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| **FAQ on Reduced Documentation Loans**The 2007 mortgage crisis was partially blamed on reduced documentation loans. These loans are heavily based on credit scores and assets and often require little or no income documentation. Because of this, the availability of Reduced Documentation loans has nearly disappeared. Where they do exist, the interest rates are 1 - 2% higher than Fannie Mae loans and down payment requirements are 10% greater.**Q. What is a reduced documentation loan?**A. Under conventional, FHA and VA underwriting guidelines, an applicant's income must be verified by obtaining direct verification of employment and income from the applicant's employer, obtaining copies of the applicant's paystubs and W-2's and copies of the applicant's tax returns in some situations. Under a reduced documentation loan (RDL) program, the applicant's income may not be verified by any of these methods. The applicant is qualified from the income stated on his loan application.**Q. Which applicants can utilize the liberal qualification standards of a RDL loan program?**A. Applicants seeking to take advantage of the easier documentation requirements must put a minimum of 10% down on a purchase or must have an equity of at least 10% on a refinance (i.e.: the loan amount of the new loan cannot exceed 90% of the value of the property). Thus, applicants which only have sufficient savings for a 3% or 5% down payment on a purchase cannot utilize the less stringent documentation requirements of the RDL loan program. The applicant must also have "near perfect" credit. Late payments or other derogatory credit, which might be permitted under conventional underwriting guidelines, will not be permitted under the RDL loan program's qualification guidelines.**Q. Are there other reasons why an applicant would not want to utilize the RDL loan program?**A. There are several reasons why an applicant that can qualify under the standard documentation requirements would want to do so in lieu of using the RDL program. The interest rate, which an applicant will receive on an RDL loan, will be considerably higher than the rate which could be obtained on the standard documentation programs. The rate will be between 1/2 and 1 1/2 percentage points higher than the rate which the applicant could obtain on a fully documented application. Furthermore, an applicant applying for a loan under the RDL guidelines may be limited to only a handful of fixed-rate and adjustable-rate loan programs.**Q. Will verification of all sources of an applicant's income be waived under the RDL loan program?**A. No. Rental income, interest income, trust income, child support and other sources of "passive income" will be required to be documented in the same manner as under conventional documentation guidelines.**Q. Are all RDL programs the same?**A. The reduced documentation loans today still offer some opportunities depending on our situation. Stated Income Stated Assets or SISA loans are the most aggressive loans available on the secondary market. Hard money lenders (private lenders who charge very high loan costs) may still offer no income verification loans - if you can find them. Fannie Mae and Freddie Mac have minimally reduced documentation loans where, with good credit and assets, you may not need to provide all normal loan documentation. An example is if you would only need a verbal verification of employment instead of paystubs and W-2s. A good loan officer will submit your loan in a way that will take advantage of these programs. |