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EXAM HINT
Where a law has more than one name, know all names. Also know the name of the enacting rule.

Know which provisions go with which law. For example it is not good enough to know the GFE is required, you must know it is required under RESPA.

RESPA-Real Estate Settlement Procedures Act (Regulation X)

According to verbiage in the Act itself, RESPA was intended to reform the settlement process “to ensure that consumers throughout the Nation are provided with greater and more timely information on the nature and costs of the settlement process and are protected from unnecessarily high settlement charges caused by certain abusive practices...”

Four purposes of RESPA

1. Require effective advance disclosure of costs
2. Eliminate kickbacks and referral fees
3. Limit amount held in escrow or reserve accounts
4. Reform record keeping of land title information

Scope of RESPA

RESPA applies to any transaction involving a Federally Regulated Mortgage Loan. A Federally Regulated Mortgage Loan is any loan secured by a first lien on residential property designed for the occupancy of one to four families made by any lender which meets any of the following criteria:

- Has deposits insured by the Federal Government
- Regulated by the Federal Government
- Insured by HUD
- Intends to sell the loan to Fannie Mae, Freddie Mac, or Ginnie Mae
- Makes more than $1,000,000 in loans per year

Settlement Services

RESPA affects any settlement service which includes the following:

- Title searches
- Title examinations
- Title insurance
- Attorney services
Federal Law

• Preparation of documents
• Surveys
• Credit reports
• Appraisals
• Pest inspections
• Real estate services
• Loan origination
• Processing mortgages
• Closing or settling mortgages

Servicing Transfer

• Whether or not the servicing can be transferred on a loan must be disclosed to the borrower at the time of application or within three days of the application.

• If the servicing is transferred, notice must be given to the borrower no less than 15 days before the effective date of the transfer.

• The borrower has the right to make payments to either lender during the 60 days following the effective date of the transfer without suffering any negative implications, including credit reporting and late charges.

• The initial servicing disclosure must disclose whether or not the lender intends to transfer the servicing of the loan and the lender’s history of transferring servicing.

• The notice of servicing transfer must include contact information for both the new lender and the old lender.

• The notice of servicing transfer must include the following information:
  - Effective date of the transfer
  - Toll free or collect number for both the transferring servicer and the new servicer.
  - Name or department of both companies for contact to answer inquiries
  - The date on which the old servicer will cease accepting payments
  - Any information regarding mortgage life or disability insurance
  - A statement advising the borrower that the terms of their loan will not change

Aggregate Escrow Analysis

• The purpose of the aggregate escrow analysis is to reduce the amount being held in escrow or reserve accounts (accounts for taxes and insurance).

• Servicers may hold a cushion of two months taxes, insurance, and mortgage insurance as applicable.

• Servicers may only collect one month’s worth of escrowed items in each payment, unless there is a shortage in the account.
• All accounts must be analyzed once every 12 months and any overage over $50 refunded to the borrower within 30 days.

• If the account is short, the servicer has the following options:
  - do nothing
  - require a lump sum deposit into the account, but only if the shortage/deficiency is less than one month’s worth of deposits
  - require the borrower to repay SHORTAGES (based on analysis) over 12 months
  - require borrower to repay DEFICIENCIES (negative balances) over a two month period

• Penalty for non-compliance is $65 per occurrence up to $120,000 per year if unintentional—$110 per occurrence with no limit if intentional.

Kickbacks and Referral Fees

• No person shall give and no person shall receive anything of value as part of a federally regulated mortgage settlement, other than for services actually performed.

• Penalty for violation is a fine of $10,000, one year in prison, or both

• A referral includes any oral or written action directed to a person which has the effect of affirmatively influencing the selection by any person of a provider of a settlement service or business incident to or part of a settlement service when such person will pay for such settlement service or business incident thereto or pay a charge attributable in whole or in part to such settlement service or business. A referral also occurs whenever a person paying for a settlement service or business incident thereto is required to use a particular provider of a settlement service or business incident thereto.

Affiliated Business Arrangements

Affiliated business arrangements allow the referrer of business to receive compensation for referrals through ownership in the entity to which business is referred.

RESPA defines an affiliated business arrangement as an “arrangement in which:
  (A) “a person who is in a position to refer business…or an associate of such person, has either an affiliate relationship with or a direct or beneficial ownership interest of more than 1 percent in a provider of settlement services and

  (B) “either of such persons directly or indirectly refers such business to that provider or affirmatively influences the selection of that provider”

An “associate” is defined as “one who has one or more of the following relationships with a person in a
position to refer settlement business
  (a) “spouse, parent, or child
  (b) “a corporation or business entity that controls, is controlled, or is under common control with such person
  (c) “an employer, officer, director, partner, franchisor, or franchisee of such person
  (d) “anyone who has an agreement, arrangement, or understanding with such person, the purpose or substantial effect of which is to enable the person in a position to refer settlement business to benefit financially from the referrals of such business.”

If one affiliate is referring business to another affiliate, the referring affiliate must make a written disclosure to the borrower regarding the affiliate relationship. Please note this disclosure is required at the time of the referral.

The new lending entity must also be a legitimate, separate entity. HUD has issued guidelines with respect to the new entity. HUD has issued a list of questions which serve as an outline when evaluating whether or not an entity is truly a legitimate business or simply a sham business to allow compensation for referral fees.

**Exempt Transactions**

RESPA does not apply to the following transactions:
- Loans on properties of 25 acres or more
- Business or commercial loans
- Construction loans under some circumstances
  - not exempt if the lender issues a commitment for permanent financing
  - not exempt if used to purchase the property

**Truth In Lending Act—TILA, Regulation Z**

**Purpose and Definitions**

The TILA is part of the Consumer Credit Protection Act. The TILA was intended to “assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit...”

“Business Day” is used frequently in the law with respect to deadlines for disclosures. Generally, a business day is any day a company is open for business. However, in several circumstances, a business day is considered any day except Sundays and legal public holidays.

“Dwelling” is defined as a residential structure which contains between one and four units. The units do not need to be attached to real property. The definition of dwelling also includes individual condominium units and cooperative units.

“Finance Charges” are the costs of obtaining credit paid by the consumer.
“Prepaid Finance Charges” are charges which are paid separately before or at the time of consummation or which are withheld from the proceeds of the loan.

TILA specifically does not apply to any loan for business, commercial, agricultural, or organizational credit.

Advertising

If an advertisement contains an interest rate, it must also include the annual percentage rate (APR). No other disclosures are required if only the interest rate is used in the advertisement.

If the advertisement contains any TRIGGER TERMS, the advertisement must contain three essential disclosures of terms. Interest rates must be disclosed in annual percentage rate (APR) terms.

Trigger Terms
1. The amount or percentage of any down payment
2. The number of payments or period of repayment
3. The amount of any payment
4. The amount of any finance charge

Required Disclosures
1. The amount or percentage of the down payment
2. The terms of repayment
3. The annual percentage rate (APR) including any variable rate features

The APR factors some of the costs associated with the loan, including broker fees and mortgage insurance, into the interest rate. It is meant as a shopping tool, allowing consumers to compare rates and fees with one disclosure.

Prepaid finance charges are used to calculate the APR. The following prepaid finance charges ARE included in the calculation:

• Origination fees
• Discount points
• Tax service fees
• Underwriting fees
• Processing fees
• Prepaid/per diem interest
• Mortgage insurance premium
• Mortgage insurance impounds/reserves
• Warehouse fees
• VA funding fees
• FHA UFMIP
• Buydown
• Flood certification fees
• Closing fees
• Courier fees (lender)

Some fees ARE NOT included in the prepaid finance charges used in APR calculations:

• Title Insurance
• Escrows for taxes and insurance
• Notary fees
• Appraisal fees
• Termite inspection fees
• Credit report charges

If any terms of the required disclosures change during the transaction outside of the tolerance level, the information must be re-disclosed according to TILA-RESPA Integrated Disclosure requirements.

• APR tolerance is 1/8%
• Finance charge tolerance is $100

High Cost Loans—Section 32 or HOEPA

Loans which qualify

• Loans with an APR which exceeds comparable treasury yields by more than 6.5% for first lien loans and 8.5% for subordinate liens, or

• Loans with fees payable which will exceed 8% of the total loan amount or $400 (adjusted for inflation), whichever is greater.

Borrowers must receive an additional set of disclosures three days prior to closing on high cost loans.

Certain terms can not be included in a high cost loan including some versions of balloon payments, negative amortization, and some prepayment penalties.

Borrowers must receive counseling after receipt of the GFE.

Right of Rescission

Borrowers have the right to rescind a transaction in which a security interest is given in their primary residence until midnight on the third business day following the consummation of the transaction or delivery of the required disclosures and rescission forms. If the borrower decides to rescind, they simply need to mail the disclosure before the deadline. The right of rescission does not apply to purchase transactions.

The three days begin tolling at the later of the following events:

• Consummation of the transaction
• Delivery of all material disclosures (TIL, Itemization)
• Delivery to the consumer of the required rescission notice
“Business day” for rescission purposes means any day but Sunday or public holidays.

ANY and ALL owners on a transaction must receive the required rescission notices. The three day period starts tolling once the final owner has received the disclosures.

If a creditor/lender fails to effectively initiate the tolling of the three day period, the borrower’s right to rescind shall automatically expire at the earliest of the following occurrences:

• Three years from consummation of the transaction
• Transfer of borrower’s interest in property
• Sale of consumer’s interest in property

If foreclosure proceedings have been commenced and the three years have not lapsed, the borrower can rescind if mortgage broker fees were not disclosed or if the rescission notice was given in the incorrect format.

If a borrower rescinds, they are entitled to a refund of all fees paid to the lender.

**Ability to Repay/Qualified Mortgage**

As part of the requirements of the Dodd-Frank Bill the Consumer Financial Protection Bureau (CFPB) implemented the Ability to Repay (ATR)/Qualified Mortgage (QM) rule, which took effect on January 10, 2014.

The rule requires lenders to make a reasonable, good-faith determination before or when a loan is consummated that the consumer/borrower has a reasonable ability to repay the loan. If consumers have trouble repaying a loan a lender originates, they could claim the lender failed to make a reasonable, good-faith determination of their ATR before the lender made the loan. The consumer could recover up to three years of finance charges in addition to their legal fees.

**Coverage of the Rule.** The rule applies to all closed-end mortgages secured by residential properties, with the following exceptions:

• HELOCs
• Time-shares
• Reverse mortgages
• Temporary loans (less than 12 months)
• Construction loans

**Factors to Consider When Evaluating ATR.** Lenders should consider the following when determining whether or not a borrower has the ability to repay a mortgage:

1. “Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan.”

2. “Current employment status (if you rely on employment income when assessing the consumer’s ability to repay).
Federal Law

3. “Monthly mortgage payment for this loan. You calculate this using the introductory or fully-indexed rate, whichever is higher, and monthly, fully amortizing-payments that are substantially equal.”

4. “Monthly payment on any simultaneous loans secured by the same property.”

5. “Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner’s association fees or ground rent.”

6. “Debts, alimony, and child support obligations.”

7. “Monthly debt-to-income ratios or residual income, that you calculated using the total of all the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income.”

8. “Credit History.” (Source: CFPB Compliance Guide)

Qualified Mortgage. Lenders are deemed to have complied with ATR requirements if they satisfy the definition of a Qualified Mortgage (QM). The loan must include the following characteristics in order to be considered a QM:

- Fully amortizing
- Max term of 30 years
- Points and fees not to exceed 3%
- Consider and verify consumer’s income, assets, debt, and other obligations
- Determine that the consumer’s total monthly debt-to-income is no more than 43%

Temporarily, if a loan can be sold to Fannie Mae, Freddie Mac, or insured/guaranteed by FHA, VA, or USDA, the 43% DTI requirement will be waived.

Higher Priced Mortgage Loans (HPML). If a QM loan is considered a HPML, the lender only qualifies for a rebuttable presumption regarding their assessment of the borrower’s ability to repay. An HPML carries an Annual Percentage Rate (APR) which is more than 1.5% above the Average Prime Offer Rate (APOR).

If a lender originates an HPML, they must perform an appraisal, including a physical interior and exterior inspection. If the property was acquired within 180 days of the application, an additional appraisal must be ordered. An escrow account must be maintained for at least five years for any HPML.

Pre-payment penalties. Pre-payment penalties are only allowed on fixed-rate or step-rate QMs which are not higher priced. Prepayment penalties may not be imposed after three years of the loan term and may not be greater than 2 percent of the balance during the first two years of the loan and may not be greater than 1 percent of the balance during the third year of the loan.
Loan Originator Compensation Rule

Under the TILA and authority granted in the Dodd-Frank Bill, the CFPB has issued a rule regarding loan originator compensation. According to the Rule, a “loan originator generally includes individuals and entities that perform origination activities for compensation, such as taking an application, offering credit terms, negotiating credit terms on behalf of a consumer, obtaining an extension of credit for a consumer, or referring a consumer to a loan originator or creditor.” (Source: CFPB Compliance Guide)

According to the rule, an originator’s compensation may not be based upon any loan terms or conditions. Loan originators may decrease their compensation to cover charges which were reasonably unforeseen at the time the initial disclosures were prepared.

A factor, which is not a transaction term, is a proxy term if it varies consistently with transaction terms and the originator has the ability to add, drop, or change the factor.

Records regarding compensation must be retained for at least three years following the date the compensation is paid.

Servicing Requirements

Both Regulation Z and Regulation X contain servicing requirements. Small servicers are exempt from many of the provisions of the Rule.

Error Resolution and Information Requests. The following timelines apply to servicers who receive written complaints asserting errors or requests for information:

- Acknowledge receipt within 5 days
- Correct the error and provide notification of correction or provide notification of no error within 30-45 days.
- If the information is not available, inform the consumer within 30-45 days.

Force-Placed Insurance. Force placed insurance is hazard insurance coverage purchased by the servicer when a borrower fails to maintain the proper coverage. Servicers must have a reasonable basis to believe the consumer’s insurance has lapsed and send two notices to the consumer regarding the issue. Servicers must cancel the insurance within 15 days of receiving evidence of insurance and refund any premiums for overlapping insurance.

General Servicing Policies. Servicers must provide a statement during each billing cycle. Some services qualify to use coupon books. The statements must generally be mailed within 4 days of the close of the courtesy period of the previous cycle.
Delinquent Consumers and Loss Mitigation. Servicers must make good faith efforts to establish live contact with delinquent borrowers by the 36th day of delinquency. Servicers must notify delinquent borrowers of loss mitigation options by the 45th day of delinquency.

ARM Adjustment Notices. For the first adjustment, a written notice must be provided between 210 and 240 days prior to the adjustment. For ongoing adjustments, the notice must be given between 60 and 120 days prior to the first payment at the new rate.

Crediting of Mortgage Payments and Payoff Requests. Payments must be credited as of the day of receipt. Payoff notices must be provided within seven business days after receipt of request.

TILA-RESPA Integrated Disclosures

Definition of an Application

An Application is defined as the submission of the following six items by the consumer:

- Borrower name
- Borrower monthly income
- Borrower social security number for credit report
- Property address
- Estimate of property value
- Loan amount

Once an Application, as defined, is received, creditors are obligated to issue the Loan Estimate. Creditors may not require additional information or verification before issuing the Loan Estimate.

Loan Estimate Delivery Requirement

Creditors must mail or deliver the Loan Estimate with in three business days of submission of an Application.

For the purposes of the requirement that the creditor deliver the Loan Estimate within three business days of the application, or of a valid change, a “business day” is any day on which the creditor’s offices are open to the public “for carrying out substantially all of its business functions.”

The creditor may either hand deliver the disclosures on or before the third business day or put them in the mail on the third business day in order to comply with the requirements of the Rule.

If the disclosures are mailed, the consumer is deemed to have received them three days after they are mailed. When counting mailing time, include Monday-Saturday excluding public holidays.

If actual delivery may be documented, it may be used for compliance purposes.

If a lender is going to use electronic delivery, the first requirement is that all requirements of the federal E-Sign Act. If a lender does not comply with the E-Sign Act but they email disclosures, the lender has not complied with the Rule.
Seven Day Closing Rule

The loan may not close for seven days after the disclosures are mailed. For this rule, we do not need to wait the three-day mailing period. In other words, you may start counting the seven days at the earlier of actually delivering the disclosures to the consumer or mailing them.

Collection of Fees

As with the current rule, the new rule imposes restrictions on collecting fees from the borrowers. According to the Rule, a lender or broker may not charge the borrower anything but a reasonable credit report fee until the borrower has received the Loan Estimate and expressed intent to proceed.

Obtaining the borrower’s authorization to charge a credit card for anything but a credit report, before the above conditions have been met, is considered a violation.

Intent to Proceed. The Rule outlines a few ways a borrower is able to communicate intent to proceed. The borrower may communicate intent to proceed orally, in person, upon receiving the disclosures. If the communication comes after the borrower receives the disclosure, it may come verbally over the phone, in writing via email, or through signing a form.

Borrowers may communicate intent to proceed however they would like, although lenders have the option of requiring intent to be communicated in a specific manner.

Silence on behalf of the borrower may not be used as consent. For example, a lender may not simply wait a few days and then charge the borrower an appraisal fee if they don’t hear anything from the borrower. This is true even if the lender informed the borrower that they would charge the borrower a fee if the borrower didn’t communicate at all.

The borrower’s intent to proceed must be documented and retained according to the document retention provisions we will discuss later in the course.

Zero Tolerance

- Fees paid to the creditor, mortgage broker or affiliate of either;
- Fees paid for services for which the consumer was NOT allowed to shop; and
- Transfer taxes. (Source 11, page 40)
10% Tolerance

- Recording fees; and
- Third party fees paid to non-affiliates for which the consumer was allowed to shop and the consumer chose a provider on the creditors list of service providers.

Fees which were disclosed, but not charged, will not be considered in the tolerance calculations.

The tolerance may be used to pay fees which were charged but not disclosed.

Re-disclosure should only occur once the cumulative increase exceeds 10 percent.

Preferred Provider List

- Required if borrower is allowed to shop
- At least one provider for each service must be included
- Must inform consumer they are allowed to select another provider
- Must correspond with fees on Loan Estimate
- Providers must actually be available
- Contact information must be provided for providers

No Tolerance Requirement

- Prepaid interest;
- Property insurance premiums;
- Escrow accounts;
- Services for which the consumer shopped and selected a provider NOT on the provider list; and
- Charges for services NOT required by the creditor.

Change of Circumstance

Changes of circumstance do not include “technical errors, miscalculations, or underestimations of charges”.

Six Valid Reasons to Re-Disclose

1. Valid Changed Circumstance
   - An extraordinary event beyond the control of any party which specifically affects the transaction;
• Information relied upon by the creditor at the time of disclosure is later found to be inaccurate; or
• New information specific to the transaction is provided to the creditor.

2. Any changes which affect the consumers eligibility for the terms for which the consumer applied.
3. Any changes requested by the consumer.
4. Interest rate locks
5. Consumer does not communicate an intent to proceed within 10 days of issuance of LE
6. Construction loans. Closing is delayed by at least 60 days from issuance of LE

**Actual Fees**

When re-disclosing based on a valid change, creditors may only legitimately re-disclose fees which actually increase and which increase as a result of the change.

**Documentation**

Creditors must also retain documentation regarding the change. Specific documentation requirements will vary depending on the circumstance, but creditors must be able to defend every aspect of the change.

**Timing**

Creditors must provide the revised Loan Estimate within three business days of receiving the information establishing a valid change.

A Loan Estimate may not be provided to the consumer on or after the day it provides the Closing Disclosure.

The consumer must receive any revised Loan Estimates no later than four business days prior to consummation

**Lender Credits**

Lender credits are guaranteed once a lock is disclosed.

**Delivery of the Closing Disclosure**

Generally, the Closing Disclosure must be given to the borrower no later than three business days prior to consummation. Consummation is defined in state law and refers to the date the borrower becomes legally obligated on the loan.
In this case, the definition of business day includes any day other than Sunday and legal public holidays.

