

## Visit the Bank of Blunders (Lending)

Our cast of characters consists of:

Larry Lending – commercial loan officer

Lucy Loaner – consumer loan officer

Robin Real – real estate lending specialist

Assorted Customers

LARRY LENDING: (rises to greet customer Earl Enterprise.) How's it going, Earl? Your stores are doing great! What can I do for you today? Another construction loan for a new store?

EARL ENTERPRISE: Not today, Larry. I found a new house I want to buy and I need to act quickly. I'll give you a mortgage on my existing house, to secure the loan to buy the new one, but I really need to close the loan this afternoon. That won't be a problem, will it? I want to borrow \$550,000. You've seen my house. You know it's worth twice that, and I own it free and clear. Do I need to fill out some sort of written application?

LARRY LENDING: Earl, for you, my best customer, I will make sure you get your money this afternoon. We don't need a written application. I'll just pull the legal description off the Assessor's site on the Internet. All we'll need to do is crank out the note and mortgage and you'll be set.

EARL ENTERPRISE: That's what I like about you Larry. No hassles. See you this afternoon.

LARRY LENDING: (speaking to Robin Real) Yesterday afternoon, after you had left Oliver Oldperson came in. He wanted to talk to you about a real estate loan, but I let him know that he wouldn't qualify, since he is retired. He may still call you back, but I think I was pretty firm.

ROBIN REAL: Thanks. I don't need any more applications to deal with! With interest rates low, I've been working way too hard. I don't even want to take an application unless I think the borrower is top rate. Too many of these young married people just want it all. I don't know where they get off thinking they ought to be able to buy houses in their twenties. I've managed to advise several of them, successfully, that they should just invest their money and wait until they're a little older. You're so lucky you deal only with business purposes loans. You never have to contend with flood insurance, or providing copies of appraisals or any of those pesky consumer compliance requirements.

LARRY LENDING: That's the great thing about commercial lending. You structure the deal the way you want, you document it just the way you want to. As long as you get a note and you do the financing statement or mortgage correctly, you're golden. On that appraisal thing, though, just don't get a formal appraisal. That was my secret when I did

consumer lending. If you just do an informal evaluation of the property and don't use a certified or licensed appraiser, you don't have to provide anything.

LUCY LOANER: (joins Robin and Larry) I have a meeting that is getting started late and I'm afraid I won't be back in time for Susan Soleborrower to finalize her loan. Could one of you pinch hit? Susan applied for a loan to buy a new Volvo. She is a realtor and thinks it is important to have a nice car to impress clients with. I told her I'd make the loan if her husband co-signed, so they should both be coming by to sign the note and security agreement.

ROBIN REAL: Is that legal?

LUCY LOANER: Yeah. The law says anytime you're making a loan to a married person you need to obtain the signature of the spouse on the note. Oh, and they wanted to pledge their house as collateral instead of the car so she could get a deduction for the mortgage interest, so I've prepared the mortgage document for them to sign, too. That should be all you need.

ROBIN REAL: Okay. I'll take care of it for you. Also, Felix Cohabitor came by yesterday with his girlfriend. They wanted to get prequalified for a home loan. I told them to come back once they got married. I guess I said something wrong. I didn't realize they weren't planning to get married. They've been living together for several months. I just assumed . . .

LUCY LOANER: It's a bad situation. If they break up, what's going to happen to the house? To the loan? You just can't take that risk. If they aren't willing to commit to marriage, they probably aren't ready to commit to repaying a loan. Plus, my religion teaches that it is a sin to live together outside marriage, so I can't make a loan that will go against my religious beliefs.

ROBIN REAL: I had an idea I wanted to discuss with you. The baby boomer population is so huge now. What would you think of running a special home equity loan program for borrowers age 50 and over?

LUCY LOANER: Awesome idea! Gotta go. Got a customer waiting!

LUCY LOANER: (to Ned Nolongerworking) Hi, Ned! Listen, I was sure sorry to hear that a bunch of you got laid off out at the plant last month. Doesn't sound likely you'll be called back anytime soon. That's a tough break. What can I help you with?

NED NOLONGERWORKING: Well, I need a loan. I thought while I was off work I'd try to fix up my house. There are lots of improvements that need to be done.

LUCY LOANER: Gee, Ned. I'd love to help, but I'm sure you understand that with you not working, there's no way you could qualify for credit. You ought to just use your credit cards to fund the projects. Didn't you get remarried? Maybe your wife could apply.

NED NOLONGERWORKING: My wife was in a few days ago and applied for a loan, but they told her she couldn't get it because she was trying to qualify based on alimony payments she is getting and you guys said that since her ex-husband isn't a customer of your bank, there's no way to know whether the alimony payments will keep coming.

LUCY LOANER: I've got an idea. How about if we look at what kind of collateral you could pledge? That might help. Since you used to be in the furniture business, you have some beautiful and valuable furniture in your home. You have a killer stereo system, too, don't you? If the collateral is strong enough, cash flow just isn't an issue.

Phone rings. Lucy answers it. It's Fred with a question.

