UNDERSTANDING MORTGAGE INSURANCE

(Excerpts)

General Info Editorial

GreaterFreedom.com

Taking on a home loan involves understanding a whole range of issues for the mortgage experience to be a smooth one. Mortgage insurance is a good example. It sounds simple enough, but here's a quick test: Does mortgage insurance cover the borrower or the lender?

According to a recent survey, approximately a third of borrowers believe that the mortgage insurance they were paying covered them against defaulting on a payment. Unfortunately, that belief is completely incorrect. The same survey showed that 70 per cent of respondents did not fully understand the mortgage information given to them by their lender.

From this we can conclude that the mortgage information given to borrowers is not always crystal clear, and can sometimes give the impression that it is written in Sanskrit?

What are you paying for?

Mortgage insurance protects the lender when:

- The borrower defaults on payment, and
- The sale of the house does not cover the borrower's outstanding debt.

For this reason it is sensible to describe it as Lender's Mortgage Insurance.

(Continued on back page)

DEPARTMENT SPOTLIGHT

SERVICING, DISTRIBUTION, & FLOOD

We are pleased to present Steve Henry, Manager of Servicing, Distribution and Flood Departments, as this quarter's department spotlight. Steve's servicing staff is responsible for handling client calls, status and rechecks, copy requests, taking and logging in new orders and distributing work to the coordinators. His flood staff is responsible for any flood related issues and the distribution staff does the filing and retrieval of completed work and all mailroom functions. Steve has been with the company for eight years. Pictured are (reading left to right) Front Row: Karen Sooy, Nancy Rodriguez, Alana Nucera, Gina Cosentino, Jason Depalma, Back Row: John Bullard, Steven Henry, Doug Flood and Elizabeth Wilson.

Each time a new employee is brought onsite, worker safety, as well as customer and public safety, may be at risk.

By Greg Pryor

HR.com's 2003 Buyer's Guide to Drug Screening and Background Checking

(excerpts)

Every new his is a risk. Most companies have no relationship with their applicants until the interview process and, often, a resume or application is the sole connection between the hiring firm and the applicant. Therefore, hiring an employee means granting a stranger access to the inner functions of your business.

Hiring also means trusting someone to handle company property, documents, and assets before a solid relationship exists between the employee and the company. Furthermore, hiring an employee means having faith in that individual's integrity and character: Your employees represent your company and reflect your hiring standards.

The safety of your business, its image and its assets are not the only things at stake when hiring a new worker. As an employer, you are responsible for the safety and well being of your employees, as well as the safety of customers and any member of the public with whom your employees come into contact while performing duties on behalf of your company.

The statistics and horror stories are compelling. Homicide is the second leading cause of occupational deaths. A 1996 study conducted by the National Institute for Occupational Safety and Health (NIOSH) found a weekly average of 20 people are murdered and 18,000 assaulted at work or on duty in the United States. According to a study by Liability Consultants Inc., the average settlement in these cases is now more than $1.6 million dollars. Of the negligent hiring cases that go to trial, 66 percent result in jury awards averaging more than $600,000. The U.S. Chamber of Commerce Estimates that 75 percent of all employees steal at least once and that one in three business failures is the direct result of employee theft. The national Institute on Drug Abuse reports that 77 percent of drug users are employed. It is estimated that substance abusers use health insurance and worker's compensation at a rate of up to 8 times the national average.

No Easy Way to Perform Background Checks

Unfortunately, there is no easy way to access all the relevant facts and background information on an individual. Although a good deal of information is produced during the course of considering a job candidate, and even more is generated over the course of an individual's employment with a company, HR and recruiting systems are not yet sophisticated enough to universally share the information they collect about employees and applicants. However, laws and regulations have been enacted to allow employers to investigate the backgrounds of candidates and existing employees. Government-supported programs that assist employer efforts to maintain a drug-free workplace have been developed. Services and systems that enable employers to protect their businesses, employees and customers by making educated hiring decisions are available and under constant development.

Screening or investigating an employee or job candidate requires investments of time, money, training and education. Prior to performing screening procedures, the individual or department responsible must have a thorough understanding of that information can be collected, and how it may legally be used for making employment-related decisions. To ensure that screening is being performed thoroughly and in compliance with state, regional, and federal law, an organization that intends to screen its employees or candidates may need to devote a part of its staff solely to this purpose.

There are, however, alternatives to allocating in-house staff to perform these functions. Often, outsourcing background checks and screening procedures to a third party is more cost-effective or feasible option. Many background-checking service providers are able to return detailed reports in three business days or less, often at a price of less than a new hire's first day of pay.

Background checks serve to confirm that the information on a candidate's resume is accurate; that all relevant licenses, certifications and degrees are in order and u-to-date; and that the candidate has nothing in his or her history, such as prior convictions, that would indicate a potential risk to co-workers, customers, or the business if the candidate were to be hired.

Conclusion

Whether the screening is prompted by a genuine concern for safety or merely as a legal concern, screening employees and candidates can provide an essential legal defense: Courts are increasingly likely to uphold the negligent hiring doctrine, under which an employer can be held directly liable for failure to exercise reasonable care in the selection or retention of employees who are dangerous to other employees or third parties. Showing that all reasonable efforts have been made in investigating an employee's background for any indication of potential risk is evidence of due diligence, and strong legal protection for the employer.

Using FICO to Increase Your Commission

By Kevin Kerzner
Pennsylvania Mortgage Press

Mortgage originators literally lose thousands of dollars in commission every month due to a general lack of understanding of the FICO scoring system and a failure to instruct their prospects on what they must (and must not) do during the mortgage process. In this article, I will inform you of some dos and don'ts that every mortgage originator needs to know, as well as several things that can be sped up, in order to get your prospect some credit points when facing a short deadline.

