



SALES ASSOCIATE COURSE

CHAPTER 13

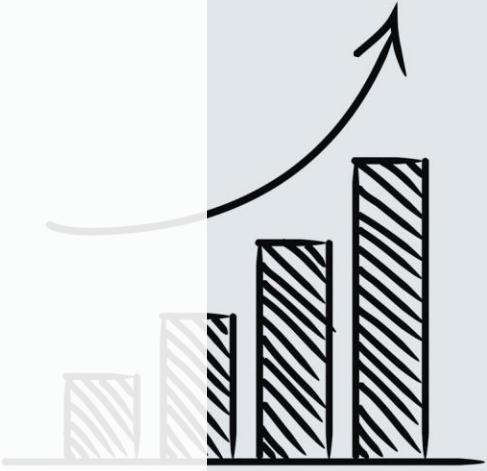
Types of Mortgages & Sources of Finance



Mortgage Underwriting (Analyzing Risk)

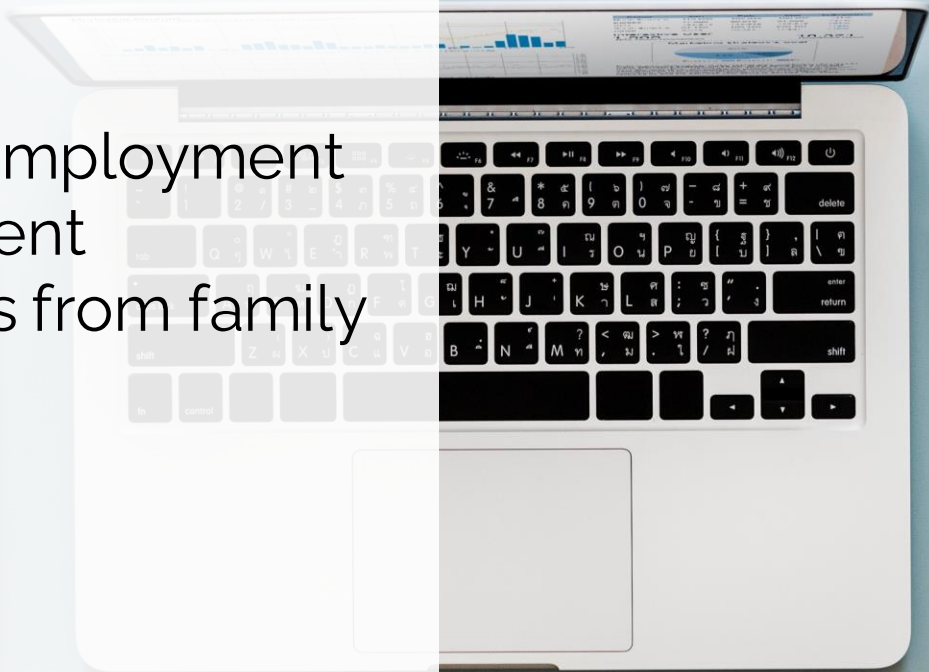
- Qualifying process
 - Applicant
 - Property





Qualifying the Applicant

- Income
- Dependable and stable
- Employment – 2 years
- Wages, bonuses, commissions alimony, child support
- Not:
 - Temporary employment
 - Unemployment
 - Contributions from family members



Business Company VOICE

123 commentat ipsum vel
Fringilla nisl. Fames: 00029
Tel: 123-456-789-0
Fax: 123-456-789-1

Date: xxxxxxxx
Invoice No: 0000001
Customer ID: 223

Bill to: Curabitur suscipit, LTD
456 Pellentesque Aliquet
2W st. - S.U.O. 9999
987-654-321

No.	Description	Quantity	Amount
1234	Id rutrum	2	248.53
2567	Sed interdum odio	5	855.75
0034	Pellentesque	8	594.67
0400	Maecenas molestie	3	492.74
4729	Integer varius nisi	4	356.40
4930	Integer varius nisi	7	400.00
4893	Quisque luctus turpis	3	456.00

