

Multiple Applications for Mortgages

As Rates Fall, Borrowers Are Going to More Than One Lender to Improve Chances

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As mortgage interest rates continue falling to new lows, a growing number of borrowers are applying to more than one lender to increase their chances of getting approved for refinancing.

Anecdotal evidence suggests that only about half of the borrowers trying to refinance are getting approved, down from 60 to 70 percent during previous refinancing booms, said Doug Duncan, chief economist at mortgage financier Fannie Mae. As a result, borrowers are getting frustrated and anxious.

"There's no question there are multiple applications being done," Duncan said. "The economic incentive to refinance is so strong with rates being under 5 percent."

The average for a 30-year fixed rate mortgage this week dropped to 4.96 percent from 5.01 percent the previous week and 5.96 percent a year ago, according to a survey released yesterday by Freddie Mac. Rates have been falling for 11 consecutive weeks; for five weeks straight, 30-year rates have set new marks for the lowest level since Freddie Mac started tracking the data in 1971.

But not everyone can take advantage of the low rates. Homeowners with poor credit scores or little equity in their homes are not likely to qualify for a new loan in this tightened credit environment. A recent analysis by Inside Mortgage Finance found that the average score for borrowers whose loans were sold to Fannie Mae and Freddie Mac was 748 out of a possible 850.

"That's incredibly high," said Guy Cecala, publisher of the trade publication. "One way to improve your chances of getting approved is to apply to two lenders and hope that one of those applications is accepted."

The practice has been common in past refinancing booms. Lenders call it "double-apping," as in double applications, said Christopher Cruise, a loan officer at GOTeHomeLoans. Lenders can spot the tactic when they pull a borrower's credit reports and find that another lender has done the same.

"It drives [lenders] crazy because we get a loan all approved and ready to close and the borrower just disappears on us," Cruise said. "That's because they got a lower rate or were just able to close more

quickly with someone else." It also costs the lenders money when they lose a loan they have already locked in with investors.

There's a difference between shopping around to get the best loan and formally applying, which costs money but could give a borrower a better shot at securing a loan at the cheapest rate.

To discourage borrowers from applying twice, some lenders are charging up-front deposits, at least one of them as high as \$500. Then there's the cost of the appraisal required to initiate the refinancing, which can range from \$350 to \$450. It costs another \$20 or so to pull the borrower's credit report.

Still, loan officer Jean Marie Pace suspects that one of her borrowers applied to multiple lenders. Pace locked in a 4.75 percent rate for that client on a 30-year fixed rate loan that exceeds \$417,000, also known as a conforming jumbo mortgage.

The loan came with one point, a fee paid by the client to lower the rate. The client then came back to Pace with a quote from a competing lender that was one-eighth of a percentage point lower and asked her to match it, Pace said.

"She was shopping me," said Pace, who works for FNMC, a division of National City Bank.

One reason that borrowers have a 50-50 shot of getting refinanced these days is because lenders are swamped by the rush to refinance at a time when they have lost staff to layoffs. But also contributing to the situation are the tough underwriting standards that many lenders adopted in the wake of the mortgage meltdown and the foreclosure crisis that followed.

About 2.3 million households were the subject of a foreclosure filing last year, up 81 percent from 2007, according to data released yesterday by RealtyTrac, a private research firm that collects data on more than 90 percent of U.S. households. The filings range from default notices to notifications that a home is scheduled for auction or has been repossessed by the lender.