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Mortgage Educators
and Compliance

Federal Comprehensive Pre-Licensure Course Textbook

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NMLS Approved Provider #1400062

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Course Introduction

Welcome to the 20 Hour Comprehensive Pre-Licensing Education Course! Mortgage Educators and Compliance appreciates you choosing us to help you navigate the road toward licensure. Throughout this course, you will learn a lot of information about the mortgage industry and your responsibilities as a mortgage loan originator. Let's get started.

The National Test and Uniform State Test

The SAFE Mortgage Loan Originator Test National Component with Uniform State Content contains 120 questions, 5 of which are unscored. The 5 unscored questions are randomly placed throughout the exam; you will not know which ones are scored. The unscored questions are used to create new questions for future exams.

This 20-hour course provides a basis of knowledge for you to study to prepare for the National Test. This course contains 20 hours of information required by statute but may not cover everything that could be on the test. In addition to taking these 20 hours of education, you should plan to spend an additional 20 to 60 hours studying the test prep material before attempting to take the test. This test is difficult; every student needs to prepare thoroughly before taking the test.

The NMLS provides an outline of what is covered on the National Test. There are five sections to the outline that cover different topics:

1. Federal Mortgage-Related Laws
2. General Mortgage Knowledge
3. Mortgage Loan Origination Activities
4. Ethics
5. Uniform State Content

All five of these topics will be covered in this course and will give you some base knowledge about the industry. You can find the entirety of the outline in the index of this course or online on the NMLS website.

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Course Introduction

NMLS Rules of Conduct & Course Syllabus

The NMLS has specific Rules of Conduct that students are required to follow. We have provided those rules, as required, in the course syllabus. Students are required to accept these Rules of Conduct.

In addition to the Rules of Conduct, the Course Syllabus contains guidelines for completing the course, the outline of the course, the topics we will be discussing in each chapter and the learning objectives that each chapter should help the student meet. Please make sure to review that information.

This textbook is our federal comprehensive pre-licensure textbook. Depending on what course you are taking, some topics covered in this textbook may not be covered in the video instruction. We aim to provide you with as much information and assistance as we can. Our goal is to ensure that you are prepared for the National Test Component and to help you become a successful mortgage loan originator

Before moving on to Chapter 1, please become familiar with the glossary of terms and acronyms provided in the index of this textbook. Most of them will be explained later in the course, but it is important that you review and understand them. It is highly recommended that you create flashcards of these terms for studying after completing the course

CHAPTER 1

Becoming an MLO

Learning Objectives for Chapter 1

- ☐ Describe the roles of an MLO
- ☐ Understand the mortgage cycle and the roles of each major player in the industry
- ☐ List the requirements of obtaining and maintaining an MLO license
- ☐ Restate what is considered prohibited conduct and how prohibited conduct is punished
- ☐ Describe compensation, and what is required under the LO Comp Rule
- ☐ Redefine key terms and acronyms

History of the Mortgage Industry

A citizen's desire to own a home built the mortgage industry in the United States. From the early 1900s through the 1930s, buying a home was a much different process than it is today. When banks first started making home loans, a borrower would have to make a sizeable down payment and accept a loan that had a balloon payment due after a very short term.

The first step towards the modern mortgage industry was the creation of the Federal Reserve System. It was created in 1913. The Federal Reserve System established a federal charter for banks that permitted them to make real estate loans, which established a framework for government involvement in mortgage lending.

Following the creation of the Federal Reserve System, the Federal Home Loan Bank Act of 1932 allowed the Federal Home Loan Banks to lend money to savings and loans, credit unions and savings banks so that they could also finance home mortgages. The Banking Act of 1933 further assisted in creating the Federal Deposit Insurance Corporation (FDIC) to insure deposits and protect consumers against bank default. The Act also allowed banks to continue to have a source of funds to make more home loans.

Chapter 1: Becoming an MLO

In 1934, the National Housing Act created the Federal Housing Administrative (FHA). It was created to help the housing industry recover from the Great Depression. The FHA was not originally intended to fund loans but to provide mortgage insurance so banks would not have to incur losses for defaults on home loans. The creation of the FHA allowed lenders to commit more funds to home mortgage loans. Today, FHA is the largest insurer of mortgages in the world.

The creation of the Federal National Mortgage Association (FNMA or Fannie Mae), in 1938, increased the liquidity in the market and allowed for more money to become available for lenders. After WWII, the housing market boomed, and the demand for housing exploded. The U.S. Department of Housing and Urban Development (HUD) was established to provide financial incentives to renovate and build within certain urban areas. HUD has now expanded its influence over many areas of the housing market. Other federal regulations implemented at about the same time monitor bank performance with lending standards. One such regulation is the Community Reinvestment Act, which analyzes a bank's success or failure to reach out to the lending communities it serves.