The delivery options are identical to those we discussed with the Loan Estimate, as are the timing implications of each option. Electronic delivery is acceptable as long as the consumer has properly consented and all other requirements of the E-Sign Act are met.

Creditors are responsible for the preparation and delivery of the Closing Disclosure to the borrower. However, they may use settlement agents to provide the Closing Disclosure on their behalf.

Just as with the Loan Estimate, in a rescindable transaction, a Closing Disclosure must be given separately to each borrower with a right of rescission. In other transactions, the requirements of the rule are satisfied as long as one consumer with primary liability receives the Closing Disclosure.

Settlement agents are responsible for providing the seller on a transaction with the Closing Disclosure. The settlement agent may provide the seller with the same form provided to the borrower, assuming the form contains all of the borrower and seller information.

The settlement agent may also provide the seller with a Closing Disclosure containing just the seller information. In either case, the settlement agent must ensure the lender is provided with a copy of the Closing Disclosure containing the seller’s information.

**Changes to the Closing Disclosure**

The borrower must receive an accurate Closing Disclosure at or before consummation. With most changes, a new waiting period is not required.

The three circumstances under which a new Closing Disclosure must be issued and the waiting period started again are as follows:

- Changes in the loans APR outside of normal tolerances;
- Changes in the loan product; or
- Addition of a prepayment penalty.

The APR’s accuracy is determined in the same manner it is under the current version of the Rule.

If a change occurs between the fourth and third business day before consummation, it wouldn’t be possible to provide a revised Loan Estimate as the Rule doesn’t allow the Loan Estimate and Closing Disclosure on the same day. In this case, the creditor may use the initial Closing Disclosure in lieu of the final Loan Estimate to disclose the change. For purposes of tolerance calculation, the charges disclosed on the Closing Disclosure will be compared with the final charges.

The Rule also anticipates changes, which may occur after consummation. If a change occurs within 30 days after consummation, which changes the amount a buyer or seller paid at consummation, a new Closing Disclosure must be mailed within 30 days after the creditor receives information regarding the change.
Any tolerance cures must be mailed to the borrower, along with an updated Closing Disclosure, within 60 days of consummation.

**Fair Housing Act**

The Fair Housing Act prohibits discrimination by lenders on the basis of race, color, religion, sex, handicap, familial status, or national origin.

Discrimination includes charging different rates and fees based on race, color, religion, sex, handicap, familial status, or national origin.

Lenders can reject applications based on credit, employment, etc. Lenders can also reject an application if they feel the application is fraudulent.

REDLINING is the “practice of denying loans for housing in certain neighborhoods.” If the redlining is based on racial considerations, the practice is prohibited. If the redlining is based on economic considerations, the practice is allowed.

**Equal Credit Opportunity Act (ECOA)—Regulation B**

ECOA prohibits lenders from discriminating based on the following:

- Race
- Color
- Religion
- National origin
- Sex
- Marital status
- Age (unless borrower is too young to sign a contract, or lacks “legal capacity”)

Discrimination, or preferential treatment, is allowed if based on any other characteristic.

Lenders cannot request information about race, color, religion, national origin or sex, unless for monitoring purposes. If such information is requested, the following must be disclosed:

- the applicant is not required to provide the information
- lenders do not monitor religious information
- the information is being requested for monitoring purposes
- if not provided, the information will be collected based on visual observation or surname of the applicant
“A lender shall not inquire whether income stated in an application is derived from alimony, child support, or separate maintenance payments unless the creditor discloses to the applicant that such income need not be revealed if the applicant does not want the creditor to consider it in determining the applicant’s creditworthiness.”

ECOA also prohibits discrimination based on age, childbearing, and childrearing statistics. A lender MAY consider immigration status.

Lenders shall notify applicants of action taken on an application within:

- 30 days after receiving the completed application concerning the approval, counteroffer, or rejection
- 30 days after taking adverse action on an incomplete application
- 30 days after taking adverse action
- 90 days after notifying the applicant of a counteroffer if the applicant does not expressly accept the offer

The notice of adverse action must contain a statement of the action taken, contact information for the lender, the name and address of the federal agency with jurisdiction, and the reasons for the decision or a statement advising the borrower of their right to receive the reasons.

Copies of Appraisals. Upon receipt of an application, lenders have three days to notify a borrower of their right to receive a copy of any appraisal or valuation. A copy of the appraisal or valuation must be “promptly” shared, which means upon completion or at least three days before closing. The borrower may waive the right to receive the copy before closing, in which case it must be provided at closing.

Home Mortgage Disclosure Act (HMDA)—Regulation C

HMDA requires certain lenders to report data regarding its home purchase and home improvement loans originated. For HMDA purposes, home purchase loans include the refinancing of a loan used for home purchase.

The following information must be reported:

- Loan number
- Date of application
- Type and purpose of loan
- Owner-occupancy status
- Loan amount
- Type of action taken
- Location by MSA (metropolitan statistical area), state, county and census track
- Race or national origin and sex of applicant
- Type of entity purchasing the loan if it was sold
For mortgage lenders other than banks, lenders are exempt from HMDA requirements if:

- their assets are less than $10,000,000 and they originated less than 100 home purchase loans (including qualifying refinances), or
- the institution did not have an office in an MSA

Fair Credit Reporting Act

The Fair Credit Reporting Act generally covers consumer credit reporting agencies.

Most delinquent or adverse items must be removed after seven years. Bankruptcies can be reported for 10 years.

Permitted uses, or reasons for requesting a credit report include:

- Upon authorization of the consumer
- “For the extension of credit as a result of an application from a consumer, or the review or collection of a consumer’s account.”
- “For use by a potential investor or servicer, or current insurer, in a valuation or assessment of the credit or prepayment risks associated with an existing credit obligation.”

If a lender denies an application based on information obtained from a consumer credit reporting agency, the adverse action notice must be made within 30 days of the action and include the following information:

- Adverse action was taken based in whole or in part based upon information received from a credit reporting agency
- Name, address, and telephone number of credit reporting agency
- Notice that the agency does not know particular information regarding the adverse action
- The consumer may request a free copy of the report

Consumers may obtain free credit report annually from www.annualcreditreport.com.

Mortgages Acts and Practices—Advertising Rule

MAPS, also known as Regulation “N” is a federal rule governing the advertising of mortgage products. The Rule sets forth the following list of “prohibited representations”:

- Misrepresentations regarding the interest charged for the mortgage credit product, including whether or not any difference between the interest owed and interest paid is added to the loan amount;
- Misrepresentations regarding the annual percentage rate, simple annual rate, periodic rate, or any other rate;
• Misrepresentations regarding the existence, nature, or amount of fees or costs to the consumer associated with the mortgage credit product, including but not limited to misrepresentations that no fees are charged;

• Misrepresentations regarding the existence, costs, payment terms, or other terms associated with any additional product or feature that is or may be sold in conjunction with the mortgage credit product, including but not limited to credit insurance or credit disability insurance;

• Misrepresentations regarding whether separate payment of taxes and insurance is required and the extent to which payment for taxes or insurance is included in the loan payments, loan amount, or total due from the consumer;

• Misrepresentations regarding any prepayment penalty associated with the mortgage credit product;

• Misrepresentations regarding the variability of interest payments, or other terms of the mortgage credit product, including but not limited to the misuse of the word “fixed”;

• Misrepresentations regarding changing payments or interest rates;

• Misleading statements regarding any amortization feature of the loan. If the loan is not fully amortizing, this must be clear;

• Misleading statements regarding the amount of credit available to a borrower;

• Misrepresentations regarding the existence, number, amount, or timing of any minimum or required payments, including but not limited to misrepresentations about any payments or that no payments are required in a reverse mortgage or other mortgage credit product (reverse mortgages require the payment of taxes and insurance);

• Misrepresentations regarding the potential for default under the mortgage credit product, including but not limited to misrepresentations concerning the circumstances under which the consumer could default for nonpayment of taxes, insurance, or other maintenance, or failure to meet other obligations;

• Regarding reverse mortgages, misrepresentations concerning how long or under what conditions the borrower may continue to occupy the dwelling;

• Misrepresentations regarding the effectiveness of a mortgage credit product in helping the consumer resolve difficulties in paying debts;

• Misleading statements regarding a lender’s affiliation with a government entity or the consumer’s current mortgage lender or servicer; and

• Misrepresentations regarding the availability, nature, or substance of counseling services or any other expert advice offered to the consumer regarding any mortgage credit product or term, including but not limited to the qualifications of those offering the services or advice.
E-Sign Act

The Electronic Records in Global and National Commerce Act governs how parties accept electronic signatures on certain disclosures and documents. If a mortgage company is utilizing electronic signatures, the following requirements must be met:

- Consumer must affirmatively consent to electronic delivery and may not have withdrawn the consent;
- Consumer must be provided a statement informing them of the right to have the information in paper form and to what transactions the consent applies.
- Consumer must be provided information on how to withdraw the consent;
- Consumer must be provided information on how to obtain paper copies;
- Consumer must be provided information regarding the hardware and software requirements for access to electronic records PRIOR TO CONSENT; and
- Consent process must reasonably demonstrate consumer’s ability to access the information.

Loan Fraud

Loan fraud occurs when any piece of information is withheld from the lender which would affect the lender’s decision regarding the loan.

Examples of fraud:

- Double Contract–Fraud because true sales price is kept from lender
- Trust Deed Refinance–Fraud if the lender doesn’t know about all steps involved
- Flipping–Purchasing and then immediately reselling for higher price—usually involves artificially inflated appraisals in order to facilitate transaction

Lenders frequently require a chain of title to detect fraud, which is a history of who has been on title.

THE BEST WAY TO AVOID FRAUD IS TO DISCLOSE EVERYTHING YOU KNOW TO THE LENDER. THE PENALTY FOR LOAN FRAUD IS A FINE, IMPRISONMENT, OR BOTH.

FINE IS UP TO $1,000,000.

PRISON TERM IS UP TO 30 YEARS.

Statute of limitation for loan fraud is 10 years.

If a loan goes into default and the lender finds fraud in the file, the lender will often require the originating broker/lender to repurchase the loan. This can be very expensive!!

The lender can also require an originating broker/lender to repurchase the loan in the event of early default, even if the loan is not fraudulent.
Many broker/correspondent contracts also provide for a yield spread recapture in the event of an early payoff. This means that if a loan pays off within a certain period of time, the broker may be required to reimburse the lender any yield spread premium received on the loan.

**Fraud Red Flags**

- Long or unrealistic commute from work to home
- Buyer downgrading from larger to smaller home, unless empty-nesters
- New home too small to accommodate all the intended occupants
- Buyer is currently living in property and buying it from landlord. Verify rent payments made.
- Down payment other than cash
- Borrower claims they are going to resell current home but have not put it on the market
- Deposit is a promissory note
- Stocks and bonds shown as assets but not publicly traded company
- Face value of life insurance policy shown as liquid asset
- Borrower buying investment property but currently renting own home
- Price and date of original purchase not shown on refinance
- Borrower and co-borrower work for same employer. Self employed?
- Same phone number for home and business
- Borrower holds stock in employer (shown as asset). May be self-employed
- Personal property value is greater than one year’s salary
- New housing expense more than 150% of current housing expense
- High income borrower discloses little or no personal property
- Loan payments too high with respect to salary
- Significant changes from the handwritten to the typed loan application
- Invalid social security number
- Borrower lives with parents
- Years of schooling not consistent with job or profession
Federal Law

- Discrepancies between dates on application and verification forms
- Sales price far below market value
- Borrower getting a second mortgage, especially from the seller
- Deposit check dates are inconsistent
- Name and/or address on deposit/down payment check different from borrower
- More than one purchase contract
- Large, recent deposits
- Earnest money/binder check not cashed
- Borrower is not the purchaser shown on the contract
- Borrower related to seller
- Borrower purchasing home near previous home as a primary residence

Privacy Laws—Gramm-Leach-Bliley Act

Covered Activities:

- Lending, exchanging, transferring, investing for others, or safeguarding money or securities
- Providing financial, investment, or economic advisory services
- Brokering loans
- Servicing loans
- Debt Collecting
- Providing real estate settlement services
- Career counseling (of individuals seeking employment in the financial services industry)

Penalty for fraudulently obtaining personal information is up to five years in prison and a fine.

Non-public Personal Information (NPI)

“NPI is any personally identifiable financial information that a financial institution collects about an individual in connection with providing a financial product or service, unless that information is otherwise publicly available.”
NPI includes any information an individual gives to a financial institution to get a financial product or service, such as name, address, social security number, or other information on a loan application. NPI also includes any information obtained about an individual from a financial transaction, for example account numbers, payment history, loan balances, deposit balances, or credit card purchases. NPI also includes any information obtained in connection with providing financial services, such as a credit report. NPI does not include information which is publicly available such as public records or information in a telephone directory. If an individual has directed the information to remain private, such as an unlisted telephone number, the information is NPI.

Privacy Notice

A privacy notice is a “clear and conspicuous” written notice describing a financial institution’s privacy policies and practices.

- All customers must receive a privacy notice, regardless of whether or not the financial institution ever shares any nonpublic information. A customer is someone with whom the institution has a continuing relationship.

- An “Opt out” notice must be given if the institution does share information with non-affiliates. The opt out policy allows consumers to opt out of having their information shared. A company’s policy should include a convenient method to opt out and a reasonable time to opt out before information is shared.

- Customers must receive an annual privacy notice as long as they are customers.

- A consumer must receive a privacy notice only if the institution shares information with non-affiliated third parties. A consumer is someone with whom the institution does not have an ongoing relationship.

- Privacy notices must be delivered in writing unless the consumer consents to electronic delivery. Posting a privacy notice in an office does not satisfy the delivery requirements.

Privacy Notice Requirements

1. Categories of information collected
2. Categories, not names, of affiliates and nonaffiliated third parties to whom you disclose the information
3. Categories of information disclosed and to whom under the joint marketing/service provider exception
4. If you are disclosing NPI to nonaffiliated third parties under the exceptions
5. Any disclosures required by the Fair Credit Reporting Act
6. Policies and practices with respect to protecting confidentiality and security of NPI
Safeguard Rule Security Plan Requirements

1. Each financial institution must designate one or more employees to coordinate the safeguards.

2. Each financial institution must identify and assess the risks to customer information in each relevant area of the company’s operation, and evaluate the effectiveness of the current safeguards for controlling these risks.

3. Each financial institution must design and implement a safeguards program, and regularly monitor and test it.

4. Each financial institution must select appropriate service providers and contract with them to implement safeguards.

5. Each financial institution must evaluate and adjust the program in light of relevant circumstances, including changes in the firm’s business arrangements or operations, or the results of testing and monitoring of safeguards.

Do Not Call Rules

The national Do Not Call registry is comprised of numbers submitted by consumers who wish to be included on the registry.

Exempt Entities:
  - Banks
  - Federal credit unions
  - Federal savings and loans
  - Airlines
  - Long distance telephone companies
  - Non-profit organizations
  - Business to business calls
  - Survey calls
  - Political organizations

Non-exempt parties may not call someone listed on the national Do Not Call Registry. Companies are required to update their list with the National Registry at least every 31 days.

Companies must maintain entity specific do not call lists. If a consumer requests to be placed on a company specific list, the company has 30 days to place the customer on the list.

Companies who violate the Do Not Call rules may be fined up to $16,000 per violation. Each phone call to a number on the Do Not Call registry may be considered a violation, making non-compliance potentially extremely expensive.
Entities may contact someone on the National Registry provided they have an established business relationship, which can be established in one of two ways.

1. The consumer purchased, rented, or leased goods and/or services from the seller or participated in a financial transaction between the consumer and the seller within **18 months preceding a telemarketing call**.

2. The consumer made an inquiry into the business of the seller within **three months preceding a telemarketing call**.

Sellers and telemarketers may also obtain written consent from the consumer to market to them via the telephone. The consent must be given in writing and must be clear and conspicuous.

Telemarketers are only allowed to make solicitation calls between the hours of 8:00 a.m. and 9:00 p.m. Calls made outside these hours are a violation of the Do Not Call rules. Telemarketers must connect consumers with a live sales representative within two seconds of the completion of the consumer’s initial greeting. This rule is meant to prevent hang-ups from automated dialer machines.

Telemarketers are allowed to use an automated recording on a certain percentage of their calls. If a recording is used, it must contain the name and phone number of the company making the call as well as a notice that the call is a solicitation. Telemarketers must also transmit caller identification information when and where available.

**Red Flags Rule**

The Red Flags Rule is required under the Fair and Accurate Credit Transaction Act of 2003 (FACTA) and is part of the Fair Credit Reporting Act (FCRA).

A “creditor” includes any business which arranges for, or provides financing. This includes mortgage brokers and mortgage lenders.

All covered financial institutions and creditors must implement a written identity theft prevention plan, which must be approved by the board of directors or senior-level management. The plan must include the following four elements:

- Reasonable policies to identify indicators, or red flags, of identity theft
- Policies and procedures to detect indicators identified in step one
- Actions to be taken once red flag is identified
- Procedures for updating the plan

Examples of red flags include the following:

- Fraud alerts on credit report
• Active duty alerts on credit report
• Address discrepancies on credit report
• Inconsistent activity on credit report
• Documents which appear altered or forged
• Photos which do not match the person presenting the I.D.
• Information on I.D. disagrees with other information
• Application looks altered, forged, or reassembled after destruction
• Inconsistencies with social security number
• Multiple uses of same phone number, address, or social security number
• Invalid addresses or P.O. boxes
• Inconsistent information presented by borrower
• Incomplete application
• Returned mail

Federal Jurisdiction

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The S.A.F.E. Act

The Secure and Fair Enforcement Act (SAFE) was passed in 2008 in an attempt to further regulate the mortgage industry on a national level. The SAFE Act established standards for licensure which must be used as minimum licensing requirements by all state regulators. Regulators may choose to require more than the SAFE Act, but may not require less.

License Requirements. The following represent the minimum requirements each state must enforce in licensing loan originators:

- Back Ground Checks
- Criminal History
  - No felonies in past 7 years
  - No financial or fraud related felonies EVER (fraud, dishonesty, breach of trust, or money laundering)
- Financial Responsibility
- Pre-licensing Education
  - 20 hours minimum required
  - 3 hours federal law included
  - 3 hours ethics included
  - 2 hours non-traditional mortgage products included
- Testing
  - 30 day waiting period if fail
  - After failing 3 times, 6 month waiting period
- Continuing Education for Renewal
  - 8 hours minimum required
  - 3 hours federal law included
  - 2 hours ethics included
  - 2 hours non-traditional mortgage products included
Federal Law

Mortgage Assistance Relief Services (MARS) Rule

This Rule, released by the Federal Trade Commission in 2010, is meant to protect homeowners from foreclosure rescue and loan modification scams. The following is quoted directly from the FTC press release available on www.ftc.gov.

Advance fee ban

The most significant consumer protection under the FTC’s new rule is the advance fee ban. Under this provision, mortgage relief companies may not collect any fees until they have provided consumers with a written offer from their lender or servicer that the consumer decides is acceptable, and a written document from the lender or servicer describing the key changes to the mortgage that would result if the consumer accepts the offer. The companies also must remind consumers of their right to reject the offer without any charge.

Disclosures

The Rule requires mortgage relief companies to disclose key information to consumers to protect them from being misled and to help them make better informed purchasing decisions. In their advertising and in communications directed at individual consumers (such as telemarketing calls), the companies must disclose that:

- they are not associated with the government, and their services have not been approved by the government or the consumer’s lender;
- the lender may not agree to change the consumer’s loan; and
- if companies tell consumers to stop paying their mortgage, they must also tell them that they could lose their home and damage their credit rating.

Companies also must explain in their communications to consumers that they can stop doing business with the company at any time, can accept or reject any offer the company obtains from the lender or servicer, and, if they reject the offer, they don’t have to pay the company’s fee. The companies also must disclose the amount of the fee.