LUCY LOANER: Hi, Fred. Your customer doesn't want to have to purchase flood insurance? I know. Seems like such an unnecessary expense. They get so little rain around there, it just seems silly. Well, if you're just taking the real estate out of an abundance of caution, the loan is exempt from the flood insurance requirements.

On that other loan you spoke to me about yesterday, where you *do* have to have flood insurance, remember that there is a 45 day grace period. That should please the customer to know that he won't have to obtain flood insurance until 45 days after the loan is closed. Plus, as long as the term of the loan is under a year, flood insurance is never required.

ROBIN REAL: (speaking to Lucy after Ned leaves) I can't handle these foreign customers! I don't mind the ones from England or Canada – I love their accents – but the ones who speak another language – their English is bad, they're hard to understand. I just don't have the patience. Time's a wastin'. I can either deal with one of them or three normal customers. No contest in my mind.

LUCY LOANER: What you do is, if they look foreign, ask them right away if they are a U.S. citizen. If they aren't, tell them we don't make loans to noncitizens unless they are from certain countries.

ROBIN REAL: Sounds like a good way to handle it. Plus, in view of the terrorism and all, I think we should avoid doing business with people who are originally from places like Afghanistan, even if they've become citizens. The government may decide to kick them out anyway. Then where would we be? It's best to just avoid those loans.

LUCY LOANER: To be honest, there are lots of applicants I don't like dealing with. If they're under 25, they need to go elsewhere. I am tired of spoiled Gen X-ers. And old people make me nervous. My grandparents all died before I was born and I've just never been around people of retirement age. I can't relate to them. They move too slow.

ROBIN REAL: Did you hear that Drew is getting a divorce? I think we ought to send her a notice telling her we need her to update the information on her financial status in connection with her line of credit.

LUCY LOANER: I'm not approving Tom's loan. He applied for it in just his name. I don't care how rich he is. I think that's slimy. When people are married, they need to have full disclosure of financial matters. If he won't agree to tell his wife Veronica, we don't want to be in the middle of this. Anyway, Reg B says that we can require the spousal signature if we have a reasonable belief that it's needed. We have a reasonable belief.

ROBIN REAL: You know, I'm getting much more cautious. After you've had a few loans go bad, you just don't take chances. Like that application from Newbie Corporation, Inc. Sure, they look good on paper and have no problem qualifying for the loan. I'm still requiring the personal guarantee of the directors and officers of the business. I don't always do that, but this is a woman-owned business and they're going to have a harder time staying profitable. That's just a fact of life. I guess I ought to talk to them about it. That application has been sitting on my desk for three months now and I've been meaning to get to it and make a final decision about whether to approve it or not. At least I got the credit reports pulled on all the officers and directors of Newbie Corporation, so I have the information I need in the file.

LUCY LOANER: I talked to a friend at another bank. She said their bank doesn't report any loans to the credit bureau. Can you imagine?

ROBIN REAL: I don't think that's allowed. I think you always have to report every loan to the credit bureau under at least one borrower's name. That's what we do. We report under the primary borrower's name.

ROBIN REAL: (speaking to Ruth Resspuh, who has just brought in a loan application to finance the purchase of a home she wants to buy) Hi, Ruth. Thanks for bringing this application in. We'll have some paperwork for you in a couple of weeks. Here's an application for credit life insurance. You can go ahead and take this with you. And here is a little booklet called "When Your Home Is On the Line". When we close the loan, you'll have to wait three days for the proceeds because rescission applies, since this is a residential mortgage transaction.

RUTH RESSPUH: If you can give me any idea of what kinds of fees I'll have on this transaction, it sure would help.

ROBIN REAL: Oh, of course. We will have a Settlement Statement available for inspection one business day prior to closing. You'll get an idea of what the charges might be at that time. Until then, we just really don't have any idea.

RUTH RESSPUH: Uh, well, okay. I guess I'll just cross my fingers and hope I have enough cash. I'm not a very good money manager. In fact, would you mind, if my loan is approved, setting up some sort of escrow for the payment of my taxes and hazard insurance each year? I'm afraid if it's not handled like that, I'll never have the money for those things when they come due.

ROBIN REAL: Yeah, sure. Whatever. We don't normally do escrows, but I think we can handle it for those two things. Not for your flood insurance though. You'll need to take care of that yourself.

RUTH RESSPUH: One more thing. Since I am trying to cut costs, I'm wondering if you could use the appraisal the seller got when he bought the property last year. It's barely a year old and, as you know, property values have done nothing but rise since then. Back then, it was valued at \$650,000 and my application is for \$525,000.

ROBIN REAL: Sure. As long as the appraisal is less than seven years old, we can accept it. And while we're on the subject of insurance, don't forget to fill out your application for credit life. I'll want to see that before I make a decision on your loan.

**How many blunders did you spot?** We'll detail all the places Bank of Blunders went wrong next time. Between now and then, play "Spot the Blunder" and keep score below.

Name of employee	# of Blunders
Larry Lending	
Lucy Loaner	
Robin Real	