In 1968, Fannie Mae (FNMA) was privatized and became a government-sponsored entity (GSE). At the same time, the Government National Mortgage Association (GNMA, Ginnie Mae) was created to securitize government-issued mortgages (like FHA loans). These two entities allow loans to become securitized and sold on the secondary market for profit. In 1970, the Federal Home Loan Mortgage Corporation (Freddie Mac, FHLMC) was created to work hand in hand with Fannie Mae.

The Great Recession of 2008 and 2009 was caused, in large part, by the housing market. The U.S. housing bubble created by subprime lending led to a lack of liquidity in the market. The housing bubble peaked in July 2006. When the bubble burst, home price indexes across the country reported record-breaking price drops. Subprime mortgage lenders (fueled by lack of regulation) had been giving out mortgages to anyone who asked. These lenders, after the fact, were accused of using predatory lending techniques that lured unqualified borrowers to purchase homes that they could not afford.

The Great Recession of 2008 and 2009 caused many homeowners to default on their subprime mortgages. When the housing bubble burst, homebuyers were paying for mortgages that were worth far more than the actual value of the home, encouraging massive default across the country.

After this occurred, the Federal government passed the Dodd-Frank Wall Street Reform Act of 2010 (Dodd-Frank), which put many new regulations into place. Dodd-Frank also created the Consumer Financial Protection Bureau (CFPB) propose new federal regulations, supervise the mortgage industry and enforce federal law, in the hopes that nothing like the Great Recession of 2008 and 2009 would happen again.

Many players make up the mortgage industry and how it works. If one of those cogs on the wheel does not work correctly, the whole market comes crashing down. We will be looking at how mortgage brokers and lenders work, how they differ, and how a loan goes through the process from start to finish.

History of Mortgages

Mortgage Loan Originators (MLOs)

This federal comprehensive pre-licensing education course is one of the requirements for obtaining a mortgage loan originator license in any state in the United States. Most people have never heard the term "mortgage loan originator," but that is what most students will become after taking this course. So, what is a mortgage loan originator (or MLO)?

A mortgage loan originator or MLO is:

- An individual who, for compensation or gain, or in the expectation of compensation or gain:
 - Takes a residential mortgage loan application
 - Offers or negotiates terms of a residential mortgage loan.

An MLO does not include:

- An individual engaged solely as a loan processor or underwriter, except if they are an independent contractor.
- A person or entity that only performs real estate brokerage activities and is licensed or registered per [State] law, unless the person or entity is compensated by a lender, a mortgage broker, or other mortgage loan originator or by any agent of such lender, mortgage broker, or other mortgage loan originator.
- Does not include a person or entity solely involved in extensions of credit relating to timeshare plans.

Real estate brokerage activity: the term, "real estate brokerage activity" means any activity that involves offering or providing real estate brokerage services to the public, including:

- Acting as a real estate agent or real estate broker for a buyer, seller, lessor, or lessee of real property
- Bringing together parties interested in the sale, purchase, lease, rental, or exchange of real property

Chapter 1: Becoming an MLO

- 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 to provide financing with respect to any such transaction)
- Engaging in any activity for which a person engaged in the activity is required to be registered or licensed as a real estate agent or real estate broker under any applicable law
- Offering to engage in any activity or act in any capacity described above.

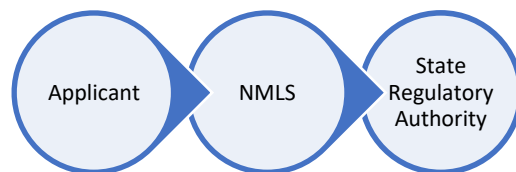
A registered mortgage loan originator is an individual who:

- Meets the definition of the mortgage loan originator and is an employee of:
 - A depository institution
 - A subsidiary that is:
 - Owned and controlled by a depository institution
 - Regulated by a Federal banking agency
 - An institution regulated by the Farm Credit Administration
- Is a mortgage banker or a mortgage broker (they must also be licensed)
- Is registered with, and maintains, a unique identifier.

Depository institutions generally employ registered mortgage loan originators. An example of a depository institution is a bank or credit union. The MLOs that work in bank branches or credit union branches are not currently required to obtain a license. They are required to be registered and are not required to take pre-licensing or continuing education; nor are they required to take the National Test Component with the Uniform State Test.