Prohibited claims

The MARS Rule prohibits mortgage relief companies from making any false or misleading claims about their services, including claims about:

- the likelihood of consumers getting the results they seek;
- the company’s affiliation with government or private entities;
Federal Law

- the consumer’s payment and other mortgage obligations;
- the company’s refund and cancellation policies;
- whether the company has performed the services it promised;
- whether the company will provide legal representation to consumers;
- the availability or cost of any alternative to for-profit mortgage assistance relief services;
- the amount of money a consumer will save by using their services; or
- the cost of the services.

In addition, the rule bars mortgage relief companies from telling consumers to stop communicating with their lenders or servicers. Companies also must have reliable evidence to back up any claims they make about the benefits, performance, or effectiveness of the services they provide.

Suspicious Activity Report (SAR) Rule and the Anti-Money Laundering (AML) Rule

In 2002, FinCEN (Financial Crimes Enforcement Network) issued a regulation which temporarily exempted mortgage lenders and brokers from the SARs requirement, which is technically part of the anti-money laundering requirements set forth by federal rule. On February 12, 2012, after a temporary rule was released, a final rule was released by FinCEN which expands the previously interpreted definition of a finance company, which is included in the definition of a covered financial institution. Mortgage lenders and brokers are now covered by the Rule.

The SARs reporting rule is actually part of the AML rule. Coverage for the AML is identical to the coverage we have just reviewed for the SARs reporting rule.

The Rule states the following: “Each loan or finance company shall develop and implement a written anti-money laundering program that is reasonably designed to prevent the loan or finance company from being used to facilitate money laundering or the financing of terrorist activities. The program must be approved by senior management. A loan or finance company shall make a copy of its anti-money laundering program available to the Financial Crimes Enforcement Network or its designee upon request.”

The Rule then sets forth the requirements of the AML plan. First, the company must “incorporate policies, procedures, and internal controls based upon the loan or finance company’s assessment of the money laundering and terrorist financing risks associated with its products and services.”

The second requirement of a compliant AML plan is a compliance officer must be designated who is responsible for ensuring that the following requirements are met:

1. The AML is implemented effectively;
2. The AML is updated as necessary;
3. Appropriate training occurs;

The third requirement deals with the training requirement mentioned above. “A loan or finance company may satisfy this requirement with respect to its employees, agents, and brokers by directly training such persons or verifying that such persons have received training by a competent third party with respect to the products and services offered by the loan or finance company.”

The fourth requirement of an AML plan is that it must provide for “independent testing to monitor and maintain an adequate program, including testing to determine compliance of the company’s agents and brokers with their obligations under the program. The scope and testing shall be commensurate with the risks posed by the company’s products and services.”

Any covered financial institution, residential mortgage lender or originator, or any other covered entity must comply with the SAR reporting requirement beginning with any transactions initiated on or after August 12, 2012. FinCEN begins the requirements by stating that all covered lenders “shall file with FinCEN, ….a report of any suspicious transaction relevant to a possible violation of law or regulation.”

“A loan or finance company may also file with FinCEN a report of any suspicious transaction that it believes is relevant to the possible violation of any law or regulation, but whose reporting is not required by this” rule.

A transaction which would require reporting must meet the following requirements:
1. It is “conducted or attempted by, at, or through a loan or finance company;
2. It involves or aggregates funds or other assets of at least $5,000; and
3. “The loan or finance company knows, suspects, or has reason to suspect that the transaction” meets one of four criteria.

“A determination as to whether a SAR is required must be based on all the facts and circumstances relating to the transaction and customer of the loan or finance company in question. Different fact patterns will require different judgments.

The first criteria is that the transactions involves “funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity” or that the transaction is part of a plan to violate any federal law or any federal reporting requirement.

The next category of suspicious transactions requiring reporting deals with transactions which are “designed, whether through structuring or other means, to evade any requirements” of the Rule we are discussing or any other part of the Bank Secrecy Act.

The next category of suspicious activities includes those transactions which have no “business or apparent lawful purpose” or are “not the sort in which the particular customer would normally be expected to engage, and the loan or finance company knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction.”
The next category offers even a broader application to the mortgage origination process. The fourth category of reportable transactions simply includes transactions which involve the “use of the loan or finance company to facilitate criminal activity.”

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act was passed in 2010 in response to the financial crisis. It contains sweeping reforms of many financial industries. The effects upon the mortgage industry include the following:

- Established the Consumer Financial Protection Bureau (CFPB)
- Requires the Qualified Mortgage (QM) Rule
- Requires the Qualified Residential Mortgage (QRM) Rule
- Requires an assessment of the borrower’s ability to repay a mortgage
- Restricts loan originator compensation, which must not be based on loan terms or conditions
- Requires new borrower disclosures to replace GFE and TILA disclosures
- Limits loan terms such as pre-payment penalties, negative amortization, balloons, etc.
Structure of the Mortgage Industry

Fannie Mae and Freddie Mac

Fannie Mae and Freddie Mac are government sponsored enterprises (GSE’s) created to facilitate home ownership and mortgage financing in the United States. They are PRIVATE corporations whose stocks are publicly traded. Despite the fact that both entities are under government receivership, neither is technically government owned and neither is considered a government agency.

Ginnie Mae

Ginnie Mae plays a similar role in the industry, but is only involved with FHA or VA loans and is part of the Department of HUD. Ginnie Mae is a wholly owned government association.
Mortgage Categories

Conventional/Conforming

Each year the conventional or conforming loan limits are set by Fannie Mae and Freddie Mac. Currently, the loan limits may vary by county.

**Loan to Value Ratios.** Loan to value (LTV) ratios are not unique to conventional loans, but play a larger role in conventional than some other types.

**Loan to value (LTV)** = loan amount (first, if first and second) divided by the lower of the appraised value or purchase price

**Combined loan to value (CLTV)** = sum of first and second mortgage divided by lower of the appraised value or purchase price

**HLTV or HCLTV** = HELOC Loan to Value, which is calculated using the maximum amount of the line of credit, rather than the amount disbursed or drawn on the line.

**TLTV** = Total Loan to Value, which is calculated using the amount drawn on the line of credit rather than the maximum line amount.

Example

Assume the following:

- Appraised value of $100,000
- First mortgage of $70,000
- Second mortgage/line of credit of $20,000
- Disbursed amount of line of credit $10,000

The following LTV calculations apply:

- LTV=70
- CLTV=90
- HLTV/HCLTV=90
- TLTV=80

**Mortgage Insurance.** Conventional loans with a loan to value ratio over 80% require private mortgage insurance (PMI or MI). PMI benefits the borrowers by allowing borrowers to purchase homes with less than 20% down. PMI protects lenders from borrower default. In the event the property is foreclosed, or sold on a short sale, the mortgage insurance may reimburse the lender for a certain amount of their losses.

According to the Homeowner’s Protection Act, or PMI Act, lenders are required to drop mortgage insurance under the following conditions:

- when the borrower pays the loan amount down to 80% of the lower of the original purchase price or appraised value, AT THE REQUEST OF THE BORROWER, at anytime
• when the borrower pays the loan amount down to 78% of the lower of the original purchase price or appraised value AUTOMATICALLY. The automatic cancellation will not occur until the loan is scheduled to reach 78% LTV according to the original amortization schedule, regardless of whether or not the loan reaches 78% LTV before the original schedule.

Issues such as loan program, LTV, and the borrower’s credit score affect mortgage insurance rates.

In order to avoid mortgage insurance, a lender may offer programs which include a first mortgage at 80% combined with a second mortgage. In this case, mortgage insurance is avoided, because the first mortgage is only at an 80% loan to value ratio.

Prepayment Penalties. Conforming loan amounts typically do not contain prepayment penalties. However, if the loan does contain a prepayment penalty, it must be disclosed in the note (or on either an attachment or allonge to the note). The prepayment penalty must also be disclosed on the TIL form. The actual amount of the prepayment penalty is disclosed on the note, or allonge to the note. The amount is not disclosed on the TIL form.

Debt to Income Ratios. Debt to income ratios (DTI) are used on most loan types to determine if the borrower is able to afford the mortgage. Traditionally, the following two ratios are calculated.

Primary/front end debt ratio = monthly housing expense, that includes the principal, interest, taxes, insurance, and mortgage insurance, divided by the gross monthly income.

Secondary/back end debt ratio = all monthly debt obligations, including the housing expense, divided by the gross monthly income. Do not include utility payments, car insurance payments, phone bills, cable TV bills, etc. Include anything showing on the credit report, as well as obligations such as alimony and child support.

While automated underwriting systems frequently approve higher DTIs, traditionally the conventional requirements are 28/36 (28 percent for the primary and 36 for the secondary or back end ratio).

Seller Contributions. Maximum allowable contributions by sellers, lenders, etc are limited as follows:

• 2% of the lesser of appraised value or sales price for investment properties

• 3% of the lesser of appraised value or sales price for principal residences or second homes if the LTV is greater than 90%

• 6% of the lesser of appraised value or sales price for principal residences or second homes if the LTV is between 76% and 90%

• 9% of the lesser of appraised value or sales price for principal residences or second homes if the LTV is 75% or less
FHA

FHA loans are loans made by typical lenders but INSURED by the federal government through the Federal Housing Administration (FHA). FHA loans are only allowed on owner occupied, primary residences. FHA loans potentially carry two types of mortgage insurance. The up front mortgage insurance premium (UFMIP) is 1.75% of the base loan amount.

FHA also charges monthly mortgage insurance based on the table below. Borrowers must carry the mortgage insurance for at least 11 years, on 15 year mortgages. However, on 30 year mortgages the monthly premiums remain on the loan for the life of the loan.

FHA Monthly Mortgage Insurance Premiums (as an annual premium)

As of January 26, 2015.

<table>
<thead>
<tr>
<th>Term &gt; 15 years</th>
<th>Base Loan Amt.</th>
<th>LTV (%)</th>
<th>Previous MIP</th>
<th>New MIP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt; or = $625,000</td>
<td>&lt; or = 95.00%</td>
<td>130 bps</td>
<td>80 bps</td>
</tr>
<tr>
<td></td>
<td>&lt; or = $625,000</td>
<td>&gt; 95.00%</td>
<td>135 bps</td>
<td>85 bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,000</td>
<td>&lt; or = 95.00%</td>
<td>150 bps</td>
<td>100 bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,000</td>
<td>&gt; 95.00%</td>
<td>155 bps</td>
<td>105 bps</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Term &lt; or = 15 years</th>
<th>Base Loan Amt.</th>
<th>LTV (%)</th>
<th>Previous MIP</th>
<th>New MIP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt; or = $625,000</td>
<td>&lt; or = 90.00%</td>
<td>45 bps</td>
<td>45 bps</td>
</tr>
<tr>
<td></td>
<td>&lt; or = $625,000</td>
<td>&gt; 90.00%</td>
<td>70 bps</td>
<td>70 bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,000</td>
<td>&lt; or = 78.00%</td>
<td>45 bps</td>
<td>45 bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,000</td>
<td>78.01% - 90.00%</td>
<td>70 bps</td>
<td>70 bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,000</td>
<td>&gt; 90.00%</td>
<td>95 bps</td>
<td>95 bps</td>
</tr>
</tbody>
</table>

Required terms the mortgage insurance is required to be kept on the loan. As of June 3, 2013.

<table>
<thead>
<tr>
<th>Term</th>
<th>LTV (%)</th>
<th>Previous</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; or = 15 yrs</td>
<td>&lt; or = 78%</td>
<td>No annual MIP</td>
<td>11 yrs</td>
</tr>
<tr>
<td>&lt; or = 15 yrs</td>
<td>&gt; 78% - 90.00%</td>
<td>Cancelled at 78% LTV</td>
<td>11 yrs</td>
</tr>
<tr>
<td>&lt; or = 15 yrs</td>
<td>&gt; 90.00%</td>
<td>Cancelled at 78% LTV</td>
<td>Loan term</td>
</tr>
<tr>
<td>&gt; 15 yrs</td>
<td>&lt; or = 78%</td>
<td>5 years</td>
<td>11 yrs</td>
</tr>
<tr>
<td>&gt; 15 yrs</td>
<td>&gt; 78% - 90.00%</td>
<td>Cancelled at 78% LTV &amp; 5 yrs</td>
<td>11 yrs</td>
</tr>
<tr>
<td>&gt; 15 yrs</td>
<td>&gt; 90.00%</td>
<td>Cancelled at 78% LTV &amp; 5 yrs</td>
<td>loan term</td>
</tr>
</tbody>
</table>
Credit Score Requirements
- Borrowers with a minimum score of 580 or above are eligible for maximum financing;
- Borrowers with a minimum score of 500 to 579 will be limited to a 90 percent LTV; and
- Borrowers with a minimum score under 500 are not eligible for FHA financing.

The income ratios used for FHA files that are manually underwritten are 31/43. For FHA loans with terms of 15 years and less and LTV ratios of 90% or less, the mortgage insurance will be dropped after 11 years.

If an FHA borrower wishes to have their FHA file transferred while it is in process, they will need to request the transfer in writing and pay any fees due to the original lender. FHA sets a maximum loan amount by county called the base loan amount. The financed UFMIP can be financed in addition to the base loan amount. The maximum LTV for FHA loans is 96.5%. If a lender has an insured loan go into default, HUD will reimburse up to the loan amount plus some expenses associated with the default.

FHA limits flipping transactions as follows: (Rule has been temporarily repealed)
- Re-sales occurring 90 days or less following acquisition will not be eligible for a mortgage that is insured by FHA.
- Re-sales occurring 91-180 days will be eligible with an additional independent appraisal.
- Any re-sale occurring between 90 days and one year will be subject to additional review to establish value.

VA

Like FHA loans, VA loans are made by typical lenders, but GUARANTEED by the Department of Veterans Affairs. Borrowers are limited to current and former members of the military.

VA loans require a FUNDING FEE which is similar to FHA’s UFMIP. The funding fee is typically financed into the loan amount. Funding fees vary depending on eligibility:

<table>
<thead>
<tr>
<th>Category</th>
<th>Funding Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial loan, active duty</td>
<td>2.15%</td>
</tr>
<tr>
<td>Initial loan, reserve</td>
<td>2.4%</td>
</tr>
<tr>
<td>Subsequent loan, active and reserve</td>
<td>3.3%</td>
</tr>
<tr>
<td>Disabled Veteran</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Funding fees are not refundable. Borrowers are usually qualified at the note rate on buy downs. VA loans NEVER carry a monthly mortgage insurance premium. VA loans can go up to 100% of the lower of the purchase price or appraised value. Income ratio analysis uses a residual income requirement. The borrower’s monthly obligations are totaled and subtracted from the borrower’s monthly income. This residual must be equal to or greater than the guidelines set forth by VA underwriting guidelines.

Maximum loan amounts are determined by the borrower’s ENTITLEMENT. The borrower’s entitlement is found on their CERTIFICATE OF ELIGIBILITY. VA appraisals are called Certificates of Reasonable Value (CRV).
Important Terms to Remember

<table>
<thead>
<tr>
<th></th>
<th>Conventional</th>
<th>FHA</th>
<th>VA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage insurance</td>
<td>Usually no up</td>
<td>1.75% UFMIP</td>
<td>Depends on eligibility</td>
</tr>
<tr>
<td>insurance issues</td>
<td>front fee</td>
<td></td>
<td>— Funding fee</td>
</tr>
<tr>
<td>LTV</td>
<td>Monthly over</td>
<td>See chart in</td>
<td>Never monthly</td>
</tr>
<tr>
<td></td>
<td>80% LTV</td>
<td>FHA section</td>
<td>mortgage insurance</td>
</tr>
<tr>
<td>Appraisal</td>
<td>Appraisal</td>
<td>Appraisal</td>
<td>CRV</td>
</tr>
<tr>
<td>Loan Amt Max</td>
<td>Set by agencies</td>
<td>Max base loan</td>
<td>Based on ENTITLEMENT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>amount plus UFMIP</td>
<td>conv max</td>
</tr>
<tr>
<td>Assumable</td>
<td>Usually no</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>

Jumbo Loans

Any loan with a loan amount in excess of Freddie Mac or Fannie Mae loan limits is considered a jumbo loan.

Non Traditional Mortgage Products and the Interagency Guidance on Non-Traditional Mortgage Product Risks

“In general, the guidance applies to all residential mortgage loan products that allow borrowers to defer repayment of principal or interest. This includes all interest-only products and negative amortization mortgages, with the exception of HELOCs.” Reverse mortgages were also excluded.

“The Agencies developed this guidance to address risks associated with the growing use of mortgage products that allow borrowers to defer payment of principal, and sometimes, interest... These products allow borrowers to exchange lower payments during an initial period for higher payments during a later amortization period.

“While similar products have been available for many years, the number of institutions offering them has expanded rapidly. At the same time, these products are offered to a wider spectrum of borrowers who may not otherwise qualify for more traditional mortgages. The Agencies are concerned that some borrowers may not fully understand the risk of these products.

“While many of these risks exist in other adjustable rate mortgage products, the Agencies’ concern is elevated with nontraditional products because of the lack of principal amortization and potential for negative amortization. In addition, institutions are increasingly combining these loans with other features that may compound risk.”
The Guidance addressed several specific underwriting issues as follows:

- Qualifying Borrowers
- Collateral-Dependent Loans
- Risk Layering
- Reduced Documentation
- Simultaneous Second-Lien Loans
- Introductory Interest Rates
- Lending to Sub-prime Borrowers
- Non-Owner-Occupied Investor Loans

“For all nontraditional mortgage loan products, an institution’s analysis of a borrower’s repayment capacity should include an evaluation of their ability to repay the debt by final maturity at the fully indexed rate, assuming a fully amortizing repayment schedule.

“Stated income should be accepted only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity.”

Sub-Prime Mortgages and the Statement on Sub-Prime Mortgage Lending

Sub-prime mortgages are difficult to define. Instead of defining the market segment, the statement on sub-prime mortgage lending set forth the following characteristics of sub-prime borrowers. It is important to note that this list is not a definition of a sub-prime borrower. However, a sub-prime borrower often has these characteristics.

- Two or more 30 day delinquencies in the last 12 months
- Debt-to-income ratios of 50% or greater
- Relatively high default probability
- Bankruptcy in the last five years
- Judgment, foreclosure, repossession, or charge-off in the prior 24 months
- One or more 60 day delinquencies in the past 24 months

Predatory lending is not the same as sub-prime lending. Predatory lending typically involves at least one of the following characteristics:

- Making loans predominantly based on the value of the property
- Inducing a borrower to repeatedly refinance a loan
- Engaging in fraud or deception to conceal the characteristics of a loan from a borrower
Prepayment penalties should be disclosed and explained. They should not extend past the fixed period of the interest rate.

**Construction Loans**

Construction loans are temporary loans used to finance the construction of a property. Construction loans are typically lines of credit, that are drawn on as construction progresses and expenses are incurred. Once the property is complete, a long term, permanent loan is obtained to pay off the construction loan.

**Reverse Mortgages**

A reverse mortgage, also known as a reverse equity mortgage or home equity conversion mortgage (HECM), is meant for older borrowers who have substantial equity in their homes. The borrower either receives a lump sum payment, or a monthly payment from the loan. The loan is due either upon the sale of the property or upon the borrower’s death.
Mortgage Products and Interest Rates

Fixed Rate

Interest rates are determined by many factors, including:

- Loan default
- Early loan payoff
- Loan fraud
- Foreclosures
- Lender’s margins
- Mortgage backed securities market

The actions of the Federal Reserve do not DIRECTLY affect interest rates. If the interest rate is fixed, the only conditions under which the borrower’s payment could change would involve changes in the reserve amounts.

The lender CANNOT increase the borrower’s rate simply because they are late on their payment. They may charge a late fee, but may not increase the interest rate. In other words, there is no such thing as a “default rate” on a mortgage loan.

Adjustable Rate Mortgages—ARMS

Important terms for ARMs

- Index—Determined by loan program—variable factor of the loan—lender does NOT control
- Margin—set by lender in loan parameters—used to calculate note rate—does not change over the life of the loan
- Fully indexed rate—index plus margin
- Start rate—initial interest rate—usually below the fully indexed rate

ARMs require additional disclosures, regardless of the length of the adjustment period. If the interest rate varies, the additional disclosures must be given to the borrower. The borrower must also be given the Consumer Handbook on Adjustable Rate Mortgages that is known as the CHARM booklet.

