

# SALES ASSOCIATE COURSE

## CHAPTER 12

### Residential Mortgages



Investment  
Value at  
Year end

424 963	
446 211	467 459
468 522	1 005 037
491 948	1 620 915
516 545	2 324 149
542 372	3 124 704
569 491	4 033 850
Start at monthly	5 063 675
Can we do this?	R 35 414

## Live Stream Students: WEBCAM POLICY

- To receive credit for this course:
  1. Camera must be ON

**AND**

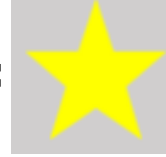
  2. Student must be visible to instructor for the ENTIRE time class is in session
- **No Exceptions!**
- This policy also applies to Repeat and Review students.
- Credit for the course will NOT be given if camera policy is not followed.
- No driving around during class, running errands, etc. We can see you!



**Webcam Policy Reminder!**

# Title vs Lien Theory States

LIEN =



TITLE =



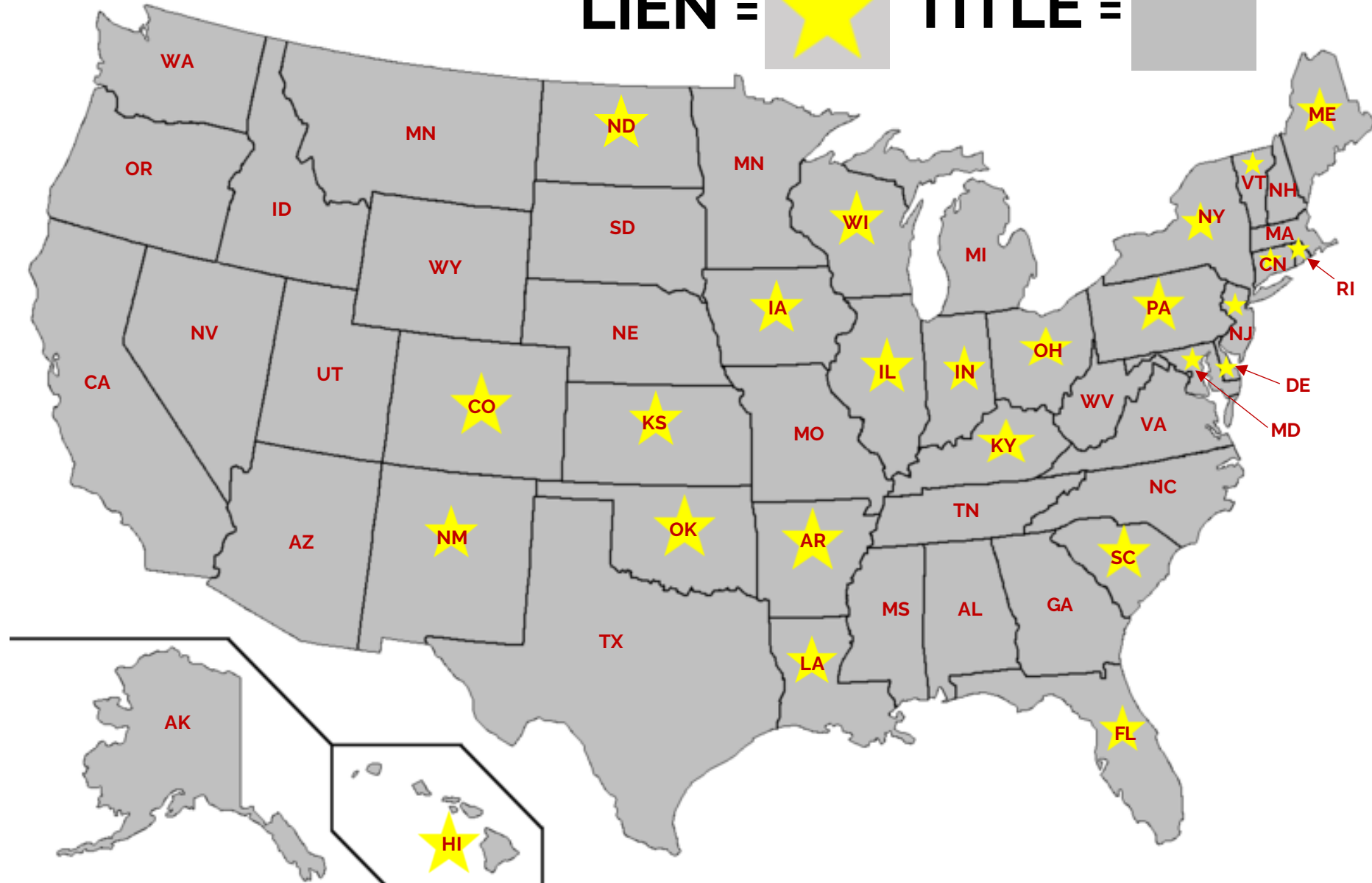
## Title theory

- Borrower takes possession, not title
- Deed of trust conveys title to 3rd party (trustee)
- Reconveyance Deed