The 20-hour course is a prerequisite to becoming a licensed mortgage loan originator. A licensed mortgage loan originator is required to obtain a license through each state in which they intend to do business. Registered mortgage loan originators are required to request a license with the **Nationwide Multistate Licensing System & Registry (NMLS)** for each state. The state issues the license; not the NMLS

The NMLS is a registration system that was developed and maintained by the **Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR)**. The NMLS stores the information of each licensee. The NMLS also allows for the movement of information between the licensee and the states.



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Chapter 1: Becoming an MLO

The NMLS does not approve a license application; it is merely a database. The information in the NMLS is also easily shareable between states for those licensees who hold licenses in multiple states.

Part of the NMLS's job is to assign a **unique identifier**, sometimes referred to as an NMLS ID, to each licensee or registrant. This unique identifier is a number that will identify which MLO is originating a loan, by appearing on the residential loan application. It is also required to be present in all advertising. Once an applicant is licensed, they will be placed on the [Consumer Access](#) website to allow consumers to verify their number and company they are working for.

The obtaining and use of the NMLS ID# became a requirement because it helps to accurately identify the loan officer who assisted in the transaction. Several MLOs have the same name, so assigning a unique identifier helps to differentiate between the individuals. If an MLO wishes to go by a name that is not their legal name, such as a middle name, they need to register all aliases with the NMLS.

To be licensed as an MLO, an individual is required to be sponsored (employed) by a mortgage lender or broker. If the applicant is not sponsored, they will not be able to obtain an active license. Sponsorship requests go through the NMLS. An MLO can be sponsored by only one company and not operate as an independent contractor with multiple companies.

An MLO's job is to take residential mortgage loan applications and to offer and negotiate the terms of a residential mortgage loan, but they cannot do that without help. Many individuals who work in the mortgage process who are not typically required to be licensed. These individuals are called processors and underwriters.

A loan processor or underwriter is an individual who performs clerical or support duties as an employee at the direction of and subject to the supervision and instruction of a person licensed.

What would be considered a clerical or support duty? **Clerical or support duties** can include, after the receipt of an application:

- The receipt, collection, distribution, and analysis of information common for the processing or underwriting of a residential mortgage loan.
- Communicating with a consumer to obtain the information necessary for the processing or underwriting of a loan, as long as the communication does not include offering or negotiating loan rates or terms, or counseling consumers about residential mortgage loan rates or terms.

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Chapter 1: Becoming an MLO

Loan processors and underwriters are not required to be licensed, so they are prohibited from advertising or presenting to the public that they are mortgage loan originators or negotiate rates and terms. For perspective, a loan processor's job is to help make the process of getting the loan go smoothly, from the beginning to the end. Except for the application information, they obtain documents and other information from the borrower, and they obtain verifications of a borrower's employment and other financial information.

The underwriter makes the final decision on whether a loan is denied or approved. They are responsible for analyzing the documents within the loan file and comparing them to the requirements of the different types of loan product guidelines. They then decide whether or not that borrower qualifies for the loan.

If a loan processor or underwriter is an independent contractor, they are required to be licensed. An independent contractor is a loan processor or underwriter who is not employed by the company for whom they process or underwrite for, but rather are a third-party company. It is easy to think of an independent contractor as someone who receives a 1099 at tax time instead of a W-2.

 State Model Law for Implementation of the S.A.F.E. Act

Mortgage Brokers and Mortgage Lenders

Mortgage Brokers and Mortgage Lenders are non-financial entities or companies that must be licensed before they can solicit loans. Also, all branches must be licensed before they originate, process or close loans. A mortgage broker is a company or firm (generally a firm) that brings borrowers and lenders together for loan origination.

A mortgage broker typically takes loan applications and processes loans. A mortgage broker cannot underwrite or fund the loan, but, in some instances, they can close the loan (dependent on state law). However, they typically turn it over to the lender for underwriting and closing.

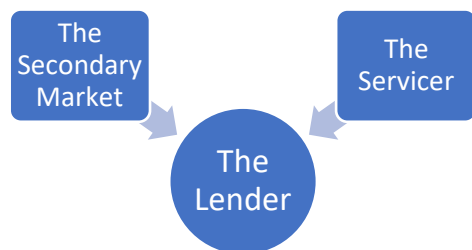
A mortgage lender is an entity that provides funds for a mortgage. Lenders also manage credit and financial information reviews. They take the loan from the application process through closing.

A broker is a middleman in the lending situation. If a borrower chooses to work with a broker, that broker will take their application and then shop it around to different wholesale lenders that they have relationships with to find the best lender for the borrower's specific needs and application. The wholesale lender then compensates the

Federal Comprehensive Pre-Licensing Education Course
Chapter 1: Becoming an MLO

broker for providing the application to them. The broker does not fund loans; they only take the application, and, in some situations, they help to process and close the loan.