Thirty percent of a FICO score is utilization - just add up all of your prospect's high line of revolving credit (credit limit). The key is revolving credit, such as credit cards, department store charge accounts and, in many cases, equity lines of credit, but not installment credit, which is commonly comprised of mortgages, student loans and automobile payments. If your prospect is using more than 25 percent of that total number, i.e. strictly revolving credit, their score begins to drop. Consider the following common mistakes when addressing your customer's FICO score:

COMMON MISTAKE NUMBER ONE: CANCELING CREDIT CARDS

Simply paying down the right credit card balances with the right amounts can increase your prospect's FICO score. Do not cancel any credit cards, especially if you have zeroed out the balance. This will result in a loss of utilization points.

COMMON MISTAKE NUMBER TWO: APPLYING FOR NEW CREDIT DURING THE MORTGAGE PROCESS:

Once again, you will lost points! A real estate agent once told me that they had just sold a $2 million home, but when the prospect went out to lease furniture for their new place, their FICO score dropped significantly below where it needed to be in order to qualify for the mortgage. To this day, I'm sure that the sound of the agent screaming, "Return it, return it, return it!" is emblazoned in the mortgage originator's mind, as he eventually lost the loan.

Many times, a mortgage originator is faced with a situation where both spouses have sub-prime scores. Careful inspection of separate credit reports for each spouse may uncover that one of the spouses is simply an authorized - not a joint or co-signed - user.

An authorized user is not responsible for either the balance or "derogatories" on that card. By removing the spouse as the authorized user, you can gain utilization points, and if those derogatories were within the last 12 months, there is a potential for a huge point gain. That person's score is now significantly higher, allowing you to place the mortgage solely in the hands of the spouse.

PRESENTATION OF AVM PRODUCTS

Pictured is Cheryle Randolph-Sharpe, Vice President of Credit Lenders Appraisal Services, Inc. Cheryle gave a presentation on AVM products to the New Jersey Banker's Association Conference on June 11th, 2003.

COMMON MISTAKE NUMBER THREE: DEROGATORIES ARE REMOVED IN 30 DAYS

Past payment history represents 35 percent of the FICO score, but the majority of the weight is within the past year. However, derogatories can be legitimately and permanently removed. Many credit repair companies send out letters to the creditors disputing these derogatories, and if the creditor does not respond in 30 days, according to the Fair Credit Reporting Act, they must come off that person's credit report. However, nothing has changed with the creditor, and when the bureaus are updated the following month, the same derogatories will reappear, often around the time of your closing. The only permanent way to remove a derogatory is to secure a document from the creditor and submit it to all three credit bureaus.

COMMON MISTAKE NUMBER FOUR: FAILING TO STAY CURRENT ON PRESENT BILLS

A late payment with a department store for as little as $50 can cause your score to drop by 50 points or more! Pay those bills!

COMMON MISTAKE NUMBER FIVE: PAYING OFF COLLECTION ACCOUNTS

Most originators are not aware that when you pay off a collection account, it drops your score in the first 90 days. That's right, it drops your score in the first 90 days. If a collection account has to be paid, it must be negotiated off the report with the creditor by securing its removal during the negotiating process before it is paid. Depending on the state's statute of limitation for judgments and collections, collection accounts can be paid in full or settled for less than the full amount, and removed from the credit report.

Most originators also believe that bankruptcy is the kiss of death in FICO scoring, but this is not true. By simply updating the report to reflect the correct information, your client can gain both utilization and past payment history points.

In summary, FICO points can be easily had by increasing utilization and past payment history scores. Where those points are found will determine the speed in which they are re-scored, so make sure to tell your prospects while they are still going through the process (1) do not cancel any credit cards; (2) do not take out any new credit; (3) stay current on all bills; (4) do not pay off collection accounts, without first negotiating their removal; and (5) good luck!

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(Continued from front page, "Understanding Mortgage Insurance")

Although the lender is the insured party, in most cases the borrower will pay the premiums on this insurance. This is the standard state of affairs when the Loan-to-Value Ratio (LVR) of the property is 80 per cent or greater (ie. You have only been able to scrape together 20 per cent or less of the price of the property as a deposit). The LVR is a handy general index of the risk which the lender takes on by extending the loan to you. The higher the LVR, the greater the risk to the lender, and the more need for mortgage insurance.

Lenders Mortgage Insurance premiums are calculated on a sliding scale based on the LVR and a number of other factors. Generally, it is a one-off fee charged as a percentage of the LVR. In most cases, the higher the LVR, the higher the percentage charged.

Avoiding mortgage insurance

The only sure-fire way of avoiding paying the lender's mortgage insurance it to wait until you have greater than 20 per cent of the property value saved as a deposit. Most borrowers do not usually find this option inviting, since it means postponing their entry to home ownership by some time, and potentially losing the chance to enter at a favorable moment.

It is perhaps best to view mortgage insurance as a necessary evil, a cost that makes it viable for a mortgage provider to lend you more money sooner.

Aside form the fees involved the issue of Lenders Mortgage Insurance also complicates the negotiation of a home loan. In essence, even if the lender is happy to approve your loan, it must still be approved "behind the scenes" by the skeletal hidden hand of the mortgage insurer. Since they are sharing the risk which your loan represents, they have the right to veto dubious borrowers prospects.

Editorial at GreaterFreedom.com.au includes excerpts from 'Club Freedom'

Remember: Credit Related Support Issues will be handled directly through Factual Data's Technical Support Team at 1-800-673-5525, e-mail address is ts@factualdata.com.