The Practical Guide to Loan Processing

By Thomas A. Morgan

2021 Printing

ISBN 9781089950646
"The Practical Guide to Loan Processing"

Table of Contents

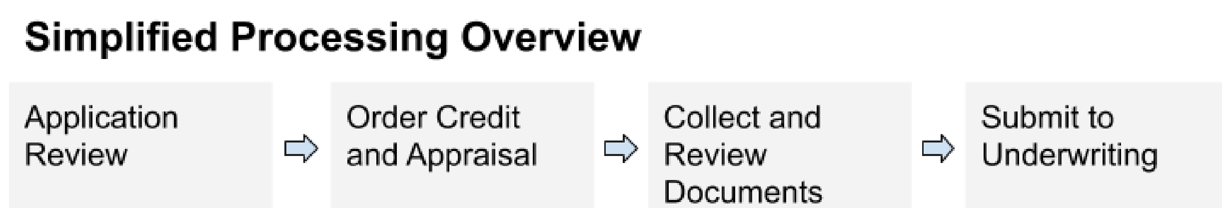
Introduction

Beginning in 2006, the mortgage industry began to experience an upheaval that would ultimately bring the financial system to its knees. This meant that many mortgage lenders, who previously could casually package loan applications, became forced to diligently meet the most stringent guidelines and documentation requirements seen since the late sixties. The capabilities necessary to meet these stringent documentation requirements come from a qualified mortgage loan processor who, in addition to an eye for detail, has the skills and knowledge that encompass the entire mortgage process.

Most mortgage companies and referral sources correctly believe that they live and die based on customer service and service delivery. The loan originator is a big part of this, in that he or she is responsible for taking a good application to start with. But while the loan officer is the customer's representative, the processor ultimately has his or her hands on the loan file; only the processor can see the file as it progresses and fully understand the real-time status of a loan and work to move towards closing.

Despite years of automation improvements, the biggest problem mortgage companies report with respect to their operations is incomplete or problematic loan documentation. This is where the human factor in the application process impacts us, because we are relying on people – borrowers, real estate agents, closing agents and loan officers – to provide what we need to complete the loan.

Even if the loan application is perfect, processing is where the home loan sequence can begin to reveal its nightmarish realities. Under normal circumstances, it is the processor's duty to complete the verification process, ensure regulatory disclosure delivery and prepare the case for presentation to the underwriter, loan committee or other decision maker. It seems simple enough, but here is where the effect known as "I am not sure if this is completely clear" kicks in.



It seems like a simple process. But what seemed apparent to the loan officer isn't so apparent to the processor. If it isn't apparent to the processor, it isn't going to be apparent to the underwriter either. In an ideal situation, the processor and loan officer work together to identify "critical" items which could cause the loan to be denied and ascertain whether they can be fixed. Working together and with the borrower it is unlikely that any adverse information can't be refuted.

Then there are non-critical items - things that the loan can be approved "subject to" or as a condition of the approval - "nickel & dime" conditions. The problem comes when a processor doesn't segregate the level of importance of various documents and mails a simple list of outstanding documents to a borrower. Suddenly an inconsequential bank statement or other innocuous pieces of information are as important to the borrower as a critical document, such as proof that a delinquent account is incorrectly attributed, or the current years' tax return. The borrower receives the list and puts everything together, except for the critical document, sends it in. The mail gets reviewed a week later and suddenly - nearly 1 month into the loan process - there is a huge problem. Welcome to mortgage banking. Therefore, a complete application is so important.

Instead of simply acting as a checker of files and a sender of forms, the processor can be much more useful to the customer by taking his or her expertise and guiding the borrower through the process. This is the role of the processor.

Different companies implement the processing position differently. In larger companies you often see the processing role segmented into its different parts – file intake, data entry, and file review, pre-underwriting and pre-closing functions – all broken apart. In some companies the processor owns the file from “cradle to grave” and may even underwrite and generate closing documentation. Whichever role the processor fills, he or she must know all the functions to anticipate issues and to be able to identify what still needs to be done.

In the past mortgage processing training has been passed down from generation to generation and person to person. This has resulted in many different approaches, emphasis on skills that may not apply to all situations, and general misinformation. There are also many “processing guides” whose pages are filled with sample forms and other industry exhibits. We believe you can find these on your own and have tried to stay away from that in this guide. We tried to include only those things that affect the processors job. While it is impossible to describe all facets of a job that touches every phase of the retail mortgage business, we hope that this book will give the reader a strong foundation in understanding the processor’s job.

Chapter 1 – The Processor's Duties & Responsibilities

Job Description - Mortgage Loan Processor

A generic description of the processor's duties might read like this; "Assist Customer in obtaining approval by working with loan officer, underwriter and closing; Review Application for completeness at the time of receipt and prior to underwriting; Initiate requests for all documentation needed to support approval."