The wholesale lender is responsible for funding and underwriting each application. Even though a broker is a middleman, it doesn't necessarily mean that they have worse rates than lenders. Each brokerage can negotiate the rates with the lenders they use.



Once the lender funds a loan, unless the lender retains the loan on their books, they will break the loan into two separate parts: the servicing rights and the mortgage. The lender will typically sell the mortgage on the secondary market, to entities like Fannie Mae and Freddie Mac, or investors like Wells Fargo, Chase Bank, etc. A mortgage servicer will buy the servicing rights. The lender can retain the servicing rights and service the loan themselves, but, usually, they sell the servicing rights to a mortgage servicer or the investor that bought the loan.

A mortgage servicer is a firm that performs servicing functions, including collecting mortgage payments, paying the investor, collecting and paying the borrower's taxes and insurance, and generally managing borrower escrow accounts.

State Model Law for Implementation of the S.A.F.E. Act; Real Estate Glossary

The Secondary Mortgage Market

The secondary mortgage market is the market in which mortgage loans and mortgage-backed securities are bought and sold. **Mortgage-backed securities** are a type of asset-backed security that is secured by a mortgage or collection of mortgages. A group of individuals will purchase the mortgages and will then package them into a security that investors can buy and sell on the market.

Big players on the secondary market are:

- The Federal National Mortgage Association (FNMA, Fannie Mae)
- The Federal Home Loan Mortgage Corporation (FHLMC, Freddie Mac)
- The Government National Mortgage Association (GNMA, Ginnie Mae)

Both Fannie Mae and Freddie Mac are **government-sponsored entities, or GSEs**. They provide liquidity to the market by purchasing mortgages and mortgage-backed securities

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and selling them on the secondary market. Fannie Mae and Freddie Mac only purchase conventional loans.

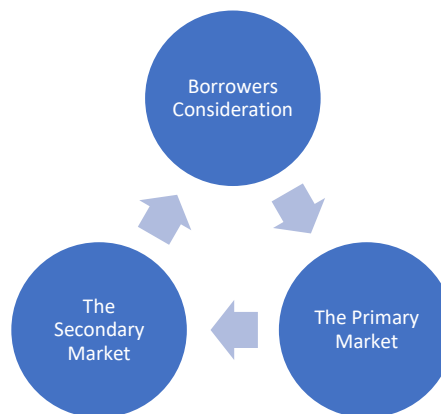
Ginnie Mae performs the same functions as Fannie Mae and Freddie Mac, except that Ginnie Mae is a **government-owned entity**. Ginnie Mae provides the same service as Fannie Mae and Freddie Mac, but they only purchase government loans like FHA loans, VA loans, and USDA loans. When these entities purchase loans from lenders, it frees up the lender's funds, which keeps the market moving by allowing the lender to help more borrowers.

This process is called the mortgage loan life cycle. There are three stages:

- The first stage is when the borrower decides to obtain a mortgage loan; they are financially capable and ready to buy their home.
- The second stage is the primary market; this is when the borrower goes to a lender or a broker to obtain a loan, and the lender originates the loan.
- The third stage is the secondary market, which allows the lender to replenish their cash by selling the loan to an investor (like Fannie Mae or Freddie Mac).

It all fits together in a delicate balance. If the secondary market does its job, it allows the primary market to keep lending. When the process is working smoothly, it can have a positive impact on the stock market and the economic well-being of the United States, therefore helping the borrower's financial stability and ability to borrow money from the primary market.

 Loan Life Cycle



Regulatory Authorities

A regulatory authority is an entity that has the power to regulate the mortgage industry. Regulatory authorities have the power to investigate, impose penalties, provide supervision, or a combination of all three. Each state has a **state regulatory authority** that is responsible for the supervision and enforcement of the state laws regarding the mortgage industry. At the highest level, **federal regulatory authorities** enforce federal law.

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An example of a state regulatory authority is the California Department of Business Oversight (CA-DBO). This entity is one of two entities in California responsible for enforcing CA state law and supervising mortgage loan originators in CA.

An example of a federal regulatory authority is the Consumer Financial Protection Bureau (CFPB). The Consumer Financial Protection Bureau is the Federal Government's primary enforcer and supervisor of the mortgage industry. The CFPB is a relatively new entity created by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Dodd-Frank Act created the CFPB in order to increase the oversight and regulatory burden of the mortgage industry and, since their creation, they have passed various laws to meet those goals.

There are also federal banking agencies, such as the Federal Reserve, the National Credit Union Administration (NCUA), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of Currency.