Comment Subtotal 4500.45
Tax Rate 8.78%
Tax 740.87
Other -
TOTAL Due \$241.12

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Qualifying the Applicant



- Other assets
- Reviewed by underwriter
 - Other real estate
 - Automobiles
 - Stocks, bonds, etc.
 - Assets attached in foreclosure

Income Ratios

TWO QUALIFYING RATIOS

Housing Expense

$$\frac{\text{PITI}}{\text{GMI}}$$

28%

31%

-

Conventional

FHA

VA

Total Obligations

$$\frac{\text{PITI} + \text{All Debts}}{\text{GMI}}$$

36%

43%

41%

PITI - principal, interest, taxes, insurance

GMI - gross monthly income



Qualifying the Applicant

- Analyze desire and ability to pay
- Credit History
- Fair Isaac & Company (FICO)
 - 35% - payment history
 - 30% - outstanding debt
 - 15% - credit history
 - 10% - credit report
 - 10% - type of credit



- Property is collateral for loan
- Appraiser analyzes market value
- Underwriter wants market value
- Redlining



Qualifying the Property



- 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)





Types of Mortgages

- **FHA** - Federal Housing Administration
- **VA** - Veterans Administration
- **Conventional** – private lenders

Federal Housing Administration (FHA)

- Part of the Department of Housing and Urban Development
- FHA **Insures** loans
- Variety of Loan Programs
 - Manufactured homes
 - Single-family homes
 - Multifamily properties





FHA Insured Mortgage Loan Programs

- Section 203(b) Mortgage Insurance
 - Owner occupied 1-4 family properties
 - Maximum loan amount - determined by area
 - Qualifying loan ratios:
 - Housing expense – **31%**
 - Total obligations – **43%**
- **Mortgage Insurance Premium (MIP)**
 - UFMIP – up front
 - AMIP – based on annual loan balance

- Interest rate is negotiable
- Points can be paid by borrower or seller
- No prepayment penalties
- Assumable with lender approval
- Other programs
- Section 203(k) rehabilitation mortgage insurance
- Section 234(c) condominiums
- Section 251 adjustable rate mortgages



FHA Insured Mortgage Loan Programs



VA Guaranteed Loans

- **Guaranteed** by the Department of Veterans Affairs
 - Owner occupied residences
 - Condominiums, mobile homes
- Eligibility
 - **Certificate of Eligibility**
 - Can be used repeatedly
- Entitlement
 - 90 days & honorable discharge
 - Surviving spouse

- No down payment required
- Max loan of \$548,250 without down payment (*Effective January 1, 2021)
- No maximum VA loan amount
- 2022 Maximum VA guarantee amount - \$161,800 (25% x \$647,200)
- Qualifying Ratio – 41% total obligations
- Interest rate is negotiable
- Points can be paid by borrower or seller
- No prepayment penalties

VA Guaranteed Loans



Conventional Mortgage Loans



- Loans not:
 - Insured by FHA
 - Guaranteed by VA
- **Private Mortgage Insurance (PMI)** required if loan is more than 80% of the value or sale price
- PMI removed when LTV reaches 78%
- May borrow up to 95% LTV