Federal law does not contain any provision restricting the minimum adjustment period for an ARM.

Common indexes include the treasury index, LIBOR (London Inter Bank Offer Rate), COFI (Cost of Funds Index), COSI (Cost of Savings Index), and MTA (Monthly Treasury Average).
Mortgage Products and Interest Rates

ARMs have caps, or limits on the adjustments, both periodic and lifetime. Periodic refers to how often the interest rate adjusts. The following are some of the most common cap schemes.

2/6  The periodic cap is two percent. The lifetime cap is six percent. Each adjustment is capped at two percent from the current rate. The loan cannot adjust more than six percent from the original start rate.

1/5  The periodic cap is one percent. The lifetime cap is five percent.

5/2/5  The initial adjustment cap is five percent. The subsequent periodic cap is two percent. The lifetime cap is five percent.

Hybrid ARMS are fixed for an initial period and then begin adjusting. For example, a 3/1 ARM is fixed for three years and then adjusts every year thereafter. Other popular hybrid ARMS include the 5/1 and the 7/1.

Option ARMS derive their name from the borrower’s ability to choose from several options each month for their monthly payment. The most common options are as follows:

• Minimum payment. This is calculated by amortizing the principal balance over 30 years at the start rate, which is usually very low (for example 1%). This payment cannot increase more than 7.5% each year for the first five years.

• Interest only. After the first 30, 60, or 90 days, the interest rate on the program begins changing. The monthly interest only payment is calculated using the current interest rate on the loan.

• 30 year fixed. The principal balance is amortized over 30 years at the current note rate.

• 15 year fixed. The principal balance is amortized over 15 years at the current note rate.

Balloons

Balloons carry a fixed interest rate lower than 30 year fixed rates for a set period of time. Once the fixed period lapses, the entire balance of the loan becomes due and payable. However, most balloons contain a conditional right to refinance, usually dependent upon payment history and market conditions. Balloon terms are described in the note, or an addendum/allonge to the note.

Common balloon programs include the following:

2/28  Balloons in 2 years, fixed interest rate, amortized over 30 years

5/25  Balloons in 5 years, fixed interest rate, amortized over 30 years

180/360 Balloons in 15 years, fixed interest rate, amortized over 30 years
Graduated Payment Mortgages (GPM)

GPMs offer borrowers lower initial interest rates which increase over the first few years of the loan. The interest rate is fixed.

Service Release Premium—SRP

SRP is the amount a servicer pays to the lender in order to acquire the servicing rights. If the funding and originating lenders are the same, no disclosure is necessary. If the funding and origination lender are different lenders, SRP is treated like yield spread premium for disclosure purposes.

Yield Spread Premium –YSP

Yield spread is the amount paid to a borrower for closing a loan at an interest rate above the par rate. Par is the rate at which the lender neither pays nor charges for the interest rate.

Yield spread must be disclosed on the new LE when the rate is locked in. It will also be on the CD at closing.

Discount Points/Buy downs

By definition, a discount point is one percent of the loan amount.

Discount points are used to permanently buy down the interest rate.

Temporary buy downs are used to lower the borrower’s monthly payment for usually the first 1, 2, or 3 years. The interest savings is usually paid into a holding account at the time of closing. Typically, the borrower must be qualified at the note rate rather than the bought down rate.
The Mortgage Process

Application Documents

The loan application is known as the 1003, or the Uniform Residential Loan Application.

The Uniform Underwriting and Transmittal Summary, or the 1008, is submitted with the file for underwriting. It contains a summary of the loan including borrower information, ratios, LTV, credit score, appraised value, loan type, etc.

Appraisals

Appraisers use three approaches in order to determine value:

1. Cost approach
   - Based upon cost to rebuild the property
   - Used on properties which are difficult to appraise using other methods
   - Starts with the cost to construct a property, and then calculates depreciation for the age of the subject property

2. Income approach
   - Uses capitalization rates and income in order to estimate value
   - Look for words such as cap rates, income stream, cash flow, etc.
   - Used on income or investment properties

3. Market approach
   - Compares subject property with sales data for comparable properties in the same area in order to establish value
   - Calculates adjustments for differences between comparable sales and subject property
   - Convention guidelines for adjustments; 25% gross, 15% net
   - PREFERRED AND MOST COMMON FOR SINGLE FAMILY RESIDENTIAL PROPERTIES
   - Look for words such as comparable sales, like properties, similar properties, adjustments, etc.
   - Predominant value refers to the most common sales price in an area.
Self-employed Borrowers

When analyzing income, typically start with total income from the 1040s (tax returns). If the adjusted gross income is used, voluntary contributions must be added back to total income. Non-cash flow items, such as depreciation, should be added back to total income.

Analyze each source of income for history and sustainability. For example, if the borrower is claiming capital gains as income, the borrower must have a history of claiming capital gains and must show the capital gains income will continue. If the capital gain came from an unusual sale of a property, the income would not be allowed.

If a borrower owns 25% or more of a business, business tax returns are required.

Commissioned Borrowers

When calculating the income for commissioned borrowers, use the W-2 income and subtract non-reimbursed business expenses (IRS form 2106).

Social Security Income

Social security income may be grossed up before deductions for Medicaid or Medicare. The income may be grossed up 25%. For example, $1,000 in social security income could be counted as $1,250 for qualification purposes ($1,000 x 1.25).

Rental Income

If a borrower has rental properties, usually 75% of the gross monthly rent may be used as income.

Income Ratios for Manual Underwriting:

- FHA 31/43
- VA Residual income requirement
- Conventional 28/36
The Mortgage Process

The FRONT END ratio is calculated by dividing the house payment (PITI) by the borrower’s gross monthly income.

The BACK END ratio is calculated by dividing the sum of the borrower’s monthly debt obligations. This includes the house payment, but excluding utility payments by the borrower’s gross monthly income. VA is the only program which uses utility payments when determining whether or not the borrower qualifies.

Automated Underwriting

Desktop Underwriter (DU)—Fannie Mae

Loan Prospector (LP)—Freddie Mac

Down Payment

Acceptable sources for down payment:

- Savings and checking accounts, and liquid investment accounts
- Gifts from relatives—don’t worry about what relationships qualify, fiancés may gift
- Gifts from domestic partners (Fannie and Freddie require 12 month history)
- Grants from non-profit organizations
- Bonuses
- Secured loans
- Sale of personal property
- Trade equity

Unacceptable sources for down payment:

- Unsecured loans
- Credit cards
- Undocumented cash on hand
- Gifts from seller

Title, Escrow, and Closing

Title Insurance. The owner’s policy protects the owner of the property against ownership disputes or undetected liens or encumbrances on the property. The standard owner’s policy does not cover survey issues, CC&R issues, and mechanics liens.

The lender’s policy protects the lenders title position on the property and covers survey issues, CC&R issues, and mechanics liens.
Re-conveyance is the process of releasing a lien from a property. A lien is a claim on the title of the property which usually must be paid off at closing. An encumbrance is a claim or liability on the title to a property, such as a lien or a mortgage.

Endorsements to a title policy are additional coverage to the title insurance.

**Deed of Trust.** A deed of trust is used to secure a note. A deed can carry a rider or an addendum, which may include any of the following:

- Adjustable rate rider
- Balloon Rider
- VA rider
- Condominium rider
- PUD rider
- Biweekly payment rider
- Second home rider
- 1-4 family rider
- Prepayment penalty rider

The deed contains a requirement for borrowers to occupy within 60 days of closing.

Deeds contain a “Due on Sale Clause,” which requires the loan be paid off if the property is sold—seller financing is not allowed. If the loan is assumable, the new borrowers must qualify with the lender.

Deeds contain a property description, loan amount, borrower’s name, and vesting.

A warranty deed conveys a property. A deed of trust encumbers a property.

The deed also contains the order in which payments will be applied:

1. Interest
2. Principal
3. Escrow account
4. Late charges

The note contains the borrower’s name, loan amount, interest rate, loan terms, and a provision requiring notices to be done in writing. It does not contain a legal description of the property.

**Joint tenancy** ownership allows for the property to automatically transfer to surviving owners upon death and provides for undivided ownership by two or more parties. All owners must be natural persons—no companies, partnerships, etc. If one owner transfers interest, the joint tenancy is severed and the ownership becomes tenancy in common.

**Tenancy in common** allows for disproportionate ownership and allows for an owner’s share in the property to pass to the owner’s heirs. If ownership is not specified in the deed, it is assumed to be equal among the owners.
Lien Priority. The first lien recorded has priority. One possible exception is mechanics liens, which depends on state law.

Subordination is the process of allowing a newer lien to take priority over an older lien. For example, if a new first mortgage was being placed on a property which already had a second mortgage, the second mortgage would need to subordinate to the new first mortgage.

Funding. Funding is the process wherein the lender transfers the loan proceeds to the title or escrow company. Normally, the lender on the closing documents wires the funds. However, in the case of table funding, the lender purchasing the loan will wire the funds on behalf of the originating lender.

Hazard Insurance

Hazard insurance is required on all mortgage transactions. If insurance is not maintained, a FORCED POLICY will be purchased by the lender to protect the lender’s interest.

The cost of the policy is determined by the replacement cost of the property.

The amount of coverage is determined by the lesser of

- 100% of the insurable value of the improvements as established by the insurer; or
- Unpaid principal balance as long as it equals the minimum amount—80% of the insurable value of the improvements required to compensate for damage or loss on a replacement cost basis.

In the case of a refinance with an escrow account for taxes and insurance, the amount required to be deposited will depend on the anniversary date of the insurance policy. For purchase transactions, the full annual policy amount is typically collected at closing.

Flood Insurance

Flood insurance is required if Federal Emergency Management Agency (FEMA) maps show that any improvements on the property are in a flood zone.

Part of the property may be in a flood zone, but flood insurance will only be required if the improvements lie in the flood zone. If the maps ever change and a property later becomes classified as in a flood zone, flood insurance will be required. The amount of coverage must equal the lower of 100% of the replacement cost or the principal balance and must remain in place for the entire term of the loan.

Whether or not flood insurance is required is determined by a flood certification. Zone “A” requires flood insurance. Zone “C” does not.
Important IRS Forms

<table>
<thead>
<tr>
<th>Form</th>
<th>Description</th>
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<tbody>
<tr>
<td>1040</td>
<td>Personal tax return</td>
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<tr>
<td>Schedule A</td>
<td>Form used to report itemized deductions for personal income return</td>
</tr>
<tr>
<td>Schedule C</td>
<td>Used for self employed individuals who file as sole proprietors</td>
</tr>
<tr>
<td>Schedule E</td>
<td>Used to report rental income and income reported on K-1s</td>
</tr>
<tr>
<td>1099</td>
<td>Used to report non-employee (self employed) income</td>
</tr>
<tr>
<td>W-2</td>
<td>Used to report employee income</td>
</tr>
<tr>
<td>K-1</td>
<td>Used to transmit income from partnerships or S-Corporations</td>
</tr>
<tr>
<td>2106</td>
<td>Detail of non-reimbursed business or employee expenses</td>
</tr>
<tr>
<td>4506</td>
<td>Allows holder to pull copy of tax return from IRS</td>
</tr>
</tbody>
</table>

Math

The most difficult part of math questions is they usually require multiple steps—read the questions carefully.

All questions on the exam may be completed using a basic four function calculator. Financial calculators are not allowed in the exam center.

Be careful to figure discount points based upon the loan amount and not the purchase price.

Assume a 365 day year.

Be able to complete the following types of problems:

- Daily interest
- Simple amortization
- Down payment
- LTV
- DTI
- Permanent buydown/discount points
- Closing costs
- ARM adjustments
Useful Formulae

LTV (Loan to value) = \[ \frac{\text{Loan amount}}{\text{Lower of appraised value or purchase price}} \]

DTI (debt to income ratio)

Front end = \[ \frac{\text{PITI}}{\text{Gross monthly income}} \]

Back end = \[ \frac{\text{PITI} + \text{all monthly debt payments}}{\text{Gross monthly income}} \]

Interest only payments = \[ \frac{\text{loan amount} \times \text{interest rate (as a percent)}}{12} \]

Daily interest = \[ \frac{\text{loan amount} \times \text{interest rate (as a percent)}}{365} \]

Mortgage ins. payment = \[ \frac{\text{loan amount} \times \text{MI factor (as a percent)}}{12} \]

Tax payment = \[ \frac{\text{loan amount} \times \text{tax rate (as a percent)}}{12} \]

Insurance payment = \[ \frac{\text{annual premium}}{12} \]

Monthly income, paid weekly = \[ \frac{\text{weekly income} \times 52}{12} \]

Monthly income, paid every other week = \[ \frac{\text{income} \times 26}{12} \]

Monthly income, paid hourly = \[ \frac{\text{hourly rate} \times \text{hours worked per week} \times 52}{12} \]
Intro to the UST

What is the UST? Why should you care?

Prior to the implementation of the UST, each of the 50 states came up with its own state exam IN ADDITION to the national exam. The Uniform State Test (UST) was conceived to give each state the opportunity to either implement the new national test or keep their state-specific test. If you are getting licensed in states that all adopted the UST then you’ll only need to take one test. If you are getting licensed in some states that adopted the UST and some that haven’t, you’ll still need to take the state-specific exams for the states that have not adopted the UST.

What’s on the UST?

This study manual covers the Stand-Alone UST portion of the national exam. This is also a good place to have a brief discussion about education and rule changes. As a licensee, it is your responsibility to be aware of any rule changes (federal and state) that take place throughout your career. The education that we provide you is geared towards helping you pass the UST while preparing you for your career. HOWEVER, the information we provide you is subject to change if and when state or federal regulators/legislators deem it necessary.

In order to successfully perform your duties as a licensee, you’ll be responsible for staying abreast of any rule changes. This can be accomplished by checking the NMLS website, subscribing to mortgage-industry newsletters, or reading mortgage-industry blogs. Remember that not everything on the internet is true, so make sure to confirm any information with official NMLS sources.

UST Outline

1. Department of Financial Institutions or Mortgage Regulatory Commission
   a. Regulatory authority
   b. Responsibilities and limitations

2. State Law and Regulation Definitions

3. License Law and Regulation
   a. Persons required to be licensed
   b. Licensee qualifications and application process
c. Grounds for denying a license
d. License maintenance

4. Compliance
   a. Prohibited conduct and practices
   b. Required conduct
   c. Advertising

**UST References**

We used the following NMLS-provided references and resources to write this material: (Please note that this list is NOT all-inclusive)

- Title V—S.A.F.E. Mortgage Licensing Act

- State Model Language for Implementation of Public Law 110-289, Title V—S.A.F.E. Mortgage Licensing Act

- 12 CFR 1008—S.A.F.E. MORTGAGE LICENSING ACT—STATE COMPLIANCE AND BUREAU REGISTRATION SYSTEM (REGULATION H)
  [http://www.ecfr.gov/cgi-bin/textidx?c=ecfr&sid=26a32455b3ada0bc6802a9bf26e871e9&t=ecfrbrowse/Title12/12cfr1008_main_02.tpl](http://www.ecfr.gov/cgi-bin/textidx?c=ecfr&sid=26a32455b3ada0bc6802a9bf26e871e9&t=ecfrbrowse/Title12/12cfr1008_main_02.tpl)
Ready? Set? SAFE Act! (§ 1008.301)

We could spend hours examining the financial crisis, the role that mortgage lending played in it, and the resulting legislation. It’s interesting information but isn’t vital to passing the UST. We’ll look at all relevant information from the SAFE Act and its accompanying regulations and we’ll talk about the goals and purposes of the Act. We’ll look at the requirements for getting licensed, staying licensed, and how you can lose your license. We’ll also look at the requirements laid out in the SAFE Act regulations and how they affect you as a licensee. Everything we talk about is on the UST Outline and you may be tested on it. Scattered throughout the material will be questions to reinforce what you’ve learned.

Department of Financial Institutions or Mortgage Regulatory Commission

The first subject that the UST covers is that of regulatory commissions. The names of these commissions vary from state to state (Department of Financial Institutions, Department of Real Estate, Department of Consumer Protection) but their regulatory authority stays the same. These agencies are typically headed up by a Commissioner, a Director, or by someone with a similar job title.

Objectives and Limitations of NMLS and State Agencies

We aren’t going to do a lot of copying directly from the laws and statutes. There are, however, a few areas where it’s helpful to know exactly what the Act says. As a licensee, you’ll be regulated by the NMLS, so you ought to know what they’ll be trying to accomplish. The NMLS:

(1) Provides uniform license applications and reporting requirements for State-licensed loan originators.

(2) Provides a comprehensive licensing and supervisory database.

(3) Aggregates and improves the flow of information to and between regulators.

(4) Provides increased accountability and tracking of loan originators.

(5) Streamlines the licensing process and reduces the regulatory burden.

(6) Enhances consumer protections and supports anti-fraud measures.

(7) Provides consumers with easily accessible information, offered at no charge, utilizing electronic media, including the Internet, regarding the employment history of, and publicly adjudicated disciplinary and enforcement actions against, loan originators.

(8) Establishes a means by which residential mortgage loan originators would, to the greatest extent possible, be required to act in the best interests of the consumer.

(9) Facilitates responsible behavior in the subprime mortgage marketplace and provides comprehensive training and examination requirements related to subprime mortgage lending.
(10) Facilitates the collection and disbursement of consumer complaints on behalf of State and Federal mortgage regulators.

Read that list again. Those are the responsibilities that Congress gave the NMLS. You’ll notice that the NMLS has an extensive set of responsibilities; those responsibilities come with the necessary regulatory power. In other words, the NMLS doesn’t write the laws, but is instead given the laws that Congress writes and the power necessary to enforce those laws. The NMLS then writes regulations (or rules) that will help them fulfill their objectives.

It should be clear that the NMLS is the federal government’s way of centralizing mortgage regulations under one agency. It is then left up to the states to set up their own state regulatory agencies. These agencies will regulate the industry inside their states according to the laws that their legislatures write.

**What Will the Agencies Regulate?**

Examples of regulatory power the agencies will have include:

- setting education standards for prelicensing
- setting education standards for continuing education
- conducting background checks
- investigating potential rule violations by licensees
- fining licensees for violations OR stripping them of their licenses
- coordinating with other state agencies and the NMLS to share information
- setting fees

We’ll get more in-depth a little later in the review. Now we need to look at some of the definitions that the NMLS uses before we get too in-depth.
State Law and Regulation Definitions (§ 1008.23, 12 USC § 5102)

Why are definitions important? You know the everyday definitions of all of these terms, right? If a certain role or activity is covered by the Act, then it’s important to know the precise definition assigned to it by the Act. Legal definitions can often differ substantially from everyday definitions. Therefore, the way that certain terms are defined in the Act becomes extremely relevant. We’ll look at some of the most relevant definitions. (This is the only other area in which we’ll quote directly from the law. It’s a little technical but it is crucial that you know EXACTLY what the government intends.)

From § 1008.23

Administrative or Clerical Tasks - the receipt, collection, and distribution of information common for the processing or underwriting of a loan in the mortgage industry and communication with a consumer to obtain information necessary for the processing or underwriting of a residential mortgage loan.

Application - a request, in any form, for an offer (or a response to a solicitation of an offer) of residential mortgage loan terms, and the information about the borrower or prospective borrower that is customary or necessary in a decision on whether to make such an offer.

Clerical or Support Duties – These DO include:

• The receipt, collection, distribution, and analysis of information common for the processing or underwriting of a residential mortgage loan; and

• Communicating with a consumer to obtain the information necessary for the processing or underwriting of a loan, to the extent that such communication does not include offering or negotiating loan rates or terms, or counseling consumers about residential mortgage loan rates or terms.

These DO NOT include:

• Taking a residential mortgage loan application; or

• Offering or negotiating terms of a residential mortgage loan.

Director - the Director of the Bureau of Consumer Financial Protection.