Obtaining a License

The Secure and Fair Enforcement Act for Mortgage Licensing Act of 2008 (SAFE Act) is the fundamental federal law that regulates the licensing process and responsibilities of mortgage loan originators. The SAFE Act passed in 2009, at that same time that regulators developed the NMLS and created the Model Law. The Model Law gives each state a template to use to create its own SAFE Act.

Remember: Only states license individual MLOs and non-financial companies. The NMLS is just a database for information.

Pre-Licensing Education

Before an applicant can obtain a license, they must complete their pre-licensing education and pass the National Test Component with the Uniform State Test. The SAFE Act requires a minimum of 20 hours of education. All pre-licensing education courses are reviewed and approved by the NMLS. That approval also includes the approval of the course provider.

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Many states require additional education beyond the 20 hours of the federally required education. For example, Texas requires an additional three hours of education on state-specific topics. If an applicant wants to get licensed in Texas, they must complete the 20 hours of education required by the SAFE Act and the additional three hours required by Texas State Law to obtain their license.

The 20-hour pre-licensing education must include:

- Three hours of federal law and regulation
- Three hours of ethics, which must include instruction on fraud, consumer protection, and fair lending issues
- Two hours of training related to lending standards for nontraditional mortgage product marketplace
- The remaining 12 hours are elective but may be dictated in part by the licensing state.

If an applicant wants to become licensed in multiple states, they will typically take the 20 hours of education one time. The only additional education they would have to take is any further state-specific education. If an applicant wants to become licensed in Texas, Florida, and Oklahoma, they need to take three hours of state-specific education for Texas, two hours for Florida, and one hour for Oklahoma. There are no states that require an additional state test.

For information about each state's requirements for education, please see: [The State Specific Education PDF provided by the NMLS](#)

Pre-Licensing Education Expiration

In 2016, the NMLS Policy Committee approved a policy that addresses situations in which an individual either:

- Completes the Federal PE requirement and does not acquire a license within a reasonable amount of time, or
- Acquires a license but then leaves the industry and returns after a long period and completes the required education to become current.

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Per the policy, an individual who completed 20 hours of Pre-Licensure education must retake 20 hours of pre-licensure education to be eligible for a license if they:

- Fail to acquire a valid state license or federal registration as a mortgage loan originator **within three years** from the date of taking the 20 hours.
- Fail to acquire a valid state license or federal registration as a mortgage loan originator **within three years** from the last date of licensure or registration as a mortgage loan originator.
- Are licensed in a state where the 20-hour course has to be retaken if the MLO has not taken it in the last three years.

For example, if an individual wants to become an MLO and they take the 20 hours of education and then don't obtain their license within three years, they will have to retake the 20 hours to obtain a license. This policy does not include someone who has a license in another state. For example, if an MLO holds a license in IN and wants to obtain a license in OH, four years later, they would not be required to retake the 20 hours of education unless the state requires it to be taken in the last three years.

In Arizona and North Carolina, 20-hour education is only valid for a period of time, regardless of whether an MLO holds a license in another state or not. For example, if an MLO gets licensed in New Mexico and maintains that license for eight years, and then decides to get licensed in Colorado, they would only need the Colorado specific hours. If, later that year, they decide to also get licensed in Arizona, they would have to retake the 20 hours, plus Arizona's four hours, because their first 20 hours would have expired by Arizona standards.

If an MLO leaves the business and then wants to return, they must prove that they have completed their continuing education for the last year they were licensed. For example, an MLO decides to leave the mortgage industry to become a real estate agent. After three years, they want to return to the mortgage business. The MLO would have to prove they took continuing education in the last year they were licensed to reapply or take a LATE CE course. We will discuss continuing education (CE) later in this course.

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Testing

In addition to pre-licensing education, there is also a testing requirement. To obtain a license as an MLO, an applicant must pass a qualified written test, known as the National Component with the Uniform State Content Test (UST). This test covers:

- Ethics
- Federal law and regulation pertaining to mortgage origination
- State law and regulation pertaining to mortgage origination
- Federal and State law and regulation, including instruction on fraud, consumer protection, the nontraditional mortgage marketplace, and fair lending issues

Before the SAFE Act existed, there was a national test, and each state had its own individual state test. After the SAFE Act passed, the NMLS developed the Uniform State Test (UST). The UST launched in 2013. It specifically tests applicants on their knowledge of federal law. All states have adopted the UST in place of state tests.

To pass the National Test with the UST, an applicant must receive a score of 75% or higher. The test contains 120 questions, 5 of which are not counted, for a total of 115 graded questions. To get a 75%, an applicant would need to answer 88 questions correctly.

