



Kevin Harnack/Freeman Staff

Terri Darling, president of Fieldcrest Mortgage, 21001 Watertown Road in Brookfield, said she's been finding it harder to give people home loans as financial institutions tighten lending practices after being burned by easy-credit policies that have ended in loan defaults.

FEELING THE CREDIT CRUNCH

Area mortgage brokers finding it harder to give out loans

By **DANIEL KURT**
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BROOKFIELD – Just a year ago, Ideal Financial Services mortgage adviser Cathy Savaglio seemed to have little trouble finding a loan for most of her customers.

But as lending institutions are being burned by easy-credit policies that have ended in loan defaults, Savaglio said doing so has become a much greater challenge.

"A year ago you could get a 80-20 loan with no money down," she said, referring to a type of mortgage that is split into two separate loans with different interest rates. "Now those are completely gone."

Area mortgage brokers are finding it's harder to give out home loans as financial institutions are coming with stricter lending practices in the wake of a recent credit crunch caused by increased defaults.

"It's unfortunate ... I've had situations where it's hard to find loans for homeowners," she said.

Terri Darling, president of FieldCrest Mortgage Corp. in Waukesha, said she's experiencing a similar situation.

"We definitely have felt the crunch of the whole industry," she said.

Darling said option adjustable rate mortgages and bridge loans – in which buyers borrow equity from a home they're selling as a down payment on a new house – are also falling by the wayside.

A major difference this year is that one's credit score is becoming the primary factor in whether banks will finance a customer's mortgage, said Erin Krueger, director of public policy at the Wisconsin Association of Mortgage Brokers.

Only a few months ago, investors with credit problems but a good loan-to-income ratio could get financing, she said. Today, that's rarely the case.

While the credit crunch certainly creates an obstacle to brokers, Darling said there are still plenty of options available

The Explainer

Mortgage brokers say the following types of mortgages are becoming harder to come by, given the new credit policies being enacted by lenders:

- **80-20 loans:** A combination loan for 100% financing (no down payment). With this type of mortgage, you would actually have two loans – one for 80% of the purchase price and one for 20% of the purchase price. Sometimes payments on both loans are made to the same lender, sometimes different lenders.
- **Option ARM loans:** An adjustable rate mortgage with added flexibility of making one of several possible payments on your mortgage every month, in order to better manage your monthly cash flow.
- **Bridge loans:** The short-term source of funds needed to pay for purchase of new property when you have not yet sold your previous property.
- **Interest-only loans:** Initially the borrower pays only the interest on the mortgage over a fixed term in monthly installments.

Source: mortgage-x.com, mortgageloan.com

for savvy buyers.

Among the loans that still carry favorable terms, she said, are those offered through the Veterans Administration program and the Wisconsin Housing and Economic Development Authority program for first-time home buyers.

Darling said with some limitations, individuals can get a WHEDA loan for 6.45 percent interest with just 3 percent down.

"What's frightening is that people don't realize their options," she said.

In fact, she said she is happy to see the demise of certain programs that didn't necessarily serve customers well.

She said interest-only loans, where the home owner is not paying down the principle on the mortgage, are one such example.

Darling said she tries to counsel her clients on how to resolve a credit rating problem, so they can get into a less risky loan option.

In the face of new credit policies, Krueger said the Wisconsin Association of Mortgage Brokers is working hard to keep its members on solid footing.

One important thing is to control the

quality of brokers operating in the state, she said.

She pointed to a recent piece of legislation that requires loan originators to pass an initial licensing exam and undergo mandatory continuing education.

Those increased demands are one of the reasons the number of licensed loan originators in Wisconsin dropped from approximately 15,000 in January to 9,000 now, she said.

The organization has also been putting together a series of seminars in which brokers explain the terms of various mortgages to the public.

While the events provide much-needed education to consumers, they're also an important business tool, Krueger said.

Perhaps now, more than ever, brokers have to demonstrate that their industry expertise and personal approach is a better option than going straight to a bank.

"We've been working hard to make sure questions are asked and answered," she said.

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