Individual – a human being. In legal terms, a “person” can also be a corporation or an organization. Whenever you see the term “individual”, know that they’re talking about an actual living, breathing human.

Residential Mortgage Loan - any loan primarily for personal, family, or household use that is secured by a mortgage, deed of trust, or other equivalent consensual security interest on a dwelling (as defined in section 103(w) of the Truth in Lending Act) or residential real estate upon which is constructed or intended to be constructed a dwelling (as so defined).
Real Estate Brokerage Activities - any activity that involves offering or providing real estate brokerage services to the public including—

(1) Acting as a real estate agent or real estate broker for a buyer, seller, lessor, or lessee of real property;

(2) Bringing together parties interested in the sale, purchase, lease, rental, or exchange of real property;

(3) Negotiating, on behalf of any party, any portion of a contract relating to the sale, purchase, lease, rental, or exchange of real property (other than in connection with providing financing with respect to any such transaction);

(4) Engaging in any activity for which a person engaged in the activity is required to be registered as a real estate agent or real estate broker under any applicable law; and

(5) Offering to engage in any activity, or act in any capacity, described in paragraphs (1), (2), (3), or (4) of this definition.

(Do you see how specific this definition is? When the NMLS takes the time to spell out activity like this, they’re serious about it. Definitions like this are important to know!)

From 12 USC § 5102

Mortgage Loan Originator - an individual who:

1. takes a residential mortgage loan application; and

2. offers or negotiates terms of a residential mortgage loan for compensation or gain;

But does not include any individual who is not otherwise described in clause (1) and who performs purely administrative or clerical tasks on behalf of a person who is described in any such clause;

Also, this term does not include a person or entity that only performs real estate brokerage activities and is licensed or registered in accordance with applicable State law, unless the person or entity is compensated by a lender, a mortgage broker, or other loan originator or by any agent of such lender, mortgage broker, or other loan originator;

And this term does not include a person or entity solely involved in extensions of credit relating to timeshare plans.
State-Licensed Loan Originator – any individual who:

(1) is a loan originator;

(2) is not an employee of:

1. a depository institution;

2. a subsidiary that is:

   a. owned and controlled by a depository institution; and

   b. regulated by a Federal banking agency; or

3. an institution regulated by the Farm Credit Administration; and

(3) is licensed by a State or by the Director under section 5107 of this title and registered as a loan originator with, and maintains a unique identifier through, the Nationwide Mortgage Licensing System and Registry.
License Law and Regulation

Persons Required to be Licensed (12 USC §5103; 12 CFR §1008.103)

Who needs to be licensed? This is an important question because not only do YOU have to be licensed, but people you do business with may have to be licensed as well. And if you do business with someone who needs to be licensed but isn’t, you can get in trouble. Let’s look at the requirements.

Who is a loan originator?

There are some things you can do that might qualify you as a loan originator and require you to be licensed. For instance, if you:

- Take a residential mortgage loan application and/or negotiate terms of a residential mortgage loan for compensation or gain – you ARE a loan originator.

- Represent to the public, through advertising or other means of communicating or providing information (including the use of business cards, stationery, brochures, signs, rate lists, or other promotional items), that you can or will take or negotiate loan applications – you ARE a loan originator.

It’s important to note that EVEN IF YOU DON’T ACTUALLY MAKE MONEY OR GET A LOAN, you’re still a loan originator. Just offering these services or advertising these services is enough to require you to get licensed.

When do you “offer or negotiate terms”?

Are you confused about what this phrase means? NMLS says that an individual is offering or negotiating when that individual:

- Presents for consideration by a borrower or prospective borrower particular residential mortgage loan terms

- Communicates directly or indirectly with a borrower or prospective borrower for the purpose of reaching a mutual understanding about prospective residential mortgage loan terms

- Recommends, refers, or steers a borrower or prospective borrower to a particular lender or set of residential mortgage loan terms in accordance with a duty to, or incentive from, any person other than the borrower or prospective borrower, and

- Receives or expects to receive payment of money or anything of value in connection with these activities or as a result of any residential mortgage loan terms entered into as a result of such activities.
The most important piece of advice we can give you (both for the test AND for your career) is to err on the side of caution. If you are unsure as to whether or not your activity requires a license, or whether the activity of your employees requires a license, just remember that the NMLS construes “mortgage activity” as broadly as possible. Erring on the side of caution and either getting a license or avoiding certain activities altogether can save you a lot of trouble and money in fines.

**Exemptions**

Who is exempt from licensing requirements? The following people are exempt from licensing:

- A loan processor or underwriter
- A registered loan originator who is an employee of:
  - A national bank
  - Member banks of the Federal Reserve System and their respective subsidiaries
  - Insured state nonmember banks
  - Savings associations and their operating subsidiaries
  - The Farm Credit System lending institutions, or
  - Any federally-insured credit union
- Any individual who performs only real estate brokerage activities
- Any individual who is only involved in extensions of credit related to timeshare plans
- Any individual who offers or negotiates terms of a residential mortgage with or on behalf of an immediate family member (i.e., a spouse, child, sibling, or parent; grandparent or grandchild; stepparents, stepchildren or stepsiblings; and any individual who is a family member as a result of an adoptive relationship)
- Any individual who offers or negotiates the terms of a residential mortgage loan secured by a dwelling that served as the individual’s residence
- A licensed attorney who negotiates the terms of a residential mortgage loan on behalf of a client as an ancillary matter to his/her representation of the client, unless the attorney is compensated by a lender, broker or other loan originator, or by any agent of the same
- An individual who is an employee of a federal, state, or local government agency or housing finance agency and who acts as a loan originator in his/her official duties as an employee. A housing finance agency is any authority whose activities make it eligible to be a member of the National Council of State Housing Agencies and that is:
  - Chartered by a state to help meet the affordable housing needs of the residents of the state
  - Supervised directly or indirectly by the state government, and
  - Subject to audit and review by the state in which it operates
License Law and Regulation

• An employee of a bona fide nonprofit organization who acts as a loan originator:
  • In his/her capacity as an employee of the bona fide nonprofit organization, and
  • Makes residential mortgage loans with terms that are favorable to the borrower

Following are the requirements for a bona fide nonprofit:

• Has the status of a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code of 1986
• Promotes affordable housing or provides homeownership education or similar services
• Conducts its activities in a manner that serves public or charitable purposes rather than commercial purposes
• Receives funding and revenue and charges fees in a manner that does not incentivize it or its employees to act other than in the best interests of its clients
• Compensates its employees in a manner that does not incentivize employees to act other than in the best interests of its clients
• Provides or identifies for the borrower residential mortgage loans with terms favorable to the borrower and comparable to mortgage loans and housing assistance provided under government housing assistance programs, and
• Meets other standards that the state determines appropriate

If you have any questions about who needs to be licensed, you can look to the citations at the top of this section or contact the NMLS directly.
Licensee Qualifications and Application Process
(12 USC § 5104; 12 CFR §1008.105)

Background

Before you can get licensed, you must satisfy the NMLS that there is nothing in your past that should disqualify you. You must show that you have:

1) Never had a loan originator license revoked in any governmental jurisdiction, (if your conviction was formally vacated, it doesn’t count);

2) Never been convicted of, or pled guilty or nolo contendere to, a felony in a domestic, foreign, or military court:
   (i) During the 7-year period preceding the date of the application for licensing; or
   (ii) At any time preceding such date of application, if such felony involved an act of fraud, dishonesty, a breach of trust, or money laundering.

In other words, to receive a license – you can NEVER have had a license revoked AND you can NEVER have been convicted of fraud or money laundering. As part of this background check, you’ll be required to submit your fingerprints, submit to a background check, disclose ANY information related to civil or criminal proceedings against you, and submit a credit report.

Prelicensing Education

You already know this, but you’re required to complete at least 20 hours of prelicensing education. This education must include:

1) 3 hours of Federal law and regulations;

2) 3 hours of ethics, which must include instruction on fraud, consumer protection, and fair lending issues; and

3) 2 hours of training on lending standards for the nontraditional mortgage product marketplace.

Testing

You will be tested on the education that you receive. You have to get at least 75% to pass and you can take it 3 times (with a 30 day wait in between) if you fail it. If you fail it a third time, you’re required to wait at least 6 months before you can take it again.
Lapsed Licenses

If you let your license go inactive for more than 5 years, you’ll be required to take (and pass) the test again.

Surety Bonds

You must be covered by either a net worth or surety bond requirement, or pay into a state fund, as required by the state loan originator supervisory authority. This will depend on the state. Some states require large surety bonds and some states require smaller ones. You must be covered by a surety bond for EVERY state in which you’re licensed. Similarly, some states require that loan officers maintain significant amounts of net worth and some states don’t require as much. If you are licensed in multiple states, you’ll be subject to the net worth requirements of each state.
Grounds for Denying a License (12 USC 5104; 12 CFR 1008.105)

Failure to comply with ANY of the requirements that we listed above will constitute grounds to deny your license. Also, failure to disclose ANY information will also be grounds to deny your license. (In other words… don’t think that withholding potentially damaging information will help you get your license. The NMLS WILL find out and you will have your license revoked as well as get hit with large fines.) Lastly, if the NMLS finds that you’re guilty of financial mismanagement (of your personal funds), they can deny your license. Financial mismanagement might consist of:

- Current outstanding judgments, except judgments solely as a result of medical expenses
- Current outstanding tax liens or other government liens and filings, and/or
- Foreclosures or a pattern of seriously delinquent accounts within the past three years
License Maintenance ((12 USC § 5105); 12 CFR §1008.107)

You are required to maintain your license by taking AT LEAST 8 hours of NMLS reviewed and approved coursework. (This requirement changes by the state. Some require more but ALL require at last 8 hours.)

What do the 8 hours include?

Your continuing education must include at least:

- Three hours of federal law and regulations
- Two hours of ethics, including instruction on fraud, consumer protection, and fair lending issues, and
- Two hours of training related to lending standards for the nontraditional mortgage product marketplace

Other requirements

When taking your CE, you:

- May only receive credit for a course in the year in which the course is taken
- May not take the same approved course in the same or successive years
- If you are an approved instructor of continuing education, you may receive credit towards your own annual continuing education requirement at the rate of two hours of credit for every one hour taught.

Taking your CE in ANY state will satisfy the CE requirements for any other state, unless there are additional state specific requirements.

License Renewal

There are 3 requirements that you have to fulfill in order to renew your license:

1.) Continue to meet the minimum standards for license issuance. Remember those surety bonds, net worth requirements, financial mismanagement requirements, or felony convictions that we talked about? If it was required for you to get licensed, it’s required for you to renew your license as well.

2.) Satisfy all your CE requirements.

3.) Pay all required renewal fees (these vary from state to state)
Compliance

Prohibited Conduct and Practices (MSL 170)

As a licensee, there are many ways that you can lose your license, get fined, or get investigated. While each state may vary slightly in their wording or interpretation, the NMLS included “Model State Language” to help the states write their laws. If it’s on the following list, you can be sure that it’s illegal in your state. It is prohibited for you to:

- Directly or indirectly employ any scheme, device, or artifice to defraud or mislead borrowers or lenders, or to defraud any person
- Engage in any unfair or deceptive practice toward any person
- Obtain property by fraud or misrepresentation
- Solicit or enter into a contract with a borrower that provides, in substance, that the person or individual may earn a fee or commission through “best efforts” to obtain a loan even though no loan is actually obtained for the borrower
- Solicit, advertise, or enter into a contract for specific interest rates, points, or other financing terms unless the terms are actually available at the time of soliciting, advertising, or contracting
- Conduct any business without holding a valid license as required, or assist any unlicensed person in the conduct of loan origination business

- Fail to:
  - Make disclosures as required under applicable state or federal law and regulations
  - Comply with the state’s SAFE Act, or rules or regulations promulgated under it
  - Comply with any other state or federal law, rules or regulations applicable to any business authorized or conducted under the SAFE Act
  - Make, in any manner, any false or deceptive statement or representation, including any statement or representation related to the rates, points, or other financing terms or conditions for a residential mortgage loan
  - Engage in bait-and-switch advertising
  - Negligently make any false statement or knowingly and willfully make any omission of material fact in connection with any information or reports:
    - Filed with a governmental agency or the NMLS, or
    - In connection with any investigation conducted by the state licensing agency or another governmental agency
Compliance

• Make any payment, threat, or promise, directly or indirectly, to influence the independent judgment of any:
  • Person in connection with a residential mortgage loan, or
  • Appraiser of a property with respect to the value of the property
• Collect, charge, attempt to collect or charge, or use or propose any agreement for the purpose of collecting or charging any fee prohibited by law
• Cause or require a borrower to obtain property insurance coverage in an amount that exceeds the replacement cost of the improvements as established by the property insurer
• Fail to truthfully account for monies belonging to a party to a residential mortgage loan transaction

Enforcement (MSL 130)

What if you violate these restrictions? What can your state regulatory agency do? We’ve told you that the penalties will vary by state but the Model State Language provides us with some helpful guidance. States can:
  • Deny, suspend, revoke, condition or decline to renew a license for a violation of this Act, rules or regulations issued under this Act or order or directive entered under this Act
  • Deny, suspend, or revoke your license if you lied or withheld information for ANY reason
  • Order restitution against persons subject to this Act for violations of this Act.
  • Order that fines be paid
  • Impose restraining orders, injunctions, cease and desist orders, or any other measure that is necessary to get you to stop conducting business. (The NMLS really does have to power to shut you down; we can’t emphasize that enough)
  • Take ANY OTHER ACTION that the state agency might feel is necessary.

How much are fines or penalties?

The states can impose a fine of up to $25,000 per violation. In other words, if you break the law the same way 5 times, they can fine you $125,000.
Advertising (12 CFR § 1026.24)

The last section that we’ll talk about is the section on advertising. While the advertising regulations range from the type of language that must be used to the disclosures that must be made, the takeaway from all of it is that your ads must be as honest and clear as possible. You can be creative and you can have fun with them but you can’t try to trick the customer with misleading language or ideas. Let’s look at some of the specifics.

Actually available - If an advertisement for credit states specific credit terms, it can only state those terms that actually are or will be arranged or offered by the creditor. If your interest rates are 4%, you can’t throw 3.5% out as a “teaser rate” to get people into the office, only to tell them that 3.5% isn’t available.

Clear and conspicuous – Any disclosures that you’re required to make (like TILA) must be made clearly.

Trigger terms – If any of your ads include the following terms (called “trigger terms”), those ads are subject to certain requirements. We’ll look at the trigger terms first and then the requirements.

• Amount or percentage of any down payment.
• Number of payments or period of repayment.
• Amount of any payment
• Amount of any finance charge

Trigger term requirements – If your ad contains any of the preceding trigger terms, it must ALSO state the following terms, as applicable (an example of one or more typical extensions of credit with a statement of all the terms applicable to each may be used):

• The amount or percentage of the down payment
• The terms of repayment, which reflect the repayment obligations over the full term of the loan, including any balloon payment
• The “annual percentage rate,” using that term, and, if the rate may be increased after consummation, that fact.

Disclosure of rates and payments in advertisements for credit secured by a dwelling – There are additional requirements that apply to any advertisement for credit secured by a dwelling, other than television or radio advertisements. This INCLUDES promotional material accompanying applications.

Rate disclosures – If an advertisement for credit secured by a dwelling states a simple annual rate of interest AND more than one simple annual rate of interest will apply over the term of the advertised loan, you must disclose in a clear and conspicuous manner.

• Each simple annual rate of interest that will apply. In variable-rate transactions, a rate determined by adding an index and margin must be disclosed based on a reasonably current index and margin;
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• The period of time during which each simple annual rate of interest will apply; and

• The annual percentage rate for the loan. If such rate is variable, the annual percentage rate shall comply with the accuracy standards in §§ 1026.17(c) and 1026.22.

Payment disclosures – In addition to the rate disclosures above, ads for credit secured by a dwelling must also disclose:

• The amount of each payment that will apply over the term of the loan, including any balloon payment. In variable-rate transactions, payments that will be determined based on the application of the sum of an index and margin must be disclosed based on a reasonably current index and margin;

• The period of time during which each payment will apply; and

• In an advertisement for credit secured by a first lien on a dwelling, the fact that the payments do not include amounts for taxes and insurance premiums, if applicable, and that the actual payment obligation will be greater.

Prohibited acts or practices – There are 7 specific advertising practices that are prohibited.

• You can’t make any statement in an advertisement that the product offered is a “government loan program”, “government-supported loan”, or is otherwise endorsed or sponsored by any Federal, state, or local government entity, unless the advertisement is for an FHA loan, VA loan, or similar loan program that is, in fact, endorsed or sponsored by a Federal, state, or local government entity.

• You can’t make any misleading claim in an advertisement that the mortgage product offered will eliminate debt or result in a waiver or forgiveness of a consumer’s existing loan terms with, or obligations to, another creditor.

• You can’t use the term “counselor” in an advertisement to refer to a for-profit mortgage broker or mortgage creditor, its employees, or persons working for the broker or creditor that are involved in offering, originating or selling mortgages.

• You can’t provide information about some trigger terms or required disclosures, such as an initial rate or payment, only in a foreign language in an advertisement, but providing information about other trigger terms or required disclosures, such as information about the fully-indexed rate or fully amortizing payment, only in English in the same advertisement.

• You can’t use the word “fixed” in a misleading way to refer to mortgages that are actually adjustable or variable. Look to (12 CFR § 1026.24 (i)(1)) for specifics.

• You can’t make any misleading comparisons in your advertisements.

• You can’t use the name of the consumer’s current lender in a misleading way.
We recommend looking through each of the sources that we referenced in the material before taking the test. If you’re unsure about any of the material that we covered and you can’t find an answer in the source material, feel free to email our support staff and we’ll answer your questions. Thanks for choosing Praedo Institute and good luck on the test!
Acronyms

AARMR – American Association of Residential Mortgage Regulators
AML – Anti-Money Laundering
APR – Annual Percentage Rate
ARM – Adjustable-Rate Mortgage
BSA – Bank Secrecy Act
CC&R – Covenants, Conditions and Restrictions
CE – Continuing Education
CFPB – Consumer Finance Protection Bureau
CFR – Code of Federal Regulations
CHARM – Consumer Handbook on Adjustable Rate Mortgages
COFI – Cost of Funds Index
COSI – Cost of Savings Index
CRV – Certificates of Reasonable Value
CSBC – Conference of State Bank Supervisors
DTI – Debt to Income Ratio
ECOA – Equal Credit Opportunity Act
FACTA – Fair and Accurate Credit Transaction Act of 2003
FCRA – Fair Credit Reporting Act
FEMA – Federal Emergency Management Agency
FFIEC – Federal Financial Institutions Examination Council
FHA – Federal Housing Administration
FInCEN – Financial Crimes Enforcement Network
FTC – Federal Trade Commission
GFE – Good Faith Estimate
GPM – Graduated Payment Mortgages
Acronyms

HECM – Home Equity Conversion Mortgage
HELOC – Home Equity Line of Credit
HLTV or HCLTV – HELOC Loan to Value
HMDA – Home Mortgage Disclosure Act
HOEPA – Home Ownership and Equity Protection Act
HUD – Housing and Urban Development
LIBOR – London Inter-Bank Offer Rate
LTV – Loan to Value
MARS – Mortgage Assistance Relief Services
MSA – Metropolitan Statistical Area
MTA – Monthly Treasury Average
NMLS – Nationwide Mortgage Licensing System
NPI – Non-public Personal Information
PITI – Principal, Interest, Taxes and Insurance
PMI – Private Mortgage Insurance
QM – Qualified Mortgage
QRM – Qualified Residential Mortgage
RESPA – Real Estate Settlement Procedures Act
S.A.F.E. – Secure and Fair Enforcement (For mortgage licensing)
SAR – Suspicious Activity Report
SRP – Service Release Premium
TILA – Truth in Lending Act
UFMIP – Up Front Mortgage Insurance Premium
USC – U.S. Code
USDA – United States Department of Agriculture
UST – Uniform State Test
Acronyms

VA – Veterans Affairs

YSP – Yield Spread Premium
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203(b): FHA’s single family program which provides mortgage insurance to lenders to protect against the borrower defaulting; 203(b) is used to finance the purchase of new or existing one to four family housing; 203(b) insured loans are known for requiring a low down payment, flexible qualifying guidelines, limited fees, and a limit on maximum loan amount.