## Lien theory



- borrower takes possession and title
- Lender holds lien
  - Satisfaction of Mortgage



## Promissory Note

A promise to pay (evidence of a debt)

- Must be signed by Mortgagor (Borrower)
- States Details of the Loan



# Loan Instruments



# Loan Instruments

## Mortgage

Pledges property as security for a debt

- Hypothecate - pledging property as security without actually giving possession or title (voluntary lien)

## Mortgagor

- Gives the mortgage
- Receives the loan

## Mortgagee

- Receives the mortgage
- Gives the loan

# Satisfaction of a Mortgage

- Mortgage is paid in full
- Mortgagee prepares Letter of Satisfaction
- Mortgagor receives Letter of Satisfaction within 60 days
- Records in public records
- Offsets the mortgage lien





# Essential Elements of a Mortgage

## **Acceleration Clause**

- Allows lender to advance the due date (call the note) under certain circumstances

## **Defeasance Clause**

- Requires lenders to acknowledge borrowers performance
- Only legally required clause in mortgage

## **Due on Sale Clause**

- Transfer of ownership
- Entire balance due
- Loan assumption requires lender approval

## Escalation Clause (Escalator)

- Change of use in property
- Allows lender to increase rate

## Exculpatory Clause

- Foreclosure – lender looks to foreclosed property only
- No deficiency judgment
- Called nonrecourse loan

# Essential Elements of a Mortgage







# Essential Elements of a Mortgage

## Insurance Clause

- Lender requires borrower to carry adequate fire and hazard insurance

## Maintenance Clause

- Borrower must maintain & protect property's value



# Essential Elements of a Mortgage

## Prepayment Clause

- States conditions and terms under which a mortgage may be paid early
- Allows lender to charge a fee for paying loan early