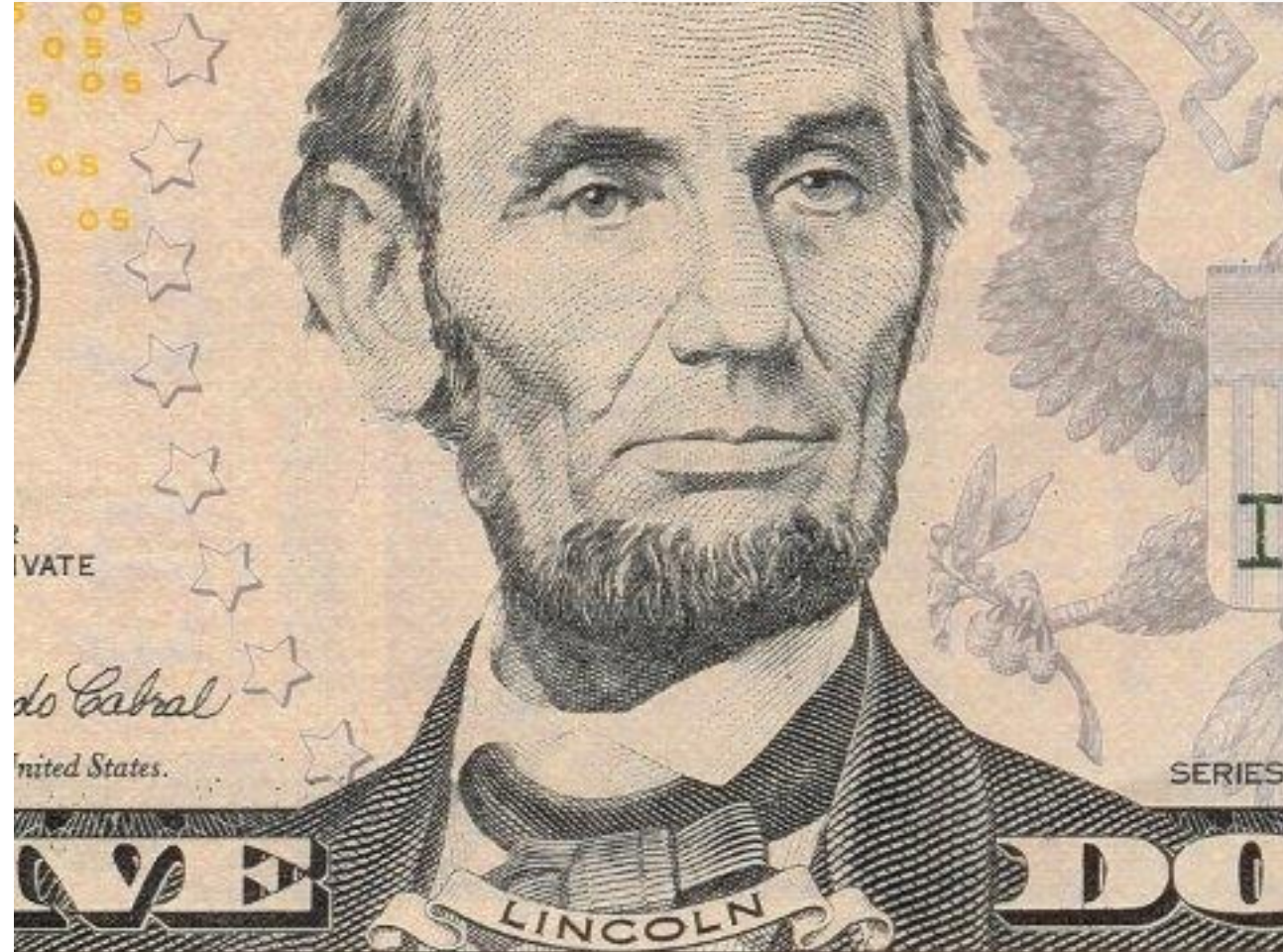


Amortized Mortgages

- Payments of interest and enough principal to kill the full balance in regular periodic payments
- Early payments consist mainly of Interest

Amortizing Loan Payments

- **PIP Sandwich**
- Amortizing a mortgage by breaking the monthly payments into payments of interest and principal and arriving at a new balance.
- Payments remain level, the interest portion of each payment decreases, while the principal portion of each payment increases.



Formula:

\$\$ loan % years

$$I = P \times R \times T$$



Amortizing Loan Payments

Amortization -Calculation-

What is the monthly payment for a \$100,000 loan at 8%, amortized for 30 years with a monthly loan constant of .0073376?