203(k): this FHA mortgage insurance program enables homebuyers to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage loan.

“A” Loan or “A” Paper: a credit rating where the FICO score is 660 or above. There have been no late mortgage payments within a 12-month period. This is the best credit rating to have when entering into a new loan.

ARM: Adjustable Rate Mortgage; a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the change in monthly payment amount, however, is usually subject to a cap.

Abstract of Title: documents recording the ownership of property throughout time.

Acceleration: the right of the lender to demand payment on the outstanding balance of a loan.

Acceptance: the written approval of the buyer’s offer by the seller.

Additional Principal Payment: money paid to the lender in addition to the established payment amount used directly against the loan principal to shorten the length of the loan.

Adjustable-Rate Mortgage (ARM): a mortgage loan that does not have a fixed interest rate. During the life of the loan the interest rate will change based on the index rate. Also referred to as adjustable mortgage loans (AMLs) or variable-rate mortgages (VRMs).

Adjustment Date: the actual date that the interest rate is changed for an ARM.

Adjustment Index: the published market index used to calculate the interest rate of an ARM at the time of origination or adjustment.

Adjustment Interval: the time between the interest rate change and the monthly payment for an ARM. The interval is usually every one, three or five years depending on the index.

Affidavit: a signed, sworn statement made by the buyer or seller regarding the truth of information provided.

Amenity: a feature of the home or property that serves as a benefit to the buyer but that is not necessary to its use; may be natural (like location, woods, water) or man-made (like a swimming pool or garden).
**American Society of Home Inspectors**: the American Society of Home Inspectors is a professional association of independent home inspectors. Phone: (800) 743-2744

**Amortization**: a payment plan that enables you to reduce your debt gradually through monthly payments. The payments may be principal and interest, or interest-only. The monthly amount is based on the schedule for the entire term or length of the loan.

**Annual Mortgagor Statement**: yearly statement to borrowers detailing the remaining principal and amounts paid for taxes and interest.

**Annual Percentage Rate (APR)**: a measure of the cost of credit, expressed as a yearly rate. It includes interest as well as other charges. Because all lenders, by federal law, follow the same rules to ensure the accuracy of the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans, including mortgage plans. APR is a higher rate than the simple interest of the mortgage.

**Application**: the first step in the official loan approval process; this form is used to record important information about the potential borrower necessary to the underwriting process.

**Application Fee**: a fee charged by lenders to process a loan application.

**Appraisal**: a document from a professional that gives an estimate of a property’s fair market value based on the sales of comparable homes in the area and the features of a property; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

**Appraisal Fee**: fee charged by an appraiser to estimate the market value of a property.

**Appraised Value**: an estimation of the current market value of a property.

**Appraiser**: a qualified individual who uses his or her experience and knowledge to prepare the appraisal estimate.

**Appreciation**: an increase in property value.

**Arbitration**: a legal method of resolving a dispute without going to court.

**As-is Condition**: the purchase or sale of a property in its existing condition without repairs.

**Asking Price**: a seller’s stated price for a property.

**Assessed Value**: the value that a public official has placed on any asset (used to determine taxes).

**Assessments**: the method of placing value on an asset for taxation purposes.

**Assessor**: a government official who is responsible for determining the value of a property for the purpose of taxation.
Assets: any item with measurable value.

Assumable Mortgage: when a home is sold, the seller may be able to transfer the mortgage to the new buyer. This means the mortgage is assumable. Lenders generally require a credit review of the new borrower and may charge a fee for the assumption. Some mortgages contain a due-on-sale clause, which means that the mortgage may not be transferable to a new buyer. Instead, the lender may make you pay the entire balance that is due when you sell the home. An assumable mortgage can help you attract buyers if you sell your home.

Assumption Clause: a provision in the terms of a loan that allows the buyer to take legal responsibility for the mortgage from the seller.

Automated Underwriting: loan processing completed through a computer-based system that evaluates past credit history to determine if a loan should be approved. This system removes the possibility of personal bias against the buyer.

Average Price: determining the cost of a home by totaling the cost of all houses sold in one area and dividing by the number of homes sold.

“B” Loan or “B” Paper: FICO scores from 620 - 659. Factors include two 30 day late mortgage payments and two to three 30 day late installment loan payments in the last 12 months. No delinquencies over 60 days are allowed. Should be two to four years since a bankruptcy. Also referred to as Sub-Prime.

Back End Ratio (debt ratio): a ratio that compares the total of all monthly debt payments (mortgage, real estate taxes and insurance, car loans, and other consumer loans) to gross monthly income.

Back to Back Escrow: arrangements that an owner makes to oversee the sale of one property and the purchase of another at the same time.

Balance Sheet: a financial statement that shows the assets, liabilities and net worth of an individual or company.

Balloon Loan or Mortgage: a mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the balance is due or is refinanced by the borrower.

Balloon Payment: the final lump sum payment due at the end of a balloon mortgage.

Bankruptcy: a federal law whereby a person’s assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.

Biweekly Payment Mortgage: a mortgage paid twice a month instead of once a month, reducing the amount of interest to be paid on the loan.

Borrower: a person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms.
**Bridge Loan**: a short-term loan paid back relatively fast. Normally used until a long-term loan can be processed.

**Broker**: a licensed individual or firm that charges a fee to serve as the mediator between the buyer and seller. Mortgage brokers are individuals in the business of arranging funding or negotiating contracts for a client, but who does not loan the money. A real estate broker is someone who helps find a house.

**Building Code**: based on agreed upon safety standards within a specific area, a building code is a regulation that determines the design, construction, and materials used in building.

**Budget**: a detailed record of all income earned and spent during a specific period of time.

Buy Down: the seller pays an amount to the lender so the lender provides a lower rate and lower payments many times for an ARM. The seller may increase the sales price to cover the cost of the buy down.

**“C” Loan or “C” Paper**: FICO scores typically from 580 to 619. Factors include three to four 30 day late mortgage payments and four to six 30 day late installment loan payments or two to four 60 day late payments. Should be one to two years since bankruptcy. Also referred to as Sub - Prime.

**Callable Debt**: a debt security whose issuer has the right to redeem the security at a specified price on or after a specified date, but prior to its stated final maturity.

**Cap**: a limit, such as one placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease, either at each adjustment period or during the life of the mortgage. Payment caps do not limit the amount of interest the lender is earning, so they may cause negative amortization.

**Capacity**: The ability to make mortgage payments on time, dependant on assets and the amount of income each month after paying housing costs, debts and other obligations.

**Capital Gain**: the profit received based on the difference of the original purchase price and the total sale price.

**Capital Improvements**: property improvements that either will enhance the property value or will increase the useful life of the property.

**Capital or Cash Reserves**: an individual’s savings, investments, or assets.

**Cash-Out Refinance**: when a borrower refinances a mortgage at a higher principal amount to get additional money. Usually this occurs when the property has appreciated in value. For example, if a home has a current value of $100,000 and an outstanding mortgage of $60,000, the owner could refinance $80,000 and have additional $20,000 in cash.

**Cash Reserves**: a cash amount sometimes required of the buyer to be held in reserve in addition to the down payment and closing costs; the amount is determined by the lender.
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**Casualty Protection**: property insurance that covers any damage to the home and personal property either inside or outside the home.

**Certificate of Title**: a document provided by a qualified source, such as a title company, that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims.

**Chapter 7 Bankruptcy**: a bankruptcy that requires assets be liquidated in exchange for the cancellation of debt.

**Chapter 13 Bankruptcy**: this type of bankruptcy sets a payment plan between the borrower and the creditor monitored by the court. The homeowner can keep the property, but must make payments according to the court’s terms within a 3 to 5 year period.

**Charge-Off**: the portion of principal and interest due on a loan that is written off when deemed to be uncollectible.

**Clear Title**: a property title that has no defects. Properties with clear titles are marketable for sale.

**Closing**: the final step in property purchase where the title is transferred from the seller to the buyer. Closing occurs at a meeting between the buyer, seller, settlement agent, and other agents. At the closing the seller receives payment for the property. Also known as settlement.

**Closing Costs**: fees for final property transfer not included in the price of the property. Typical closing costs include charges for the mortgage loan such as origination fees, discount points, appraisal fee, survey, title insurance, legal fees, real estate professional fees, prepayment of taxes and insurance, and real estate transfer taxes. A common estimate of a Buyer’s closing costs is 2 to 4 percent of the purchase price of the home. A common estimate for Seller’s closing costs is 3 to 9 percent.

**Cloud On The Title**: any condition which affects the clear title to real property.

**Co-Borrower**: an additional person that is responsible for loan repayment and is listed on the title.

**Co-Signed Account**: an account signed by someone in addition to the primary borrower, making both people responsible for the amount borrowed.

**Co-Signer**: a person that signs a credit application with another person, agreeing to be equally responsible for the repayment of the loan.

**Collateral**: security in the form of money or property pledged for the payment of a loan. For example, on a home loan, the home is the collateral and can be taken away from the borrower if mortgage payments are not made.

**Collection Account**: an unpaid debt referred to a collection agency to collect on the bad debt. This type of account is reported to the credit bureau and will show on the borrower’s credit report.
**Commission**: an amount, usually a percentage of the property sales price that is collected by a real estate professional as a fee for negotiating the transaction. Traditionally the home seller pays the commission. The amount of commission is determined by the real estate professional and the seller and can be as much as 6% of the sales price.

**Common Stock**: a security that provides voting rights in a corporation and pays a dividend after preferred stockholders have been paid. This is the most common stock held within a company.

**Comparative Market Analysis (COMPS)**: a property evaluation that determines property value by comparing similar properties sold within the last year.

**Compensating Factors**: factors that show the ability to repay a loan based on less traditional criteria, such as employment, rent, and utility payment history.

**Condominium**: a form of ownership in which individuals purchase and own a unit of housing in a multi-unit complex. The owner also shares financial responsibility for common areas.

**Conforming loan**: is a loan that does not exceed Fannie Mae’s and Freddie Mac’s loan limits. Freddie Mac and Fannie Mae loans are referred to as conforming loans.

**Consideration**: an item of value given in exchange for a promise or act.

**Construction Loan**: a short-term, to finance the cost of building a new home. The lender pays the builder based on milestones accomplished during the building process. For example, once a sub-contractor pours the foundation and it is approved by inspectors the lender will pay for their service.

**Contingency**: a clause in a purchase contract outlining conditions that must be fulfilled before the contract is executed. Both, buyer or seller may include contingencies in a contract, but both parties must accept the contingency.

**Conventional Loan**: a private sector loan, one that is not guaranteed or insured by the U.S. government.

**Conversion Clause**: a provision in some ARMs allowing it to change to a fixed-rate loan at some point during the term. Usually conversions are allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed rate mortgages. There may be additional cost for this clause.

**Convertible ARM**: an adjustable-rate mortgage that provides the borrower the ability to convert to a fixed-rate within a specified time.

**Cooperative (Co-op)**: residents purchase stock in a cooperative corporation that owns a structure; each stockholder is then entitled to live in a specific unit of the structure and is responsible for paying a portion of the loan.
Cost of Funds Index (COFI): an index used to determine interest rate changes for some adjustable-rate mortgages.

Counter Offer: a rejection to all or part of a purchase offer that negotiates different terms to reach an acceptable sales contract.

Covenants: legally enforceable terms that govern the use of property. These terms are transferred with the property deed. Discriminatory covenants are illegal and unenforceable. Also known as a condition, restriction, deed restriction or restrictive covenant.

Credit: an agreement that a person will borrow money and repay it to the lender over time.

Credit Bureau: an agency that provides financial information and payment history to lenders about potential borrowers. Also known as a National Credit Repository.

Credit Counseling: education on how to improve bad credit and how to avoid having more debt than can be repaid.

Credit Enhancement: a method used by a lender to reduce default of a loan by requiring collateral, mortgage insurance, or other agreements.

Credit Grantor: the lender that provides a loan or credit.

Credit History: a record of an individual that lists all debts and the payment history for each. The report that is generated from the history is called a credit report. Lenders use this information to gauge a potential borrower's ability to repay a loan.

Credit Loss Ratio: the ratio of credit-related losses to the dollar amount of MBS outstanding and total mortgages owned by the corporation.

Credit Related Expenses: foreclosed property expenses plus the provision for losses.

Credit Related Losses: foreclosed property expenses combined with charge-offs.

Credit Repair Companies: Private, for-profit businesses that claim to offer consumers credit and debt repayment difficulties assistance with their credit problems and a bad credit report.

Credit Report: a report generated by the credit bureau that contains the borrower’s credit history for the past seven years. Lenders use this information to determine if a loan will be granted.

Credit Risk: a term used to describe the possibility of default on a loan by a borrower.

Credit Score: a score calculated by using a person’s credit report to determine the likelihood of a loan being repaid on time. Scores range from about 360 - 840: a lower score meaning a person is a higher risk, while a higher score means that there is less risk.
Credit Union: a non-profit financial institution federally regulated and owned by the members or people who use their services. Credit unions serve groups that hold a common interest and you have to become a member to use the available services.

Creditor: the lending institution providing a loan or credit.

Creditworthiness: the way a lender measures the ability of a person to qualify and repay a loan.

Debtor: The person or entity that borrows money. The term debtor may be used interchangeably with the term borrower.

Debt-to-Income Ratio: a comparison or ratio of gross income to housing and non-housing expenses; With the FHA, the monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income.

Debt Security: a security that represents a loan from an investor to an issuer. The issuer in turn agrees to pay interest in addition to the principal amount borrowed.

Deductible: the amount of cash payment that is made by the insured (the homeowner) to cover a portion of a damage or loss. Sometimes also called “out-of-pocket expenses.” For example, out of a total damage claim of $1,000, the homeowner might pay a $250 deductible toward the loss, while the insurance company pays $750 toward the loss. Typically, the higher the deductible, the lower the cost of the policy.

Deed: a document that legally transfers ownership of property from one person to another. The deed is recorded on public record with the property description and the owner’s signature. Also known as the title.

Deed-in-Lieu: to avoid foreclosure (“in lieu” of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process does not allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

Default: the inability to make timely monthly mortgage payments or otherwise comply with mortgage terms. A loan is considered in default when payment has not been paid after 60 to 90 days. Once in default the lender can exercise legal rights defined in the contract to begin foreclosure proceedings.

Delinquency: failure of a borrower to make timely mortgage payments under a loan agreement. Generally after fifteen days a late fee may be assessed.

Deposit (Earnest Money): money put down by a potential buyer to show that they are serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal. During the contingency period the money may be returned to the buyer if the contingencies are not met to the buyer’s satisfaction.
**Depreciation**: a decrease in the value or price of a property due to changes in market conditions, wear and tear on the property, or other factors.

**Derivative**: a contract between two or more parties where the security is dependent on the price of another investment.

**Disclosures**: the release of relevant information about a property that may influence the final sale, especially if it represents defects or problems. “Full disclosure” usually refers to the responsibility of the seller to voluntarily provide all known information about the property. Some disclosures may be required by law, such as the federal requirement to warn of potential lead-based paint hazards in pre-1978 housing. A seller found to have knowingly lied about a defect may face legal penalties.

**Discount Point**: normally paid at closing and generally calculated to be equivalent to 1% of the total loan amount, discount points are paid to reduce the interest rate on a loan. In an ARM with an initial rate discount, the lender gives up a number of percentage points in interest to give you a lower rate and lower payments for part of the mortgage term (usually for one year or less). After the discount period, the ARM rate will probably go up depending on the index rate.

**Down Payment**: the portion of a home’s purchase price that is paid in cash and is not part of the mortgage loan. This amount varies based on the loan type, but is determined by taking the difference of the sale price and the actual mortgage loan amount. Mortgage insurance is required when a down payment less than 20 percent is made.

**Document Recording**: after closing on a loan, certain documents are filed and made public record. Discharges for the prior mortgage holder are filed first. Then the deed is filed with the new owner’s and mortgage company’s names.

**Due on Sale Clause**: a provision of a loan allowing the lender to demand full repayment of the loan if the property is sold.

**Duration**: the number of years it will take to receive the present value of all future payments on a security to include both principal and interest.

**Earnest Money (Deposit)**: money put down by a potential buyer to show that they are serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal. During the contingency period the money may be returned to the buyer if the contingencies are not met to the buyer’s satisfaction.

**Earnings Per Share (EPS)**: a corporation’s profit that is divided among each share of common stock. It is determined by taking the net earnings divided by the number of outstanding common stocks held. This is a way that a company reports profitability.
**Easements**: the legal rights that give someone other than the owner access to use property for a specific purpose. Easements may affect property values and are sometimes a part of the deed.

**EEM**: Energy Efficient Mortgage; an FHA program that helps homebuyers save money on utility bills by enabling them to finance the cost of adding energy efficiency features to a new or existing home as part of the home purchase.

**Eminent Domain**: when a government takes private property for public use. The owner receives payment for its fair market value. The property can then proceed to condemnation proceedings.

**Encroachments**: a structure that extends over the legal property line on to another individual’s property. The property surveyor will note any encroachment on the lot survey done before property transfer. The person who owns the structure will be asked to remove it to prevent future problems.

**Encumbrance**: anything that affects title to a property, such as loans, leases, easements, or restrictions.

**Equal Credit Opportunity Act (ECOA)**: a federal law requiring lenders to make credit available equally without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

**Equity**: an owner’s financial interest in a property; calculated by subtracting the amount still owed on the mortgage loan(s) from the fair market value of the property.

**Escape Clause**: a provision in a purchase contract that allows either party to cancel part or the entire contract if the other does not respond to changes to the sale within a set period. The most common use of the escape clause is if the buyer makes the purchase offer contingent on the sale of another house.

**Escrow**: funds held in an account to be used by the lender to pay for home insurance and property taxes. The funds may also be held by a third party until contractual conditions are met and then paid out.

**Escrow Account**: a separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

**Estate**: the ownership interest of a person in real property. The sum total of all property, real and personal, owned by a person.

**Exclusive Listing**: a written contract giving a real estate agent the exclusive right to sell a property for a specific timeframe.
**FICO Score**: FICO is an abbreviation for Fair Isaac Corporation and refers to a person’s credit score based on credit history. Lenders and credit card companies use the number to decide if the person is likely to pay his or her bills. A credit score is evaluated using information from the three major credit bureaus and is usually between 300 and 850.

**FSBO (For Sale by Owner)**: a home that is offered for sale by the owner without the benefit of a real estate professional.

**Fair Credit Reporting Act**: federal act to ensure that credit bureaus are fair and accurate protecting the individual’s privacy rights enacted in 1971 and revised in October 1997.

**Fair Housing Act**: a law that prohibits discrimination in all facets of the home buying process on the basis of race, color, national origin, religion, sex, familial status, or disability.

**Fair Market Value**: the hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the situation.

**Familial Status**: HUD uses this term to describe a single person, a pregnant woman or a household with children under 18 living with parents or legal custodians who might experience housing discrimination.

**Fannie Mae**: Federal National Mortgage Association (FNMA); a federally-chartered enterprise owned by private stockholders that purchases residential mortgages and converts them into securities for sale to investors; by purchasing mortgages, Fannie Mae supplies funds that lenders may loan to potential homebuyers. Also known as a Government Sponsored Enterprise (GSE).

**FHA**: Federal Housing Administration; established in 1934 to advance homeownership opportunities for all Americans; assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.

**First Mortgage**: the mortgage with first priority if the loan is not paid.

**Fixed Expenses**: payments that do not vary from month to month.

**Fixed-Rate Mortgage**: a mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.

**Fixture**: personal property permanently attached to real estate or real property that becomes a part of the real estate.

