

Subject: Lender Loan Disclosure Form

The Pre-Loan Approval process has been a major headache for REALTORS® and buyers/borrowers. There has not been any Lender Standard of Practice indicating just what documents the Buyer/Borrower must produce to receive loan approval or any information about how quickly the Lender must receive these documents. The October 2008 issue of the national REALTOR® Magazine has an article entitled, “*Eleventh Hour Financing Fiascos*” that shows this is not only a Colorado Springs or Colorado issue, but a national problem. Some Lenders use a “Pre Qualification” form, some use a “Pre Approval” form, but there is no real difference in them or in the standards behind them. A task force of local REALTORS® and Lenders has created a practical solution – a uniform specialized form.

The form lists all Buyer/Borrower documents necessary at the time of the loan application; using it should avoid Lenders asking for data throughout loan processing. By using it, the Buyer/Borrower will have valid pre-approval that can be attached to an offer.

The task force of REALTORS® and Lenders who have created this form know that it might not be a panacea; however, it appears to be a worthwhile concept. This form has been reviewed by the Pikes Peak Association of REALTORS®’ attorney. After the form has been used for several months, the task force will analyze the reaction to see if any modifications are necessary.

The form is “Standard Lender Loan Disclosure for Pre-Approval.” The Buyer/Borrower would meet with the Lender in person, over the phone, or on-line. At the time of the meeting, the Lender would produce a complete “Tri Merge” Credit Report, showing the credit score and highlighting any surprises in the report. The form has a column entitled “Required for Loan Approval.” The checked boxes would show the Buyer/Borrower what documents the Lender advises are necessary. The Lender would know who the loan investor will be and what documents are required of the Buyer/Borrower. Based upon the rate and fees that the Lender quotes to the Buyer/Borrower, the Loan Originator would be able to properly disclose to the Buyer/Borrower exactly what information they must deliver.

In practicality, numerous issues must be addressed, such as loan type (VA, FHA, Conventional), LTV ratio, a fairly quick close vs. a house to be built that will require an update of credit issues prior to closing, individual requirements of the investor of the mortgage, etc. In any event, the Lenders would communicate to the Buyer what documents and information would be needed for pre-approval. This written communication would be intended to increase the likelihood that the Lender would stand behind their word to follow through and produce the documents necessary for a successful and timely closing.

When a REALTOR® begins involvement with a Buyer prospect, the Broker could bring the issues stated within the disclosure form to the attention of the Buyer. There has always been Lender information expected from the Buyer, allowing the REALTOR® to disclose “The Process” to the Buyer and be a better Buyer Broker, but the Buyer should expect information from the Lender as well.

On the form under “Lenders Statement”, RESPA requires the Lender to provide closing numbers for any loan 24 hours prior to the closing. The Lender has the responsibility to inform the Title/Escrow Company, Attorney, etc of the numbers 24 hours prior to closing so the process can take place.

Locally, this disclosure prototype form was recently proposed to some 40 REALTORS®; they all strongly favored using it. While not usually supporting additional regulation, REALTORS® agree this solves a significant problem, and it will increase Lender productivity while providing more timely performance, and most importantly, interrelated accountability.

Lenders should respect the dates in the contract if they accept the application on a purchase. If a loan is to be approved by a certain date, or an appraisal and survey must be delivered by a certain date, the Lender should order those documents to meet those dates. We have encouraged Lenders and Brokers to advise the Buyers/Borrowers that the reasonable time for delivering required documents to the Lender is five business days.

The fundamental issue is total disclosure from the Lender at the time that the “Good Faith Estimate” is delivered to the Buyer/Borrower. The law requires the Lender to create that document and deliver it to the Buyer/Borrower within three business days of the application.

The REALTOR® group that created this form encourages you to consider the use of this form..

We encourage all Lender members of the Pikes Peak Association of REALTORS® to also consider using this or a similar form.

THIS FORM IS NOT ENDORSED OR SPONSORED BY THE PIKES PEAK ASSOCIATION OF REALTORS® OR THE PIKES PEAK REALTOR® SERVICES CORP. IT WAS CREATED BY A GROUP OF CONCERNED REALTORS® AND LENDER REPRESENTATIVES AS AN EFFORT TO ENCOURAGE CLEAR COMMUNICATION BETWEEN A LENDER AND BORROWER WITH THE GOAL OF A TIMELY LOAN CLOSING.

You may provide your comments/suggestions to, Terry Storm, CEO of PPAR and RSC at tstorm@ppar.org.

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