- a. The interest portion of the third month's payment
- b. The principal portion of the third month's payment
- c. The balance due after the third month's payment

\$ 100,000 Loan X .0073376 Loan Constant = \$733.76

Amortization -Calculation-

			Month 1	Month 2	Month 3
B	Balance	Sale Price X LTV	\$ 100,000	\$ 99,932.91	\$ 99,865.37
P	Payment	Loan constant X Loan	733.76	733.76	733.76
I	Interest	Bal. X Rate / 12	666.67	666.22	665.77
P	Principal	Payment - Interest	67.09	67.54	67.99
B	Balance	Old Bal - Principal	99,932.91	99,865.37	99,797.38



Amortization

Another question is:

- What is the amount of interest paid?
- $\# \text{ Payments} \times \text{Amount of Payments} = \text{Total Principal and Interest}$
- $\text{Total Principal and Interest} - \text{Principal} = \text{Total Interest}$



Amortization

Calculate the total interest that will be paid if the mortgage runs to maturity? (Remember that payments consist of both interest and principal.)

You arrange a \$30,000 mortgage for 30 years at 8% interest. Payments are \$220.13 per month. Calculate the total interest for life of the loan:

$$\text{\$220.13} \times 360 \text{ payments} = \text{\$79,246.80 Total P \& I}$$

To calculate the interest paid, simply subtract the principal from the Total P & I.

$$\text{\$79,246.80} - \text{\$30,000.00} = \text{\$49,246.80 Interest}$$

Interest rate = **Index + Margin**

- **Index**
 - Can move up or down
- **Margin (Spread)**
 - Lender's overhead costs plus profit - does not change
- Teaser Rate
- **Caps**
 - Payment cap is limit to any single adjustment
 - Lifetime cap is the maximum change in rate

Adjustable Rate Mortgage (ARM)



Loan Repayment Methods



Biweekly Mortgage

- 26 - $\frac{1}{2}$ month payments
- Reduces payment period
- Less interest paid

Blanket

- Covers more than 1 property
- Partial Release Clause

Home Equity Loan (Home Equity Line of Credit (HELOC))

- Per the Tax Cut and Jobs Act (TCJA) effective Jan 1, 2018, can only deduct interest to buy, build or improve main or second home

Reverse Mortgage (Home Equity Conversion Mortgage (HECM))

- 62 years of age or older
- Line of credit against the home's equity

Purchase Money Mortgage

- Loan from seller (seller financing)

Package Mortgage

- Real and personal property financed

Purchase Money Mortgage (PMM)

- Seller financing



Loan Repayment Methods



Money in the Marketplace



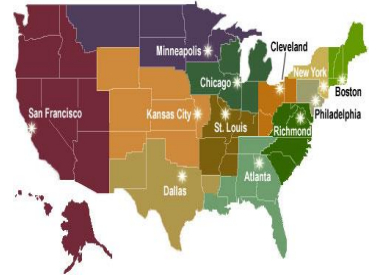
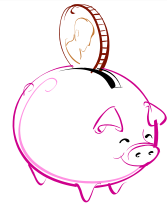
- **Intermediation**
 - Putting funds into financial institutions
 - Increases the supply of loanable funds
 - Reduces interest rates
- **Disintermediation**
 - Removing funds from financial institutions
 - Decreases the supply of loanable funds
 - Raises interest rates

Federal Reserve System

- Responsible for managing the U.S. Monetary Policy
 - Three economic tools
- 1. Reserve Requirement** - the amount member banks are required to keep on deposit (minimum balance)
 - Increased reserve lowers money supply, raises interest (**most abrupt method**)
 - 2. Discount Rate** - the interest rate charged member banks for borrowing from the Fed
 - Discount rate increase lowers money supply, increases interest (**least effective tool**)
 - 3. Open Market Operations** - purchasing or selling government securities
 - Purchase increases money supply, lowers interest (**most effective tool**)



Federal Reserve Central Bank of the U.S.



