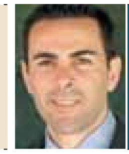

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Stated-Income Loans: A Reemerging Niche?

With the recovery underway, stated-income loans are staging a comeback

With the market's recovery seemingly gaining momentum, several niche markets that had fallen to the wayside are becoming prevalent once again. Among them are stated-income loans, which until recently seldom impacted the real estate industry in any significant way. With an increase in self-employed buyers, however, stated-income loans have started to play a larger role in the business of many mortgage brokers and originators.

Because of the loose documentation policies associated with these loans, buyers who may have difficulty providing the necessary documents for standard homeownership arrangements still can have some leverage when seeking financing. Because of the long and tumultuous history of these loans, however, the stated-income market also can be a hotbed for fraudulent activities on multiple fronts.

This danger is why it's imperative for anyone related to real estate to truly understand the purpose of these loans and their potential pitfalls when suggesting them for clients. Considering that, mortgage brokers and originators should thoroughly familiarize themselves with all the details associated with facilitating and managing the process of this loan type.

Income verification

When it comes to acquiring a mortgage, the verification of income is frequently a sticking point for self-employed buyers. Stated-income loans allow freelancers and small-business owners to pursue homeownership despite having an income source that is either difficult to track or high in capital gains.

Although the buyers who enter this loan arena actually may make enough money to purchase particular properties, they simply do not have the ability to prove it. This will prevent many large lenders, banks and investment companies from going anywhere near their borrowing interests, and as seen in the past, this creates a void in the marketplace — and creates an opportunity for new lending concepts to fill the gap.

To help balance the lack of documentation, mortgage banks and lenders can gain some comfort in knowing that to qualify for stated-income loans, borrowers typically must have a high credit score. In some cases, however, despite the high credit rating and large downpayment inherent in stated-income loans, the lack of income documentation still will make the loan more expensive for borrowers.

The loan process

When a potential homeowner begins the process of a stated-income arrangement, several issues must be considered by that borrower's broker. A high credit score, at 700 or higher, will typically suffice, but it's also vital for borrowers to provide proof that they can afford the given property. Bank statements that outline a significant balance — usually determined by calculating six months' worth of ownership expenses — can be an important piece of the stated-income application puzzle.

Coupled with a solid credit rating, exhibiting the ability to maintain large bank balances can help instill confidence in your lender that the borrower reliably can afford and maintain the property in question. Additional documentation, such as a Social Security card and a driver's license, is also necessary.

Mortgage brokers and originators may be surprised to learn that the stated-income loan process is often much faster than the average mortgage loan. Regardless, these loans are typically 30-year, fixed-rate mortgages with an interest rate that is usually near 4.5 percent.

Brokers also should be aware that home-loan refinancing is another popular use for stated-income loans. The process and risks are similar to that of their purchase-loan counterparts, aside from the documentation that a potential borrower must present. A mortgage statement and a hazard-insurance policy often are required, for instance, in addition to the mentioned documentation.

Fraud dangers

It's an unfortunate reality that the stated-income market is littered with fraudulent income records. In fact, in the late 2000s, some industry research found that nearly 60 percent of these loans involved salary figures that had been embellished by 50 percent or more. Unsurprisingly, this led regulators to consider how to bar these loans or at least tighten their requirements. Still, smaller institutions and specialist lenders continue to use these loans to help specific buyers purchase homes.

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With all of this in mind, mortgage brokers and originators can rest assured that the housing crisis has led everyone in the industry to become more careful in their underwriting processes. This is why lenders will keep a close eye on applications, ensuring that they're getting low-risk borrowers. It's up to mortgage brokers and originators to make sure that their clients are prepared in this regard.

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Stated-income loans can have a significant impact on the real estate and lending industries because they respond to the needs of a growing number of Americans who are self-employed and can't access conventional loans. With the documentation process changing, due to industry regulations and a shift in financial record keeping, stated-income loans likely will gain more popularity as time passes. This can be a positive development, as it will allow lenders and brokerages to approach the loans with greater care, while also identifying the borrowers who can make for fruitful lending relationships.