Washington state lenders pull funding for house sales at last minute

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With a baby on the way and years of savings in the bank, Phil and **Sandy Hart** made an offer last summer on their first house, a cozy three-bedroom in Shoreline.

The lender had approved the loan, the closing documents were signed, and the Harts were in the midst of moving preparations.

But the day they packed the moving truck, the lender pulled the loan, without giving a reason. Instead of enjoying their new home, the Harts had to stay in their apartment, and they lost more than $5,000 they'd spent on repairs and carpet for the place they thought they had purchased. They were able to recover their down payment, which was in escrow.

If this sounds like a rare homebuyers' nightmare, it's not. In today's market, nervous lenders are scrutinizing buyers as never before. They've not only tightened loan underwriting standards; many lenders now also check on employment and credit right up until closing. Sometimes the tight rules delay the process. In other cases, funding doesn't go through at all.

The impact is felt throughout the home industry, from buyers and sellers, whose transactions often are contingent on other deals, to agents, home inspectors, remodelers, furniture dealers and others involved in the industry.

"It's horrible for my business," said **Dave Douglas**, the Harts' real estate broker, at John L. Scott in University Village, who was been in the industry for more than 10 years.

"Before, there was a 98 percent or 99 percent chance a (home) purchase would close. But now it's about a 75 percent chance, and it's because of lending. It's crazy."

Scrutiny is to be expected, of course, after the deep financial crisis caused by lending to any would-be homebuyer who could fog a mirror. But Douglas and others say standards have swung so far in the opposite direction that they're keeping qualified buyers out of homes, and slowing down the already struggling housing market.

The length of time from loan application to closing has widened by 50 percent, to 6 weeks or more from four weeks, said **Tere Foster**, a broker at Windermere Real Estate.

And while money is available, the rules for borrowing it are changing. Many lenders are requiring 10 years of tax returns, regular bank account statements, documentation on daily purchases and frequent proof of employment. Sometimes the underwriters want to see these documents on the day the sale is due to close.

If borrowers can't meet the demands, or there is some change in their credit score caused by anything from a missed bill payment to the purchase of a couch, funding can be delayed or pulled — fouling up the process for the buyer, seller, mortgage broker, Realtor and anyone else with a hand in the sale.

"You've got multiple deals in a row," Foster said. "It's not just a buyer and seller; it's a total domino effect. The seller is buying something somewhere to move into in most cases. The whole chain reaction is pretty ugly."

John Bethke, a loan originator at Cobalt Mortgage of Kirkland, said pressure from lenders is growing. Because financial institutions usually sell loans after making them, tough standards from one member of the transaction trickles down to the others.

Selling loans on the secondary market used to be easy. But today mortgage originators don't want to bear the costs associated with not being able to sell a loan, so they are conditioned to place tough obstacles before borrowers to qualify, Bethke said.

As a result, "most banks don't pay attention to the closing date anymore," Bethke said. "Sometimes loans will go late. They really don't care. It's about making sure they get it documented properly so they can sell the loan."

Lenders are requiring specific debt-to-income ratios, excellent credit, and a large down payment, he added. "There is no gray area. It has to fit into the box," Bethke said. "If it's not exactly right, they'll turn it down."

Some complain that the guidelines aren't consistent.

"The rules keep changing," said Foster, of Windermere. "And when the rules keep changing, that makes it very challenging. I had one transaction where it took 90 days to get the lending piece done, and we had to go to five different lenders. I'm not even sure why."

For the Harts, the sudden rejection by an out-of-state loan underwriter meant having to live in uncertainty after their first purchase fell through. They tried to buy another house in Shoreline, just down the street. But after their offer was approved, they found the house had been foreclosed on and sold at a trustee sale — for $25,000 less than the $240,000 price the Harts offered.

On their third attempt, they got a house in Shoreline.

"It seems like the climate is so incredibly difficult right now, and they're asking for just ridiculous documentation," said **Phil Hart**. "I understand what got us into this, which was loose guidelines, but I think the boomerang effect has gone way overboard."

Windermere owners **OB Jacobi** and **Jill Jacobi Wood** said such stories are all too familiar. One homebuyer could not get funding because part of the down payment came from a bonus check from his company. An elderly lady who was selling her home was affected when the buyers' funding was delayed. She had to pay another month of mortgage and rent on her new apartment.

The troubles could not come at a worse time as the housing market slogs toward recovery. Just 4,072 home sales closed last month in 21 Western Washington counties, down from 5,512 a year earlier, according to the Northwest Multiple Listing Service. The median price dipped to $255,932 from $269,995.

While the tight standards curb sales, Bethke and others say tough rules are better than the overly loose guidelines that fueled the boom. "They didn't require as much documentation before the recession," Foster said. "I'm certainly not recommending they go back to that."

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