12 Regional Banks

Discount Rate



Lending Institutions



Primary Mortgage Market



Conforming Loans

Secondary Mortgage Market

Mortgage Bankers

- Originate and service loans
- Loan correspondents
- Insurance companies
- Investment funds

Mortgage Loan Originators

- Take applications
- Arrange loans with lenders
- Finders fee or commission
- Must be licensed

Primary Mortgage Market





Mortgage Lenders

- Licensed individual
 - Lends money for mortgage loan
- Warehousing/Warehouse Lending
 - Mortgage lender borrows from a commercial bank
 - Loans to property buyers
 - Sells loan in secondary market

- Savings Associations
- Commercial Banks
- Credit Unions
- Life Insurance Companies
- Real Estate Investment Trusts (REITS)


Mortgage Lenders





Savings Associations

- Primarily involved in Long Term loans such as home mortgages, etc.
- May be chartered by either the Federal or the State government



Commercial Banks (CBs)

- May be chartered by either the Federal or the State government
- Short-term construction loans
- Long-term real estate loans
- Loan to mortgage bankers
- Deposits are insured to \$250,000

Credit Unions

- Non-profit cooperative financial institution
- Run by members
- Not regulated or supervised by Federal Reserve
- Regulated by National Credit Union Administration or at state level



A close-up photograph of a person's hand holding a blue pen, poised to write on a set of architectural blueprints. The hand is wearing a grey, textured sweater sleeve. The blueprints are spread out on a wooden desk, and the background is softly blurred, showing a computer monitor and other office equipment.

Life Insurance Companies (LICs)

- Regulated by States - no Federal Regulation
- Have large amounts of predictable funds
 - Noted for Large Loans such as apartment buildings, shopping centers, office buildings, etc.
- Purchase mortgage backed securities in secondary market

- Individuals pooling their resources for investment
- **Equity trusts**
 - Buy, own & manage investment properties
- **Mortgage trusts**
 - Fund construction and/or purchase of commercial or apartment projects
- **Mixed trusts**
 - Lending and ownership activities



Real Estate Investment Trust (REIT)

Secondary Mortgage Market

- Purchase blocks of loans from primary market
- Provides a constant source of funds
- Purchases mortgages from primary mortgage market
- Secondary lenders do not lend money
- Primary lender makes money
 - Loan origination fees
 - Points
 - Services loans for secondary market



- Three main players (there are others)
 - Federal National Mortgage Association (**FNMA or Fannie Mae**)
 - Federal Home Loan Mortgage Corporation (**FHLMC or Freddie Mac**)
 - Government National Mortgage Association (**GNMA or Ginnie Mae**)

Secondary Mortgage Market





Equal Credit Opportunity Act

Prohibits discrimination in granting **loans** based on

- Race
- Color
- Religion
- National origin
- Sex
- Marital Status
- Age
- Receipt of income from public assistance



Real Estate Settlement Procedures Act (RESPA)

- Loan Estimate (previously GFE)
 - Within 3 business days
- “Your Home Loan Tool Kit” information booklet
- Closing Disclosure (previously HUD-1)
- Kickbacks and rebates
- Mortgage Servicing Disclosure Statement



Truth in Lending Act

- **Meaningful information – true cost of credit**
- Consumers shown cost of credit
 - Dollars & percentages per Regulation “Z”
- Interest shown as annual percentage rate (APR)
- Includes:
 - Discount
 - Origination fee
- Each point paid
 - + 1/8% to lenders APR

Triggering Terms

- Amount of down payment
- Amount of any payment
- Number of payments
- Period of repayment
- Amount of any finance charge
- Required Disclosures
 - Amount or percentage of down payment
 - Terms of repayment
 - Annual percentage rate (APR)
- Consumers shown cost of credit
 - Dollars & percentages





Coffee Break

15 Minutes