Applicants can take the test three consecutive times. Each attempt must be 30 days apart. If the applicant fails three consecutive times, they must wait six months before they can retake the test. For example, Carlos takes the exam and fails the first time; he must wait 30 days to take it a second time; he fails the second, and then a third time. Once he's failed the third time, he must wait six months before he can retake it. The testing fee must be paid each time the test is taken.



If an MLO leaves the business for more than five years, they must retake the exam. This requirement does not apply to MLOs who switch from being a licensed MLO to a registered MLO.

State Model Law for Implementation of the S.A.F.E. Act: [National Test Outline](#)

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The Application

Applicants for a license must fill out the application form. The NMLS uses a generic application, known as the MU4. The MU4 is the application for any state; it includes information all states require for their license. A company license application is called an MU1. The application is the first step to becoming a licensed mortgage loan originator after completing pre-requisites. The NMLS provides a [quick guide](#) to walk applicants through the completion of the MU4.

Each application includes necessary information about the applicant. The applicant needs to provide 10 years of residential and employment history.

Along with the application, the applicant must permit the NMLS to do a background check and pull a credit report. For the background check, the applicant provides a set of fingerprints, generally electronically, from an NMLS-approved provider. During the application process, the applicant must also provide any information related to any administrative, civil, or criminal findings by any governmental jurisdiction.

The NMLS has contact with the Federal Bureau of Investigation (FBI) and the credit-reporting agencies and provides the criminal background history and the credit report to the state regulatory agency. This contact eliminates the need for each regulatory agency to have a relationship with the FBI and a credit-reporting agency. Some states do require a state-background check, so be sure to review the state application checklists found on the [NMLS webpage](#).

 State Model Law for Implementation of the S.A.F.E. Act

Surety Bond, Net Worth Requirements, State Funds

A surety bond is a lot like malpractice insurance for a doctor. If a doctor does something negligent or harmful to a patient and that patient sues the doctor and wins, the doctor's malpractice insurance typically covers the judgment. A surety bond works in the same way for MLOs and the entities that they work for. If an MLO or an entity harms a borrower and that borrower sues them and wins, that borrower will be paid out by that surety bond.

An insurance company also issues surety bonds. The amount of the surety bond required will vary from state to state. In almost all cases, an MLO is not required to obtain their own surety bond if their employer's surety bond covers them.

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Some states require a surety bond only; some require a surety bond and a net worth requirement; some only require a deposit into their individual state fund. Regardless, it is essential to understand what the rules are in the state where you would like to get licensed.

Net worth is a more straightforward concept. Some states require an applicant to be able to show a net worth and maintain that net worth throughout their time as a licensee. The net worth is liquid assets. The sponsor of the MLO covers net worth requirements. The amount of net worth required (or if net worth requirements even exist) is going to depend on each state's requirement.

Finally, some states require that an MLO and an entity contribute to **a state fund**. This state fund pays borrowers who are harmed by an MLO or an entity. The MLO can be required to make this deposit on their own, but it depends upon the state.

 State Model Law for Implementation of the S.A.F.E. Act

Issuance of a License

Now that the application is complete and all requirements are complete, the state will review the application and then approve or deny it. Many factors go into the decision, and each applicant must meet specific criteria. Those criteria include:

- **No license revocation:** An applicant cannot have ever had an MLO license revoked in any state previously. The only exception would be if the revocation was vacated.
- **No felony conviction:** An applicant cannot have been convicted of, or pled guilty or no contest to any felony (in any type of court) in the past seven years, or EVER, if the crime involved an act of fraud, dishonesty, breach of trust or money laundering.
- **A non-financial felony:** The applicant would be eligible after waiting seven years from the date of the conviction.
- An applicant must demonstrate **financial responsibility**, character, and general fitness that commands the confidence of the community and warrants the determination that the MLO will operate honestly, fairly, and efficiently within the purposes of the law.
- **Pre-Licensing Education:** The applicant must have completed their continuing education requirements.
- **Testing:** The applicant must have passed the National Test Component with UST.
- **Net Worth, Surety Bond, or State Fund Requirement:** The applicant must have satisfied that requirement.

What is financial responsibility? An applicant will show that they are not financially responsible when they have shown a disregard in the management of their own financial condition. Some of the things that are taken into consideration when determining whether an applicant is financially responsible are:

- Current outstanding judgments (except medical judgments)
- Current outstanding tax liens or other government liens or filings
- Foreclosures within the past three years
- A pattern of seriously delinquent accounts within the past three years
- Some states require that child support is paid up to date

If any of these issues are present on their credit report, the applicant will likely not be able to obtain a license. In some situations, a state will work with an individual to approve a license if there is a financial responsibility issue. Bankruptcy will not necessarily disqualify an individual from becoming licensed if, leading up to that bankruptcy, the applicant does not show a pattern of seriously delinquent accounts.