But that would understate the amount of work a loan processor must complete in order to take a loan from application all the way to closing.

Specific Duties

- Receive loan application after registration
- Review against loan plan specifications for accuracy
- Enter data into computer assisted processing program
- Generate Loan Application (1003, 2900), Transmittal Summary (1008, 2900 WS, 1802), Appraisal Request (2800)
- Deliver Disclosure Documents Appropriate to Registered Loan Program
- Order and review credit report
- Order and review appraisal
- Compile case in File Order
- Enter Loan into Logs
- Initiate contact with customer requesting additional documentation
- Track outstanding documents and follow up with customer, loan officer, referral source
- Update Status daily as to incoming and outgoing documents
- Ascertain readiness for loan underwriting
- Pre-Underwrite case against checklist to identify problem areas prior to submission to underwriting
- Evaluate deficiencies and notify customer, loan officer of critical issues.

General Description of Duties

The loan officer, if there is one, performs the role of "field underwriter." The loan officer should not burden the processor with the responsibility of trying to make sure a borrower qualifies for the loan request. However, he or she should work together with the processor to determine what information they need prior to submitting a loan to an underwriter. Do not submit a loan file with missing "critical" information. We consider generally "critical" items as those that materially impact the applicant's income, assets or credit history. Processors can submit loans for underwriting subject to non-critical information, such as compliance or standard prior to closing documentation.

The Career Path of the Processor

Loan processors normally follow one of two paths as they progress in their careers. The natural graduation of credit skills, documentation review and process management often can lead to a career in underwriting, operations and operations management. A smaller percentage of processors extend their careers into sales and sales management. In this capacity, they use their ability to review documentation, anticipate problems and work with support staff to deliver excellent customer service. Many processors who transition into origination quickly outperform their non-processing skilled counterparts.

The Division of Duties between Processor and Loan Officer

The relationship of the loan officer and processor more closely resembles that of partner than co-workers. While the jobs of the loan originator/loan officer and processor overlap, successful companies clearly define the separation of processor and originator duties. While occasionally these two functions may cover for each other, neither should expect the other to routinely perform the duties of the other. However, ONLY the loan originator can execute certain duties, such as negotiating loan terms and taking applications.

Task	Description
Interest Rate Lock-in	The loan officer will generally lock-in a borrower's interest rate when he or she gives the borrower an interest rate guarantee. When the file is in process, however, the loan officer may ask that the processor submit an interest rate lock-in request. **<u>The risk for the processor</u>** is that pricing mistakes can be extremely expensive. The processor may be blamed, or used as a scapegoat, for errors in pricing that the loan officer should have been aware of. If the processor can complete the lock-in request by simply making a phone call, on-line, or by faxing a request, this may be done under the loan officer's direct supervision. Confirmation should be immediately communicated back to the loan officer, particularly if there is any deviation in price at all.
Loan Registration	Program Selection and Registration should be performed by the loan officer. If the loan officer requests that the processor change the program, and this can be done easily, then the processor can accommodate that change. Again, the program change may affect pricing, and the processor needs to immediately send notification of program change to the borrower and the loan officer.

Task	**Description**
Qualification, Pre-and Re-Qualifying	If the borrower has not initially been qualified – that is, there is no evidence that the loan officer provided evidence that the borrower is eligible for the loan, the processor should return the loan file to the loan officer once the initial loan set up is completed. If, upon reviewing the loan file, there are substantial differences in the information that was used to qualify the borrower, the file should be returned to the loan officer to resolve the issue. It is not the processor's responsibility to "fix-up", or otherwise repair poor quality loan submissions. This can take an inordinate amount of time and the processor is not qualified or compensated enough to perform these duties. The processor may assist in the process by suggesting solutions to problems, or by consulting with an underwriter or other source of knowledge as to potential solutions. The loan officer is paid incentive to have qualified borrowers – the processor is not.
Customer Status Updates	Many referral sources and borrowers prefer to call the processor in order to obtain status updates. There are reasons for this. The processor is in the office and easy to reach with one phone call The processor has the file in his or her possession and can easily reference the answer to a question The processor is perceived as being more likely to give a candid answer as to problems To the extent possible, the processor should avoid being involved with substantive conversations with outside parties. These are extremely time consuming, and often worried borrowers and referral sources will call far more frequently than necessary Unless the processor has agreed to speak with referral sources, the real estate agent or other inquirer should speak with the loan officer.

General Time Frames for Application Process

Today's technology makes it possible to close loans very quickly, in as little as 7 business days. However, a percentage of loans such as those for self-employed, first time buyers, or those with other complications can require lots of extra work. the processor has the loan, is the longest part of the mortgage process. In an average 45 to 60-day process, the processor is in possession of the loan file for 80 to 90% of the process.