Q&A with a Loan Underwriter

Anonymous, Interviewed by Cynthia Peters

First of all, can you explain what a loan underwriter does?

An underwriter analyzes a person's ability to repay a loan and makes the decision whether or not to approve it.

Has your job changed over time?

Yes. In the old days, if you wanted to buy a house, you went to see a loan officer. A committee looked at your income, assets, and credit, and decided if you were a good risk. We used to dig around in people's business like it was their underwear drawer. If you weren't a good risk, we didn't approve your loan.

What started happening in the 90s?

Investors were willing to spend a lot of money on repackaged mortgages. It didn't matter how risky they were. So banks just wanted to loan more and more money. They knew they could turn around and sell all those mortgages to a big investor. The investors stopped worrying about the customer's credit rating. They didn't ask the customer to bring in proof of income. We loaned money to people based on their "stated income." It was crazy. All of us underwriters in the back room were working overtime, screaming, "You want us to approve WHAT?" But the investors kept buying the notes and as long as there was this secondary market for the loans, the banks kept offering them. And the whole thing was the runaway steam engine on an ever growing monster of an economy for years...

As a loan underwriter yourself, why did you approve loans that seemed doomed to fail?

We were told: 1) as long as the investor is going to buy it, go ahead and approve it, and 2) if we don't approve it, then the lender down the street will approve it, and we will be driven out of business. I have heard many stories of underwriters in subprime and prime companies whose jobs were threatened if they didn't approve a loan.

Didn't the real estate agents and the loan officers see that people wouldn't be able to keep up with their mortgage payments?

Well, if you put a 100% commissioned real estate agent on one side of the transaction and a 100% commissioned loan originator on the other side, both sides really want to see the deal close. Neither makes any money besides their commissions.

What happened to the housing market during this time?

Prices skyrocketed. Housing prices in areas like San Francisco, Boston, and DC got to a place where an average person working hard could not afford to own a home. I lived in Reno, Nevada, for most of the last 12 years – we're talking the middle of the God-forsaken desert – and a starter home was $400,000. A casino worker or a hotel maid can't afford that. But there are no other good options, and the banks can't wait to lend them the money. It just isn't right. If the bank you went to didn't want to approve your loan, there was always a lender down the street who would do it.

What should happen now?

If you want to own a home you have to put some money down and you have to pay your bills. If you want to lend money, you have to do so in a responsible way. The problem is that the market is cyclical. After we recover from this crisis, someone out there will start wanting to offer "subprime" loans again. (See p. 6 for a definition of subprime loans and p. 11 for more information on predatory lending, a similar concept.) I hope that when the pendulum swings that way again, that the government does something to stop subprime lending.

Anonymous has worked as a loan underwriter since 1985.