Keep in mind that some states have more strict requirements for licensure; this is just a general outline of what to expect.

 State Model Law for Implementation of the S.A.F.E. Act

Temporary Authority

For MLOs who plan to become licensed in multiple states, the SAFE Act permits **temporary authority**. Temporary authority allows for an MLO, licensed in another state, to operate in a new state while the license application is processed.

Temporary authority can also be used by a registered MLO to transition to a licensed MLO or to move from a financial institution to a non-financial company without having to wait for their license application to be approved (Note: They must already be employed by a state-licensed broker or lender). The MLO needs to meet specific criteria to be eligible.

To be eligible, MLOs must be:

- Employed by a state-licensed mortgage company in the application-state, and
- Either be:
 - Registered with the NMLS as an MLO continuously for the past year; or
 - Licensed as an MLO continuously during the 30 days preceding the date of application.

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Temporary Authority begins on the date an eligible MLO submits a license application with the required background check information (fingerprints, personal history, experience, and authorization for a credit report), assuming there is no disqualifying event. It ends when the earliest of the following occurs:

- The MLO withdraws the application
- The state denies or issues a notice of intent to deny the application
- The state grants the license
- 120 days after the application submission if the application is incomplete.

Some states have additional requirements for temporary authority; these are the general guidelines based on the amendment to the SAFE Act that created this option.

 Temporary Authority

License Maintenance

Every year a mortgage loan originator is required to renew their license. *The deadline country- wide is December 31st. On January 1st, all licenses expire or have already been renewed.* Some states have earlier deadlines for submission than others, so be sure to check each state's requirements on the [NMLS](#).

Generally, to meet the renewal requirements the individual must:

- **Continue to meet the minimum standards for licensure** (including financial responsibility and a clean criminal background – you may have to do updated credit reports or criminal background checks)
- **Satisfy the continuing education requirements**
- Pay all required renewal fees **(The cost for renewal varies by state).**

The NMLS provides [quick guides](#) for how to renew a license. It is essential to review these quick guides to ensure your renewal goes smoothly.

Continuing Education

To meet the annual continuing education requirements, MLOs must complete at least eight hours of continuing education. Similar to the pre-licensing education, a state can require additional continuing education per year or require one of those eight hours to be state-specific education. At a minimum, the continuing education must include:

- Three hours of federal law and regulations
- Two hours of ethics – including instruction on fraud, consumer protection, and fair lending issues
- Two hours of training related to the lending standards for the nontraditional mortgage product marketplace
- One hour of elective (or state-specific education).

Two rules are attached to continuing education that all MLOs need to remember:

- ***Continuing education only counts in the year when it was taken***
- ***An MLO cannot take the same continuing education course in successive years. This rule is called the successive year rule***

Putting these rules into perspective, an MLO cannot decide to take 16 hours of continuing education in one year so that they don't have to take continuing education the following year. This scenario would be a violation of Rule #1. Each MLO must take at least 8 hours of continuing education every year.

The second rule is a little more confusing. Each continuing education course is approved by the NMLS and is assigned a course number. If a licensee takes continuing education course #2222 in one year, the licensee cannot retake course #2222 the next year and must take a different course to satisfy their continuing education. They could theoretically take course #2222 the third year.

If, at any point, a licensee becomes an instructor for an approved continuing education course, the time that they spend teaching the course can count towards their continuing education at a rate of two hours for every one hour taught.

Reciprocity exists in the continuing education world, just as it does for pre-licensing education (think of only taking the 20 hours once). If a licensee completes eight hours of education, those eight hours will satisfy the other states where they are licensed, unless the other states require additional state-specific continuing education. For example, if an MLO holds licenses in both IN and KY, they would need to take eight hours of continuing

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education by the SAFE Act and then an additional one hour of KY state-specific education to satisfy their continuing education for the year for both licenses.

If a licensee fails to renew their license by December 31st, some states allow for reinstatement, which must be completed by March 1st. Each state decides the reinstatement deadline for their licensee, so make sure to pay close attention to that date. If an MLO misses the reinstatement deadline, they must reapply for licensure. Please note, if an MLO is going through reinstatement, they cannot act as an MLO, as their license is technically expired.

If the MLO did not renew on time due to not completing their continuing education on time, they would be required to complete Late Continuing Education (or Late CE). The lesson here is, always do your continuing education early, so you don't have to worry about it!

If your contact information, your licensing qualification, or anything within your MU4 changes at any time, you have 10 days to update it or you could be in violation.