**Float**: the act of allowing an interest rate and discount points to fluctuate with changes in the market.

**Flood Insurance**: insurance that protects homeowners against losses from a flood; if a home is located in a flood plain, the lender will require flood insurance before approving a loan.
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**Forbearance**: a lender may decide not to take legal action when a borrower is late in making a payment. Usually this occurs when a borrower sets up a plan that both sides agree will bring overdue mortgage payments up to date.

**Foreclosure**: a legal process in which mortgaged property is sold to pay the loan of the defaulting borrower. Foreclosure laws are based on the statutes of each state.

**Freddie Mac**: Federal Home Loan Mortgage Corporation (FHLM); a federally chartered corporation that purchases residential mortgages, securitizes them, and sells them to investors; this provides lenders with funds for new homebuyers. Also known as a Government Sponsored Enterprise (GSE).

**Front End Ratio**: a percentage comparing a borrower’s total monthly cost to buy a house (mortgage principal and interest, insurance, and real estate taxes) to monthly income before deductions.

**GSE**: abbreviation for government sponsored enterprises: a collection of financial services corporations formed by the United States Congress to reduce interest rates for farmers and homeowners. Examples include Fannie Mae and Freddie Mac.

**Ginnie Mae**: Government National Mortgage Association (GNMA); a government-owned corporation overseen by the U.S. Department of Housing and Urban Development, Ginnie Mae pools FHA-insured and VA-guaranteed loans to back securities for private investment; as With Fannie Mae and Freddie Mac, the investment income provides funding that may then be lent to eligible borrowers by lenders.

**Global Debt Facility**: designed to allow investors all over the world to purchase debt (loans) of U.S. dollar and foreign currency through a variety of clearing systems.

**Good Faith Estimate**: an estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

**Graduated Payment Mortgages**: mortgages that begin with lower monthly payments that get slowly larger over a period of years, eventually reaching a fixed level and remaining there for the life of the loan. Graduated payment loans may be good if you expect your annual income to increase.

**Grantee**: an individual to whom an interest in real property is conveyed.

**Grantor**: an individual conveying an interest in real property.

**Gross Income**: money earned before taxes and other deductions. Sometimes it may include income from self-employment, rental property, alimony, child support, public assistance payments, and retirement benefits.

**Guaranty Fee**: payment to FannieMae from a lender for the assurance of timely principal and interest payments to MBS (Mortgage Backed Security) security holders.
HECM (Reverse Mortgage): the reverse mortgage is used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. A lending institution such as a mortgage lender, bank, credit union or savings and loan association funds the FHA insured loan, commonly known as HECM.

Hazard Insurance: protection against a specific loss, such as fire, wind etc., over a period of time that is secured by the payment of a regularly scheduled premium.

HELP: Homebuyer Education Learning Program; an educational program from the FHA that counsels people about the home buying process; HELP covers topics like budgeting, finding a home, getting a loan, and home maintenance; in most cases, completion of the program may entitle the homebuyer to a reduced initial FHA mortgage insurance premium-from 2.25% to 1.75% of the home purchase price.

Home Equity Line of Credit: a mortgage loan, usually in second mortgage, allowing a borrower to obtain cash against the equity of a home, up to a predetermined amount.

Home Equity Loan: a loan backed by the value of a home (real estate). If the borrower defaults or does not pay the loan, the lender has some rights to the property. The borrower can usually claim a home equity loan as a tax deduction.

Home Inspection: an examination of the structure and mechanical systems to determine a home's quality, soundness and safety; makes the potential homebuyer aware of any repairs that may be needed. The homebuyer generally pays inspection fees.

Home Warranty: offers protection for mechanical systems and attached appliances against unexpected repairs not covered by homeowner's insurance; coverage extends over a specific time period and does not cover the home's structure.

Homeowner's Insurance: an insurance policy, also called hazard insurance, that combines protection against damage to a dwelling and its contents including fire, storms or other damages with protection against claims of negligence or inappropriate action that result in someone's injury or property damage. Most lenders require homeowners insurance and may escrow the cost. Flood insurance is generally not included in standard policies and must be purchased separately.

Homeownership Education Classes: classes that stress the need to develop a strong credit history and offer information about how to get a mortgage approved, qualify for a loan, choose an affordable home, go through financing and closing processes, and avoid mortgage problems that cause people to lose their homes.

Homestead Credit: property tax credit program, offered by some state governments, that provides reductions in property taxes to eligible households.
**Housing Counseling Agency**: provides counseling and assistance to individuals on a variety of issues, including loan default, fair housing, and home buying.

**HUD**: the U.S. Department of Housing and Urban Development; established in 1965, HUD works to create a decent home and suitable living environment for all Americans; it does this by addressing housing needs, improving and developing American communities, and enforcing fair housing laws.

**HUD1 Statement**: also known as the “settlement sheet,” or “closing statement” it itemizes all closing costs; must be given to the borrower at or before closing. Items that appear on the statement include real estate commissions, loan fees, points, and escrow amounts.

**HVAC**: Heating, Ventilation and Air Conditioning; a home’s heating and cooling system.

**Indemnification**: to secure against any loss or damage, compensate or give security for reimbursement for loss or damage incurred. A homeowner should negotiate for inclusion of an indemnification provision in a contract with a general contractor or for a separate indemnity agreement protecting the homeowner from harm, loss or damage caused by actions or omissions of the general (and all sub) contractor.

**Index**: the measure of interest rate changes that the lender uses to decide how much the interest rate of an ARM will change over time. No one can be sure when an index rate will go up or down. If a lender bases interest rate adjustments on the average value of an index over time, your interest rate would not be as volatile. You should ask your lender how the index for any ARM you are considering has changed in recent years, and where it is reported.

**Inflation**: the number of dollars in circulation exceeds the amount of goods and services available for purchase; inflation results in a decrease in the dollar’s value.

**Inflation Coverage**: endorsement to a homeowner’s policy that automatically adjusts the amount of insurance to compensate for inflationary rises in the home’s value. This type of coverage does not adjust for increases in the home’s value due to improvements.

**Inquiry**: a credit report request. Each time a credit application is completed or more credit is requested counts as an inquiry. A large number of inquiries on a credit report can sometimes make a credit score lower.

**Interest**: a fee charged for the use of borrowing money.

**Interest Rate**: the amount of interest charged on a monthly loan payment, expressed as a percentage.

**Interest Rate Swap**: a transaction between two parties where each agrees to exchange payments tied to different interest rates for a specified period of time, generally based on a notional principal amount.
**Intermediate Term Mortgage**: a mortgage loan with a contractual maturity from the time of purchase equal to or less than 20 years.

**Insurance**: protection against a specific loss, such as fire, wind etc., over a period of time that is secured by the payment of a regularly scheduled premium.

**Joint Tenancy** (with Rights of Survivorship): two or more owners share equal ownership and rights to the property. If a joint owner dies, his or her share of the property passes to the other owners, without probate. In joint tenancy, ownership of the property cannot be willed to someone who is not a joint owner.

**Judgment**: a legal decision; when requiring debt repayment, a judgment may include a property lien that secures the creditor’s claim by providing a collateral source.

**Jumbo Loan**: or non-conforming loan, is a loan that exceeds Fannie Mae’s and Freddie Mac’s loan limits. Freddie Mac and Fannie Mae loans are referred to as conforming loans.

**Late Payment Charges**: the penalty the homeowner must pay when a mortgage payment is made after the due date grace period.

**Lease**: a written agreement between a property owner and a tenant (resident) that stipulates the payment and conditions under which the tenant may occupy a home or apartment and states a specified period of time.

**Lease Purchase (Lease Option)**: assists low to moderate income homebuyers in purchasing a home by allowing them to lease a home with an option to buy; the rent payment is made up of the monthly rental payment plus an additional amount that is credited to an account for use as a down payment.

**Lender**: A term referring to a person or company that makes loans for real estate purchases. Sometimes referred to as a loan officer or lender.

**Lender Option Commitments**: an agreement giving a lender the option to deliver loans or securities by a certain date at agreed upon terms.

**Liabilities**: a person’s financial obligations such as long-term / short-term debt, and other financial obligations to be paid.

**Liability Insurance**: insurance coverage that protects against claims alleging a property owner’s negligence or action resulted in bodily injury or damage to another person. It is normally included in homeowner’s insurance policies.
Lien: a legal claim against property that must be satisfied when the property is sold. A claim of money against a property, wherein the value of the property is used as security in repayment of a debt. Examples include a mechanic’s lien, which might be for the unpaid cost of building supplies, or a tax lien for unpaid property taxes. A lien is a defect on the title and needs to be settled before transfer of ownership. A lien release is a written report of the settlement of a lien and is recorded in the public record as evidence of payment.

Lien Waiver: A document that releases a consumer (homeowner) from any further obligation for payment of a debt once it has been paid in full. Lien waivers typically are used by homeowners who hire a contractor to provide work and materials to prevent any subcontractors or suppliers of materials from filing a lien against the homeowner for nonpayment.

Life Cap: a limit on the range interest rates can increase or decrease over the life of an adjustable-rate mortgage (ARM).

Line of Credit: an agreement by a financial institution such as a bank to extend credit up to a certain amount for a certain time to a specified borrower.

Liquid Asset: a cash asset or an asset that is easily converted into cash.

Listing Agreement: a contract between a seller and a real estate professional to market and sell a home. A listing agreement obligates the real estate professional (or his or her agent) to seek qualified buyers, report all purchase offers and help negotiate the highest possible price and most favorable terms for the property seller.

Loan: money borrowed that is usually repaid with interest.

Loan Acceleration: an acceleration clause in a loan document is a statement in a mortgage that gives the lender the right to demand payment of the entire outstanding balance if a monthly payment is missed.

Loan Fraud: purposely giving incorrect information on a loan application in order to better qualify for a loan; may result in civil liability or criminal penalties.

Loan Officer: a representative of a lending or mortgage company who is responsible for soliciting homebuyers, qualifying and processing of loans. They may also be called lender, loan representative, account executive or loan rep.

Loan Origination Fee: a charge by the lender to cover the administrative costs of making the mortgage. This charge is paid at the closing and varies with the lender and type of loan. A loan origination fee of 1 to 2 percent of the mortgage amount is common.

Loan Servicer: the company that collects monthly mortgage payments and disperses property taxes and insurance payments. Loan servicers also monitor nonperforming loans, contact delinquent borrowers, and notify insurers and investors of potential problems. Loan servicers may be the lender or a specialized company that just handles loan servicing under contract with the lender or the investor who owns the loan.
Glossary

**Loan to Value (LTV) Ratio**: a percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment.

**Lock-In**: since interest rates can change frequently, many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time.

**Lock-in Period**: the length of time that the lender has guaranteed a specific interest rate to a borrower.

**Loss Mitigation**: a process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan.

**Mandatory Delivery Commitment**: an agreement that a lender will deliver loans or securities by a certain date at agreed-upon terms.

**Margin**: the number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

**Market Value**: the amount a willing buyer would pay a willing seller for a home. An appraised value is an estimate of the current fair market value.

**Maturity**: the date when the principal balance of a loan becomes due and payable.

**Median Price**: the price of the house that falls in the middle of the total number of homes for sale in that area.

**Medium Term Notes**: unsecured general obligations of Fannie Mae with maturities of one day or more and with principal and interest payable in U.S. dollars.

**Merged Credit Report**: raw data pulled from two or more of the major credit-reporting firms.

**Mitigation**: term usually used to refer to various changes or improvements made in a home; for instance, to reduce the average level of radon.

**Modification**: when a lender agrees to modify the terms of a mortgage without refinancing the loan.

**Mortgage**: a lien on the property that secures the Promise to repay a loan. A security agreement between the lender and the buyer in which the property is collateral for the loan. The mortgage gives the lender the right to collect payment on the loan and to foreclose if the loan obligations are not met.

**Mortgage Acceleration Clause**: a clause allowing a lender, under certain circumstances, demand the entire balance of a loan is repaid in a lump sum. The acceleration clause is usually triggered if the home is sold, title to the property is changed, the loan is refinanced or the borrower defaults on a scheduled payment.
Mortgage-Backed Security (MBS): a Fannie Mae security that represents an undivided interest in a group of mortgages. Principal and interest payments from the individual mortgage loans are grouped and paid out to the MBS holders.

Mortgage Banker: a company that originates loans and resells them to secondary mortgage lenders like Fannie Mae or Freddie Mac.

Mortgage Broker: a firm that originates and processes loans for a number of lenders.

Mortgage Life and Disability Insurance: term life insurance bought by borrowers to pay off a mortgage in the event of death or make monthly payments in the case of disability. The amount of coverage decreases as the principal balance declines. There are many different terms of coverage determining amounts of payments and when payments begin and end.

Mortgage Insurance: a policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home’s purchase price. Insurance purchased by the buyer to protect the lender in the event of default. Typically purchased for loans with less than 20 percent down payment. The cost of mortgage insurance is usually added to the monthly payment. Mortgage insurance is maintained on conventional loans until the outstanding amount of the loan is less than 80 percent of the value of the house or for a set period of time (7 years is common). Mortgage insurance also is available through a government agency, such as the Federal Housing Administration (FHA) or through companies (Private Mortgage Insurance or PMI).

Mortgage Insurance Premium (MIP): a monthly payment - usually part of the mortgage payment - paid by a borrower for mortgage insurance.

Mortgage Interest Deduction: the interest cost of a mortgage, which is a tax-deductible expense. The interest reduces the taxable income of taxpayers.

Mortgage Modification: a loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan and thus reduce the monthly payments.

Mortgage Note: a legal document obligating a borrower to repay a loan at a stated interest rate during a specified period; the agreement is secured by a mortgage that is recorded in the public records along with the deed.

Mortgage Payments:

Mortgage Qualifying Ratio: Used to calculate the maximum amount of funds that an individual traditionally may be able to afford. A typical mortgage qualifying ratio is 28: 36.

Mortgage Score: a score based on a combination of information about the borrower that is obtained from the loan application, the credit report, and property value information. The score is a comprehensive analysis of the borrower’s ability to repay a mortgage loan and manage credit.

Mortgagor: the lender in a mortgage agreement. Mortgagor - The borrower in a mortgage agreement.
Mortgagor: the borrower in a mortgage agreement

Multifamily Housing: a building with more than four residential rental units.

Multiple Listing Service (MLS): within the Metro Columbus area, Realtors submit listings and agree to attempt to sell all properties in the MLS. The MLS is a service of the local Columbus Board of Realtors. The local MLS has a protocol for updating listings and sharing commissions. The MLS offers the advantage of more timely information, availability, and access to houses and other types of property on the market.

National Credit Repositories: currently, there are three companies that maintain national credit-reporting databases. These are Equifax, Experian, and Trans Union, referred to as Credit Bureaus.

Negative Amortization: amortization means that monthly payments are large enough to pay the interest and reduce the principal on your mortgage. Negative amortization occurs when the monthly payments do not cover all of the interest cost. The interest cost that isn’t covered is added to the unpaid principal balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments not high enough to cover the interest due.

Net Income: Your take-home pay, the amount of money that you receive in your paycheck after taxes and deductions.

No Cash Out Refinance: a refinance of an existing loan only for the amount remaining on the mortgage. The borrower does not get any cash against the equity of the home. Also called a “rate and term refinance.”

No Cost Loan: there are many variations of a no cost loan. Generally, it is a loan that does not charge for items such as title insurance, escrow fees, settlement fees, appraisal, recording fees or notary fees. It may also offer no points. This lessens the need for upfront cash during the buying process however no cost loans have a higher interest rate.

Nonperforming Asset: an asset such as a mortgage that is not currently accruing interest or which interest is not being paid.

Note: a legal document obligating a borrower to repay a mortgage loan at a stated interest rate over a specified period of time.

Note Rate: the interest rate stated on a mortgage note.

Notice of Default: a formal written notice to a borrower that there is a default on a loan and that legal action is possible.
Notional Principal Amount: the proposed amount which interest rate swap payments are based but generally not paid or received by either party.

Non-Conforming loan: is a loan that exceeds Fannie Mae’s and Freddie Mac’s loan limits. Freddie Mac and Fannie Mae loans are referred to as conforming loans.

Notary Public: a person who serves as a public official and certifies the authenticity of required signatures on a document by signing and stamping the document.

Offer: indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing.

Original Principal Balance: the total principal owed on a mortgage prior to any payments being made.

Origination: the process of preparing, submitting, and evaluating a loan application; generally includes a credit check, verification of employment, and a property appraisal.

Origination Fee: the charge for originating a loan; is usually calculated in the form of points and paid at closing. One point equals one percent of the loan amount. On a conventional loan, the loan origination fee is the number of points a borrower pays.

Owner Financing: a home purchase where the seller provides all or part of the financing, acting as a lender.

Ownership: ownership is documented by the deed to a property. The type or form of ownership is important if there is a change in the status of the owners or if the property changes ownership.

Owner’s Policy: the insurance policy that protects the buyer from title defects.

P

PITI: Principal, Interest, Taxes, and Insurance: the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner’s and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

PITI Reserves: a cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

PMI: Private Mortgage Insurance; privately-owned companies that offer standard and special affordable mortgage insurance programs for qualified borrowers with down payments of less than 20% of a purchase price.

Partial Claim: a loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring their mortgage payments up to date.
**Partial Payment**: a payment that is less than the total amount owed on a monthly mortgage payment. Normally, lenders do not accept partial payments. The lender may make exceptions during times of difficulty. Contact your lender prior to the due date if a partial payment is needed.

**Payment Cap**: a limit on how much an ARM’s payment may increase, regardless of how much the interest rate increases.

**Payment Change Date**: the date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the interest rate adjustment date.

**Payment Due Date**: Contract language specifying when payments are due on money borrowed. The due date is always indicated and means that the payment must be received on or before the specified date. Grace periods prior to assessing a late fee or additional interest do not eliminate the responsibility of making payments on time.

**Perils**: for homeowner’s insurance, an event that can damage the property. Homeowner’s insurance may cover the property for a wide variety of perils caused by accidents, nature, or people.

**Personal Property**: any property that is not real property or attached to real property. For example furniture is not attached however a new light fixture would be considered attached and part of the real property.

**Planned Unit Development (PUD)**: a development that is planned, and constructed as one entity. Generally, there are common features in the homes or lots governed by covenants attached to the deed. Most planned developments have common land and facilities owned and managed by the owner’s or neighborhood association. Homeowners usually are required to participate in the association via a payment of annual dues.

**Points**: a point is equal to one percent of the principal amount of your mortgage. For example, if you get a mortgage for $95,000, one point means you pay $950 to the lender. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages in order to increase the yield on the mortgage and to cover loan closing costs. These points usually are collected at closing and may be paid by the borrower or the home seller, or may be split between them.

**Power of Attorney**: a legal document that authorizes another person to act on your behalf. A power of attorney can grant complete authority or can be limited to certain acts or certain periods of time or both.

**Pre-Approval**: a lender commits to lend to a potential borrower a fixed loan amount based on a completed loan application, credit reports, debt, savings and has been reviewed by an underwriter. The commitment remains as long as the borrower still meets the qualification requirements at the time of purchase. This does not guaranty a loan until the property has passed inspections underwriting guidelines.

**Predatory Lending**: abusive lending practices that include a mortgage loan to someone who does not have the ability to repay. It also pertains to repeated refinancing of a loan charging high interest and fees each time.
**Predictive Variables**: The variables that are part of the formula comprising elements of a credit-scoring model. These variables are used to predict a borrower’s future credit performance.

**Preferred Stock**: stock that takes priority over common stock with regard to dividends and liquidation rights. Preferred stockholders typically have no voting rights.

**Pre-foreclosure Sale**: a procedure in which the borrower is allowed to sell a property for an amount less than what is owed on it to avoid a foreclosure. This sale fully satisfies the borrower’s debt.

**Prepayment**: any amount paid to reduce the principal balance of a loan before the due date or payment in full of a mortgage. This can occur with the sale of the property, the pay off the loan in full, or a foreclosure. In each case, full payment occurs before the loan has been fully amortized.

**Prepayment Penalty**: a provision in some loans that charge a fee to a borrower who pays off a loan before it is due.

**Pre-foreclosure sale**: allows a defaulting borrower to sell the mortgaged property to satisfy the loan and avoid foreclosure.

