out of tolerance then the closing date must be pushed out which can lead to various issues for the transferee.

What SIRVA is Doing to Assist

SIRVA Mortgage works with transferees to complete their mortgage application in a timely manner, and provide accurate disclosures at the time of the initial mortgage consultation. In addition, SIRVA Mortgage works with title companies, attorneys or closing agents early in the home purchase process and, therefore, is able to provide a final HUD statement of charges and complete a final TIL disclosure at least three business days before closing.

Conclusion

The numerous regulation changes of 2009 add another layer of difficulty for a relocating employee who is already confronting the challenge of selling his or her home in a troubled real estate market, and now must deal with a challenging mortgage market. Therefore, it is critical for employers to be aware of the changes and understand how these changes will affect their transferees. In doing so, the employer can work alongside the mortgage lender to minimize any negative impact to the transferee and ensure a smooth home sale process.

For relocating employees, it is imperative they speak to a lender very early in the process, even if they do not intend to purchase a home in the new area right away. It is essential for relocating employees to become educated on the current mortgage environment, and how the various underwriting changes may impact their situation. In speaking to a lender early in the process, relocating employees have adequate time to plan. Then once the employee decides to purchase a home, he or she will have everything needed in order to ensure financing approval.

If you have further questions, please contact Rick Hoover, director, client services, SIRVA Mortgage at 800.531.3837 ext. 4035 or Jamie Tierney, director, client services, SIRVA Mortgage at 800.531.3837 ext. 4024.

Rick Hoover began his career with SIRVA as a loan counselor in March of 1999 and was promoted to his current position as director, client services in April of 2003. In this position, Rick manages a diverse portfolio of clients and delivers significant dollar savings and service improvements. He expertly leads a team of relocation professionals and works collaboratively with the vice president, operations and manager, client services to ensure overall client satisfaction, quality, and retention. Prior to his tenure with SIRVA Mortgage, Rick worked as a loan officer and credit manager for a major financial institution. Rick received a bachelor's degree in business administration/finance from The University of Akron and is a recipient of the Certified Relocation Professional (CRP) designation accredited by the Worldwide ERC.

Jamie Tierney brings a significant level of relocation and mortgage experience to the SIRVA Relocation team. He began his career with SIRVA as a loan counselor in January of 2001 and was promoted to his current position as director, client services in April of 2005. In this position, Jamie manages a diverse portfolio of clients and delivers significant dollar savings and service improvements. Jamie also expertly leads a team of relocation professionals and works collaboratively with the vice president, operations and manager, client services to ensure overall client satisfaction, quality, and retention. Prior to his tenure with SIRVA Relocation, Jamie worked as a loan officer and credit manager for a major financial institution. Jamie received a bachelor's degree in sports management from Ohio University and is a recipient of the Certified Relocation Professional (CRP) and Global Mobility Specialist (GMS) designations accredited by the Worldwide ERC®.

The foregoing is intended as general information only. SIRVA suggests that decisions as to your specific situation should be made only after full evaluation of your circumstances with your company leadership, tax and legal advisors, and HR personnel.

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