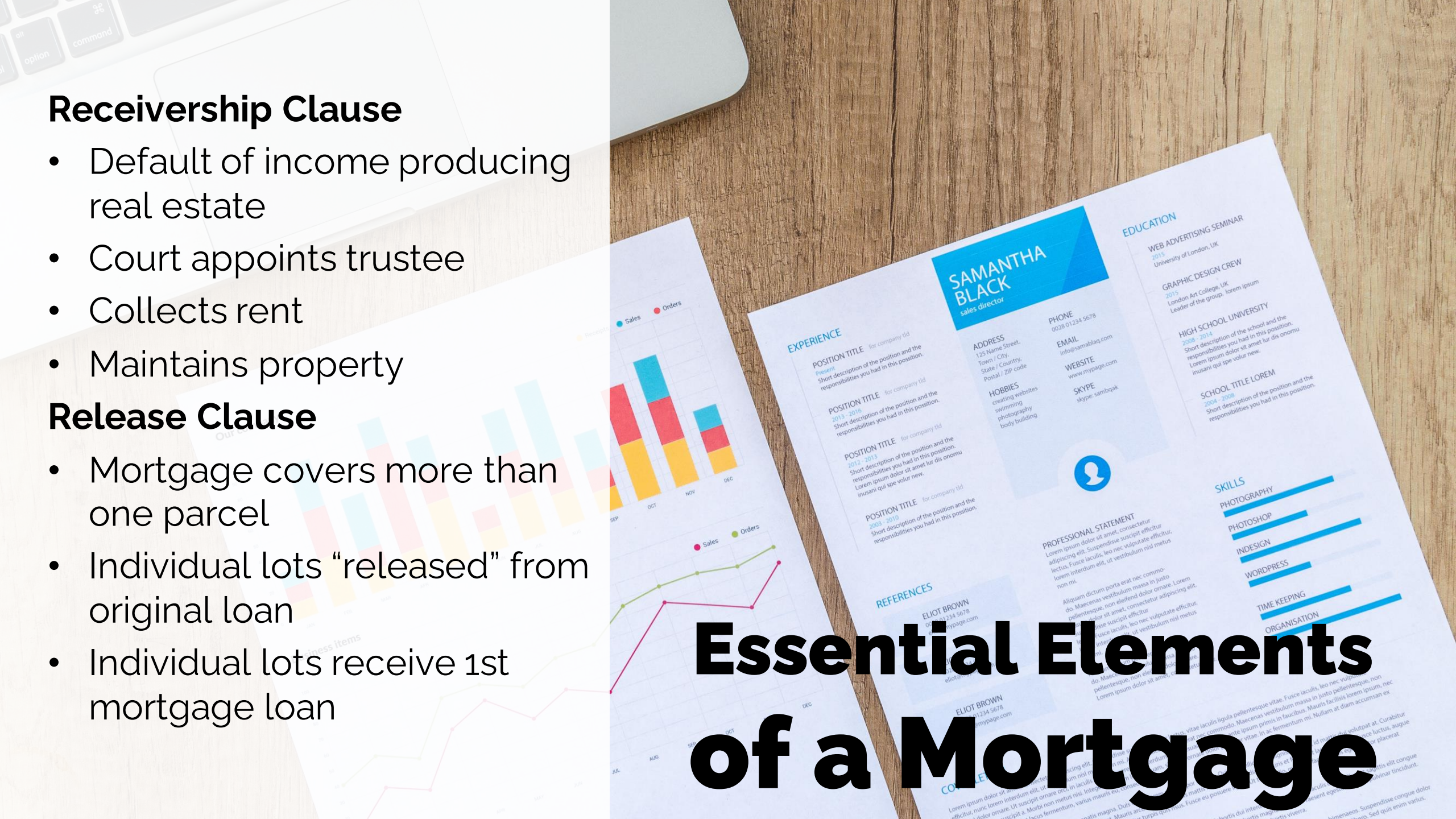
## Receivership Clause

- Default of income producing real estate
- Court appoints trustee
- Collects rent
- Maintains property

## Release Clause

- Mortgage covers more than one parcel
- Individual lots “released” from original loan
- Individual lots receive 1st mortgage loan

# Essential Elements of a Mortgage





## **Essential Elements of a Mortgage**

### **Subordination Clause**

- A recorded lien takes a secondary position to a lien recorded at a later date

# Discount Points

## Origination fee/discount points

- **Prepaid interest to lenders**
- **Borrowers pay 1% of the loan amount for each discount point**
- **Increases yield by approximately 1/8 of 1% per discount point**



- Relationship between loan amount and selling price or appraised value - whichever is less
- Expressed as a percentage, (e.g.: 80% LTV)

$$\frac{\text{LOAN}}{\text{VALUE}}$$

- If stated "80-20" - first number represents loan percentage
- Sale Price times the Loan to value equals the loan
- Sale Price minus the Loan equals the Down Payment

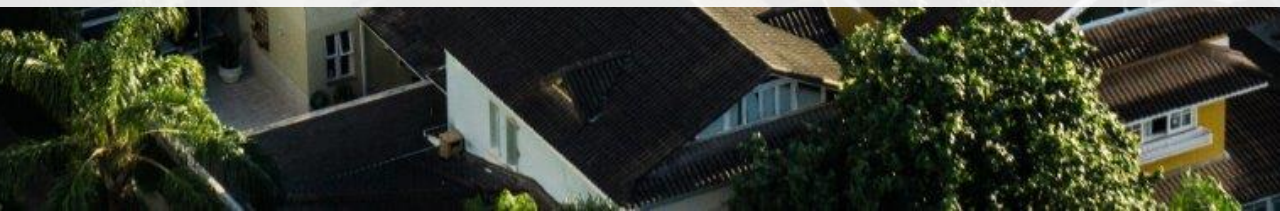


# Loan-To-Value Ratio (LTV)





# Sale of Mortgaged Property



- Cash sale - Property delivered free and clear
- If there is no due on sale clause
  - **Assumption of mortgage** - New note makes buyer liable for debt along with seller
  - **Novation** - New note makes buyer liable for debt instead of seller (seller is released)
  - **Subject To mortgage** - note remains the responsibility of the seller

- **Legal Instrument** that states Mortgagee (lender) transfers mortgage and note to Purchaser
  - Signed by Mortgagee (Assignor)
  - Received by Investor (Assignee)
- **Certificate of Estoppel** (Estoppel Letter)
  - Legal instrument establishing
    - That a claim exists against a property
    - Verify outstanding balances of Principal, Interest, escrow items, other amounts due



## **Selling the Mortgage Contract**



# Default

- **Equity of Redemption**
  - Borrowers cures default before foreclosure
  - Pays entire loan balance due + interest
  - Up to moment of foreclosure in Florida
- **Statutory Right of Redemption**
  - Borrower can redeem property after foreclosure – not in Florida
- **Right to Reinstate**
  - Borrower satisfies late payments
  - Pays interest, late charges and legal fees
  - Resumes scheduled payments



- Judicial process to enforce the terms of the mortgage
- Upon default by a borrower, the lender can
  - Initiate Foreclosure Proceeding – against the property
  - Lis pendens – public notice
- Excess after sale
  - Paid to mortgagor
- Deficiency after sale
  - Deficiency judgment – promissory note



## **Foreclosure**

# Foreclosure



- **Judicial foreclosure**
  - Property is sold at auction
  - Proceeds distributed according to final decree
- **Deed in lieu of Foreclosure**
  - Voluntary default
  - Deed given to lender
  - In lieu of default
  - Lender may not accept



# Coffee Break

15 Minutes