**Pre-Qualify**: a lender informally determines the maximum amount an individual is eligible to borrow. This is not a guaranty of a loan.

**Premium**: an amount paid on a regular schedule by a policyholder that maintains insurance coverage.

**Prepayment**: payment of the mortgage loan before the scheduled due date; may be Subject to a prepayment penalty.

**Prepayment Penalty**: a fee charged to a homeowner who pays one or more monthly payments before the due date. It can also apply to principal reduction payments.

**Prepayment Penalty Mortgage (PPM)**: a type of mortgage that requires the borrower to pay a penalty for prepayment, partial payment of principal or for repaying the entire loan within a certain time period. A partial payment is generally defined as an amount exceeding 20% of the original principal balance.

**Price Range**: the high and low amount a buyer is willing to pay for a home.

Prime Rate: the interest rate that banks charge to preferred customers. Changes in the prime rate are publicized in the business media. Prime rate can be used as the basis for adjustable rate mortgages (ARMs) or home equity lines of credit. The prime rate also affects the current interest rates being offered at a particular point in time on fixed mortgages. Changes in the prime rate do not affect the interest on a fixed mortgage.

**Principal**: the amount of money borrowed to buy a house or the amount of the loan that has not been paid back to the lender. This does not include the interest paid to borrow that money. The principal balance is the amount owed on a loan at any given time. It is the original loan amount minus the total repayments of principal made.
Principal, Interest, Taxes, and Insurance (PITI): the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner’s and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

Private Mortgage Insurance (PMI): insurance purchased by a buyer to protect the lender in the event of default. The cost of mortgage insurance is usually added to the monthly payment. Mortgage insurance is generally maintained until over 20 percent of the outstanding amount of the loan is paid or for a set period of time, seven years is normal. Mortgage insurance may be available through a government agency, such as the Federal Housing Administration (FHA) or the Veterans Administration (VA), or through private mortgage insurance companies (PMI).

Promissory Note: a written promise to repay a specified amount over a specified period of time.

Property (Fixture and Non-Fixture): in a real estate contract, the property is the land within the legally described boundaries and all permanent structures and fixtures. Ownership of the property confers the legal right to use the property as allowed within the law and within the restrictions of zoning or easements. Fixture property refers to those items permanently attached to the structure, such as carpeting or a ceiling fan, which transfers with the property.

Property Tax: a tax charged by local government and used to fund municipal services such as schools, police, or street maintenance. The amount of property tax is determined locally by a formula, usually based on a percent per $1,000 of assessed value of the property.

Property Tax Deduction: the U.S. tax code allows homeowners to deduct the amount they have paid in property taxes from their total income.

Public Record Information: Court records of events that are a matter of public interest such as credit, bankruptcy, foreclosure and tax liens. The presence of public record information on a credit report is regarded negatively by creditors.

Punch List: a list of items that have not been completed at the time of the final walk through of a newly constructed home.

Purchase Offer: A detailed, written document that makes an offer to purchase a property, and that may be amended several times in the process of negotiations. When signed by all parties involved in the sale, the purchase offer becomes a legally binding contract, sometimes called the Sales Contract.

Qualifying Ratios: guidelines utilized by lenders to determine how much money a homebuyer is qualified to borrow. Lending guidelines typically include a maximum housing expense to income ratio and a maximum monthly expense to income ratio.
**Quitclaim Deed**: a deed transferring ownership of a property but does not make any guarantee of clear title.

**RESPA**: Real Estate Settlement Procedures Act; a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships.

**Radon**: a radioactive gas found in some homes that, if occurring in strong enough concentrations, can cause health problems.

**Rate Cap**: a limit on an ARM on how much the interest rate or mortgage payment may change. Rate caps limit how much the interest rates can rise or fall on the adjustment dates and over the life of the loan.

**Rate Lock**: a commitment by a lender to a borrower guaranteeing a specific interest rate over a period of time at a set cost.

**Real Estate Agent**: an individual who is licensed to negotiate and arrange real estate sales; works for a real estate broker.

**Real Estate Mortgage Investment Conduit (REMIC)**: a security representing an interest in a trust having multiple classes of securities. The securities of each class entitle investors to cash payments structured differently from the payments on the underlying mortgages.

**Real Estate Settlement Procedures Act (RESPA)**: a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships.

**Real Property**: land, including all the natural resources and permanent buildings on it.

**REALTOR**: a real estate agent or broker who is a member of the NATIONAL ASSOCIATION OF REALTORS, and its local and state associations.

**Recorder**: the public official who keeps records of transactions concerning real property. Sometimes known as a “Registrar of Deeds” or “County Clerk.”

**Recording**: the recording in a registrar’s office of an executed legal document. These include deeds, mortgages, satisfaction of a mortgage, or an extension of a mortgage making it a part of the public record.

**Recording Fees**: charges for recording a deed with the appropriate government agency.

**Refinancing**: paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate).
Rehabilitation Mortgage: a mortgage that covers the costs of rehabilitating (repairing or Improving) a property; some rehabilitation mortgages - like the FHA's 203(k) - allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan.

Reinstatement Period: a phase of the foreclosure process where the homeowner has an opportunity to stop the foreclosure by paying money that is owed to the lender.

Remaining Balance: the amount of principal that has not yet been repaid.

Remaining Term: the original amortization term minus the number of payments that have been applied.

Repayment plan: an agreement between a lender and a delinquent borrower where the borrower agrees to make additional payments to pay down past due amounts while making regularly scheduled payments.

Return On Average Common Equity: net income available to common stockholders, as a percentage of average common stockholder equity.

Reverse Mortgage (HECM): the reverse mortgage is used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. A lending institution such as a mortgage lender, bank, credit union or savings and loan association funds the FHA insured loan, commonly known as HECM.

Right of First Refusal: a provision in an agreement that requires the owner of a property to give one party an opportunity to purchase or lease a property before it is offered for sale or lease to others.

Risk Based Capital: an amount of capital needed to offset losses during a ten-year period with adverse circumstances.

Risk Based Pricing: Fee structure used by creditors based on risks of granting credit to a borrower with a poor credit history.

Risk Scoring: an automated way to analyze a credit report verses a manual review. It takes into account late payments, outstanding debt, credit experience, and number of inquiries in an unbiased manner.

Sale Leaseback: when a seller deeds property to a buyer for a payment, and the buyer simultaneously leases the property back to the seller.

Second Mortgage: an additional mortgage on property. In case of a default the first mortgage must be paid before the second mortgage. Second loans are more risky for the lender and usually carry a higher interest rate.

Secondary Mortgage Market: the buying and selling of mortgage loans. Investors purchase residential mortgages originated by lenders, which in turn provides the lenders with capital for additional lending.
Secured Loan: a loan backed by collateral such as property.

Security: the property that will be pledged as collateral for a loan.

Seller Take Back: an agreement where the owner of a property provides second mortgage financing. These are often combined with an assumed mortgage instead of a portion of the seller’s equity.

Serious Delinquency: a mortgage that is 90 days or more past due.

Servicer: a business that collects mortgage payments from borrowers and manages the borrower’s escrow accounts.

Servicing: the collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

Setback: the distance between a property line and the area where building can take place. Setbacks are used to assure space between buildings and from roads for a many of purposes including drainage and utilities.

Settlement: another name for closing.

Settlement Statement: a document required by the Real Estate Settlement Procedures Act (RESPA). It is an itemized statement of services and charges relating to the closing of a property transfer. The buyer has the right to examine the settlement statement 1 day before the closing. This is called the HUD 1 Settlement Statement.

Special Forbearance: a loss mitigation option where the lender arranges a revised repayment plan for the borrower that may include a temporary reduction or suspension of monthly loan payments.

Stockholders’ Equity: the sum of proceeds from the issuance of stock and retained earnings less amounts paid to repurchase common shares.

Stripped MBS (SMBS): securities created by “stripping” or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments.

Sub-Prime Loan: “B” Loan or “B” paper with FICO scores from 620 - 659. “C” Loan or “C” Paper with FICO scores typically from 580 to 619. An industry term to used to describe loans with less stringent lending and underwriting terms and conditions. Due to the higher risk, sub-prime loans charge higher interest rates and fees.

Subordinate: to place in a rank of lesser importance or to make one claim secondary to another.

Survey: a property diagram that indicates legal boundaries, easements, encroachments, rights of way, improvement locations, etc. Surveys are conducted by licensed surveyors and are normally required by the lender in order to confirm that the property boundaries and features such as buildings, and easements are correctly described in the legal description of the property.

Sweat Equity: using labor to build or improve a property as part of the down payment
Third Party Origination: a process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

Terms: The period of time and the interest rate agreed upon by the lender and the borrower to repay a loan.

Title: a legal document establishing the right of ownership and is recorded to make it part of the public record. Also known as a Deed.

Title 1: an FHA-insured loan that allows a borrower to make non-luxury improvements (like renovations or repairs) to their home; Title I loans less than $7,500 don’t require a property lien.

Title Company: a company that specializes in examining and insuring titles to real estate.

Title Defect: an outstanding claim on a property that limits the ability to sell the property. Also referred to as a cloud on the title.

Title Insurance: insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers. An insurance policy guaranteeing the accuracy of a title search protecting against errors. Most lenders require the buyer to purchase title insurance protecting the lender against loss in the event of a title defect. This charge is included in the closing costs. A policy that protects the buyer from title defects is known as an owner’s policy and requires an additional charge.

Title Search: a check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.

Transfer Agent: a bank or trust company charged with keeping a record of a company’s stockholders and canceling and issuing certificates as shares are bought and sold.

Transfer of Ownership: any means by which ownership of a property changes hands. These include purchase of a property, assumption of mortgage debt, exchange of possession of a property via a land sales contract or any other land trust device.

Transfer Taxes: State and local taxes charged for the transfer of real estate. Usually equal to a percentage of the sales price.

Treasury Index: can be used as the basis for adjustable rate mortgages (ARMs) It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities.

Truth-in-Lending: a federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan initial period and then adjusts to another rate that lasts for the term of the loan.
Two Step Mortgage: an adjustable-rate mortgage (ARM) that has one interest rate for the first five to seven years of its term and a different interest rate for the remainder of the term.

Trustee: a person who holds or controls property for the benefit of another.

Underwriting: the process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower’s credit history and a judgment of the property value.

Up Front Charges: the fees charged to homeowners by the lender at the time of closing a mortgage loan. This includes points, broker’s fees, insurance, and other charges.

VA (Department of Veterans Affairs): a federal agency, which guarantees loans made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default.

VA Mortgage: a mortgage guaranteed by the Department of Veterans Affairs (VA).

Variable Expenses: Costs or payments that may vary from month to month, for example, gasoline or food.

Variance: a special exemption of a zoning law to allow the property to be used in a manner different from an existing law.

Vested: a point in time when you may withdraw funds from an investment account, such as a retirement account, without penalty.

Walk Through: the final inspection of a property being sold by the buyer to confirm that any contingencies specified in the purchase agreement such as repairs have been completed, fixture and non-fixture property is in place and confirm the electrical, mechanical, and plumbing systems are in working order.

Warranty Deed: a legal document that includes the guarantee the seller is the true owner of the property, has the right to sell the property and there are no claims against the property.
Zoning: local laws established to control the uses of land within a particular area. Zoning laws are used to separate residential land from areas of non-residential use, such as industry or businesses. Zoning ordinances include many provisions governing such things as type of structure, setbacks, lot size, and uses of a building.
What is a balloon loan? When is one allowed?

A balloon loan is a mortgage that requires a larger-than-usual one-time payment at the end of the term. This can mean your payments are lower in the years before the balloon payment comes due.

Generally, a balloon payment is more than two times the loan’s average monthly payment, and often it can be tens of thousands of dollars. Most balloon loans require one large payment that pays off your remaining balance at the end of the loan. If you’re considering a balloon loan, you need to think about whether and how you can make the balloon payment when it comes due.

A balloon payment isn’t allowed in a type of loan called a Qualified Mortgage, with some limited exceptions.

Tip: Don’t assume you’ll sell your home or refinance your loan before you have to make a balloon payment. If the value of your property falls, or if your financial condition declines, you might not be able to sell or refinance in time. If you’re not sure how you would manage to pay off the balloon payment when it comes due—for instance, out of your savings—consider another type of loan.

What is a construction loan?

A construction loan is usually a short-term loan that provides funds to cover the cost of building or rehabilitating a home. In general, construction loans have higher interest rates than longer-term mortgage loans used to purchase homes. The money borrowed through a construction loan is typically provided in a series of advances as the construction progresses. Payments sometimes start on a construction loan six to 24 months after the loan is made.

You can pay off the balance in a lump sum or you may be able to convert the loan to a conventional mortgage loan, though if your construction loan does not automatically convert you may have to reapply for a new loan. Your choices will depend on the lender and your credit history when you apply, so make sure to compare multiple loans, terms, and features.

What are discount points or points?

One “point” equals one percent of the loan amount. For example, on a $100,000 loan, each point costs you $1,000. What is commonly referred to as a “discount point” in the mortgage industry is a point you pay the lender or broker to reduce the interest rate on a loan. In general, the more discount points you pay, the lower the rate. Other fees that do not lower your interest rate may also take the form of points, so be sure to clarify the type of point you are paying.

TIP: You can ask your broker or lender to tell you the dollar amount you will pay in points. If you don’t understand the reason you are paying points for your loan, ask your housing counselor, trusted financial advisor, lender or broker. The best way to avoid problems is not to sign anything you don’t understand.
**TIP:** Points may be tax deductible. For more information on how to deduct points from your taxes, visit the Internal Revenue Service’s website.

**TIP:** Determine if paying points makes sense for your situation. How long do you plan to stay in the home? The longer you plan on living in your home, the more sense it may make to pay points. On the other hand, if you’re not sure you will stay in your home for more than a few years, paying points may make less financial sense.

Consult with your lender, trusted financial advisor or housing counselor to determine if paying points benefits your long-term goals.

**What is the difference between an interest rate and an APR?**

There are many costs associated with taking out a mortgage. These include the interest rate, points, fees, and other charges.

The interest rate is the cost of borrowing money expressed as a percentage rate. It does not reflect fees or any other charges you may have to pay for the loan.

An Annual Percentage Rate (APR) is a broader measure of cost to you of borrowing money. The APR reflects not only the interest rate but also the points, broker fees, and certain other charges that you have to pay to get the loan, including certain of your closing costs. For that reason, your APR is usually higher than your interest rate.

**Tip:** Take care when comparing the APRs of adjustable-rate loans. For adjustable rate loans, the APR does not reflect the maximum or even the likely interest rate your loan may carry. This is important to keep in mind when comparing the APRs of fixed-rate loans with adjustable-rate loans, or among different adjustable-rate loans. Don’t look at the APR alone in determining what loan makes the most sense for your circumstances.

**Tip:** If you’re shopping for a mortgage, learn how new mortgage rules may help you shop. If you already have a mortgage, use this checklist to see what steps you can take to make the most out of your mortgage.

**What is a loan-to-value ratio and how does it relate to my costs?**

Lenders use the loan-to-value ratio as a measure to compare the amount of your first mortgage with the appraised value of the property. The higher your down payment, the lower your loan-to-value ratio. Some lenders require borrowers to get private mortgage insurance where the loan amount is too close to the value of the home. If you have to get private mortgage insurance, it will increase your monthly costs.

**Tip:** Be sure to compare the amounts, terms and costs of several loans, including the cost of mortgage insurance if it will be required.

**Tip:** Learn how new mortgage rules may help you when you shop for a mortgage.
What is negative amortization?

Amortization means paying off a loan with regular payments. Negative amortization means that even when you pay your minimum payment, because you are not paying the interest, the amount you owe will still go up. Your lender may offer you the choice to make a minimum payment that doesn’t cover the interest you owe. The unpaid interest gets added to the amount you borrowed, and the amount you owe increases.

Tip: Try to avoid paying interest on interest.

Certain loans have payment options that let you pay only a portion of the amount of interest you owe each month. If you only pay some of the interest, the amount that you do not pay may get added to your principal balance. Then you end up paying not only interest on the money you borrowed, but interest on the interest you are being charged for the money you borrowed. This dramatically increases the amount of debt you have and the cost of the loan. To keep your debt from growing, try to pay down all of the interest and at least some of the principal you owe.

What is private mortgage insurance? How does PMI work?

Private mortgage insurance (PMI) protects the lender if you stop making payments on your loan. Lenders may require you to purchase PMI if your down payment is less than 20 percent of the sales price or the appraised value of the home. PMI premiums are added to your monthly mortgage payment. You may be able to cancel private mortgage insurance after a few years based on certain criteria, such as paying down your loan balance to a certain amount.

Tip: If you are making a down payment of less than 20 percent, be sure you know if PMI is required and how much the PMI will add to your monthly payments. Not making on-time payments may delay when you can cancel your PMI. Before you commit to paying for mortgage insurance, find out the specific requirements for cancellation.

Tip: Don’t confuse PMI with mortgage life insurance, which is designed to pay off a mortgage in the event of a borrower’s death or disability.

How long do I have to rescind? When does the right of rescission start?

Unless you waive your right of rescission, you have until midnight of the third business day after the transaction to cancel the contract. The first day after all three of the following events occur counts as day one:

1. You sign the credit contract
2. You receive a Truth in Lending disclosure form containing certain important disclosures about the credit contract that explain the key terms of the credit being offered – the annual percentage rate, the finance charge, the amount financed, the total of payments, and the payment schedule
3. You receive two copies of a notice explaining your right to rescind

For rescission purposes, business days include Saturdays, but not Sundays or legal public holidays. For example, if the last of the above three events occurs on a Friday, you have until midnight on the following Tuesday to rescind.

You may use the form provided to you by the creditor or a letter. Whatever form of written notice you use, make sure it is delivered or mailed before midnight of the third business day.

Is there any reason my mortgage payment would change over the life of my loan?

Yes. One reason may be that you have an adjustable rate loan. In this type of loan, the payments can go up or down, based on the terms of the agreement that you signed.

Some people have interest-only loans or pay option loans. With these loans, the borrower can postpone making principal payments for a while. Eventually, though, the borrower has to start paying principal and that will make the monthly payments go up.

Even if you have a fixed rate loan, your payments may change if you are paying your taxes and insurance through an escrow account maintained by your servicer. If there is a change in your property taxes, the escrow portion of your monthly payment may go up. An increase in your homeowner’s insurance rates also will increase your escrow payment.

If you have mortgage insurance, your payments may change once you are able to and do in fact cancel the insurance.

Do I ever have to buy property or flood insurance from my lender?

No. You may shop for property or flood insurance. But if you do not get homeowner’s insurance, or let your policy lapse, your lender may insure your property and charge you for it. This is called “force-placed” or “collateral protection” insurance. It is usually much more expensive than a regular policy. A lender may also buy “force-placed” flood insurance for homeowners in flood zones who do not have adequate flood insurance to meet the legal minimum required to protect the property.

If you can obtain your own insurance, it will generally be less expensive than the insurance bought by your lender for you. In some cases of force-placed insurance, the policy that the lender buys protects their interest but not your interest in the property. If you believe that any force-placed insurance was purchased in error, you should contact your lender immediately and give proof of your current insurance policy.

TIP: If you disagree with your lender’s determination that you need flood insurance, you can review the FEMA flood maps. If you think there has been an error, you can ask FEMA to issue a Letter of Map Amendment (LOMA), or a Letter of Map Revision Based on Fill (LOMR-F).
**TIP:** If your loan doesn’t include an escrow account, you will have to plan for potentially large property-related expenses, such as property taxes and homeowner’s insurance premiums. Be sure you budget for your monthly mortgage payments plus these extra costs and stay current on your taxes and insurance payments. If you fail to pay your property taxes, your state or local government may impose fines and penalties or place a tax lien on your home.

In addition, if you fail to pay any of your property-related costs, your lender may add the amounts to your loan balance, add an escrow account to your loan, or require you to pay for insurance on your home that your lenders buys on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.