Seeking a Mortgage? Don't Get Pregnant
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Expectant parents shopping for a home are not the only ones concerned about the date of the baby's arrival.

Mortgage lenders are taking a harder look at prospective borrowers whose income has temporarily fallen while they are on leave, including new parents at home taking care of a baby. Even if a parent plans on returning to work within weeks, some lenders are balking at approving the loans.

"If you are not back at work, it's a huge problem," said Rick Cason, owner of Integrity Mortgage, a mortgage firm in Orlando, Fla. "Banks only deal in guaranteed income these days. It makes sense, but the guidelines are sometimes actually harsher than they need to be."

Back in the slapdash days of easy credit, lenders were more likely to overlook the fact that a parent was out on maternity or paternity leave. But now that lenders have become more conservative, they are requiring new parents to jump through more hoops to prove their income will be enough to cover the mortgage.

So before some prospective parents start spending their Sundays at open houses, they should be prepared to deal with some complications. They may have to delay the purchase, deal with the banks' bureaucracy (and requests for extra paperwork) or buy a home they can afford on one salary.

"Maternity leave or any other leave of absence often prevents a person from obtaining a mortgage," said John Councilman, president of AMC Mortgage in Fallston, Md. "There are some who long for the days when such strict proof of income was not required."

The lenders' new attitude can be traced, in part, to new loan quality-control measures that went into effect earlier this year. Fannie Mae and Freddie Mac, the two quasi-governmental mortgage giants that buy the bulk of conventional loans from lenders, have not changed their rules for qualifying for a mortgage. But the system of checks and balances has been tightened, making lenders increasingly skittish.

Fannie, for instance, now requires lenders to recheck a borrower's financial situation right before the loan closes. That includes calling an employer to verify employment. Before, lenders required only a statement in writing. Fannie's new rules went into effect on June 1. Freddie's similar rule took effect in January.

Both Fannie and Freddie have always required that borrowers have enough income to pay for the loan on closing day — and the lender must document that the income is likely to continue for at least three years.

But here is how some lenders are interpreting the guidelines for, say, a new mother receiving short-term disability insurance for a couple of months (new mothers may receive disability payments while on maternity leave, though the amount and length depend on state law and company policies).

Since the disability payments will not continue for three years, these lenders will not count it as qualifying income, brokers said, and will require the new mother to reapply for the mortgage once she returns to work. (The same logic may apply to an injured employee receiving worker's compensation.)

That is what happened to Elizabeth Budde, a 33-year-old oncologist who lives in Kenmore, Wash. She nearly lost her mortgage after a loan officer learned she was home with her newborn.

With stellar credit and a solid job, Dr. Budde said she had been notified via e-mail that she was approved for a loan on June 15. But that note prompted an automatic, "out of the office" e-mail reply from Dr. Budde's work account, which said she was out on maternity leave.

The next day, Dr. Budde received a second e-mail message from the lender, this time denying her loan approval. Since "maternity leave is classified as paid via short-term or temporary disability income," the e-mail message said, it could not be used because it would not continue for three years.

The message also said the lender could not consider her regular, salaried income because she was not on the job. "I was really shocked," Dr. Budde said. "At the time, they didn't know how I was getting paid for my leave."

The lender suggested that she get a co-signer — her husband is a graduate student, so his income was not enough to qualify — or reapply after she returned to work. But with the help of a representative from her real estate brokerage firm, Redfin, Dr. Budde was finally able to explain that she was receiving her full salary during her time off since she was using accumulated sick and vacation days. Once she provided a letter from her employer, proving her case, she was able to requalify.

“The reason we were buying the house was because we were having a baby,” said Ms. Budde, who is now living in the three-bedroom home, bought for $300,000. “And now we got punished for having a baby.”

Janis Smith, a spokeswoman for Fannie Mae, said there was nothing in its guidelines that would prohibit a borrower on maternity or paternity leave from qualifying for a mortgage, as long as the borrower had proof at the time of the closing that his or her income would be adequate upon returning to work. Letters from a doctor (with a return date) and the employer (stating the return date and salary) should be enough, she added.

Loans backed by the Federal Housing Administration follow a similar protocol. Brad German, a spokesman for Freddie, said its guidelines required underwriters to make sure the borrower’s income was stable and could be expected to continue for at least three years.

But, brokers said, many lenders are clearly reading those guidelines through an increasingly conservative lens. “Lenders are picking and choosing what part of the Freddie and Fannie guidelines they want to use and how they will interpret them because one bad loan could put a company out of business,” said Jeffrey J. Jaye, president of the Upfront Mortgage Brokers Association, a trade group for brokers who disclose their fees upfront.

For some lenders, that may mean approving a loan only after the borrower is back at work. “There is no real assurance that the new mom will come back to work after she has the baby,” said Marc Savitt, president of the Mortgage Center, a brokerage in Martinsburg, W.Va. “It’s just prudent underwriting to go ahead and approve the loan, but she has to be back before closing.” (Lenders cannot ask a woman if she is pregnant, brokers said, but they can ask borrowers if they expect their employment or income situation to change.)

Indeed, if Fannie or Freddie learn that a loan does not meet its underwriting requirements, it can require the lender to repurchase the loan. Both companies are performing more quality control checks on the loans they buy or package and sell as securities. And, perhaps not surprisingly, the number of repurchase requests has risen sharply.

The companies said they required lenders to buy back a total of $3.1 billion in loans in the first quarter, up 64 percent from the same period last year.

“While repurchase requests have always happened in the past, it’s never been to the degree that is happening now,” said Kevin Iverson, president of the Reed Mortgage Corporation in Denver, acknowledging that the repurchasing is obviously driven by the high level of defaults. “The end result is lenders are running a bit scared. So when in doubt, they just reject the loan.”

Dave Varni, a real estate agent with McGuire Real Estate in San Francisco, recently learned about lenders’ nervousness about borrowers on leave while working with a couple expecting a baby within weeks. They wanted to make an offer on a home, but they needed both of their salaries to qualify. Ultimately, a mortgage broker told Mr. Varni that the expectant mother would not be considered “employed” when it was time to close the loan, which would probably disqualify her.

“It was eye-opening to me and my clients,” said Mr. Varni, who said the broker explained that lenders were skittish about lending to a new parent who might decide to stay home. “We are going to assess our situation and may have to shift our search to something where he could qualify by himself.”