 [State Model Law for Implementation of the S.A.F.E. Act](#);  [NMLS Renewal Handbook](#)

Prohibited Conduct

Each state has specific things they consider prohibited conduct. Most states used the Model Law to implement their SAFE Acts. In the Model law, there is a precise list of what should AT LEAST be considered prohibited.

That list includes:

- 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 a contract with a borrower that states that the MLO may earn a fee or commission through **"best efforts"** to obtain a loan even though no loan closes
 - For example, MLO Joe is working with a borrower and has been for six months. Joe has not been able to find a loan product for this borrower, so he's decided to tell his borrower he can't help him, but he owes him \$1,000 for his time. This act would be prohibited.

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- Solicit, advertise, or enter 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
 - For example, advertising an interest rate of 4.5% on a 30-year fixed rate when that is not something that you can offer
- Conduct any business **without holding a valid license** or assist or aid and abet any person in the conduct of business without a valid license
 - This act is called "unlicensed activity." Unlicensed activity can lead to criminal penalties in most states.
 - Aiding and abetting someone in unlicensed activity would be like allowing a processor (who is unlicensed) to take a loan application.
- **Fail to make disclosures** as required by this Act and any other applicable state or federal law, including regulations
 - There are a ton of different disclosures required in the mortgage industry; we will be talking about many of them throughout this course. Still, it's good to keep in mind that it's prohibited not to do the proper disclosures, whether they are federally, or state, required.
- Fail to comply with this Act or rules or regulations promulgated or fail to comply with any other **state or federal law**, including the rules and regulations thereunder, applicable to any business authorized or conducted
 - The state regulatory authorities are there to enforce state law, but they also look to ensure compliance with federal laws.
- Make, in any manner, any **false or deceptive statement or representation**, including, the rates, points, or other financing terms or conditions for a residential mortgage loan or engage in **bait and switch** advertising.
 - An example of bait and switch advertising would be advertising a low-interest rate like 2% on a 30-year fixed-rate mortgage to get people in the door, then providing them something completely different.
- **Negligently make any false statement or knowingly and willfully make any omission of material fact** about any information or reports filed with a governmental agency or the Nationwide Multi-State Licensing System and Registry or in connection with any investigation conducted by the Commissioner or another governmental agency
 - In layman's terms, lying on an MU4 form, on a report or during an investigation or examination with a government agency.
 - For example, lying on the MU4 and stating that you've never been convicted of a felony when you have.

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- **Make any payment, threat or promise**, directly or indirectly, to any person to influence the independent judgment of the person in connection with a residential mortgage loan, or make any payment threat or promise, directly or indirectly, to any appraiser of a property, to influence the independent judgment of the appraiser concerning the value of the property
 - This situation applies to any individual in the process: appraisers, underwriters, processors, and borrowers.
 - An example would be withholding payment to an appraiser because the appraised value of the property came back too low.
 - Another example would be bribing an underwriter to approve a loan.
- Collect, charge, attempt to collect or charge or use or propose any agreement purporting to collect or charge **any prohibited fee**
- 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.
 - For example, a borrower's house is worth \$250,000, and the lender requires the borrower to get \$300,000 in homeowners' insurance – this would be excessive.
- Fail to **truthfully account for monies** belonging to a party to a residential mortgage loan transaction
 - MLOs handle money in multiple situations; for example, collecting money for an appraisal. MLOs are required to be able to account for where that money goes, so don't use it to pay your car payment.

 State Model Law for Implementation of the S.A.F.E. Act

Disciplinary Action

Every state has its own requirements related to disciplinary action. Disciplinary action deals with violations of state law. The Model Law outlined basic guidelines for how to penalize licensees for violations. Each regulatory authority has a "Commissioner" who is the individual in charge. Sometimes they are called Commissioners, sometimes they are called by a different term, but they all have the same function.

Investigation and Examination

The first step in any disciplinary action is discovering the violation. That can happen in two ways: during an examination or during an investigation. What is the difference between an examination and an investigation? An examination is generally a yearly review of licensed entities' files and business practices to ensure that they are compliant with the law. Sometimes, after one of these examinations, the licensee will be fined or required to fix problems discovered during the examination. An investigation usually arises from a complaint or suspicion that an entity or individual is breaking the law.

As part of any examination or investigation, the Commissioner can subpoena or order anyone to appear under oath. The Commissioner can also order the production books, accounts, records, files, or any other documents. During an investigation or examination, the Commissioner must have access to all books, accounts, records, and employees for review. Further, the Commissioner can order specific reports to be compiled like accounting compilations, information lists, and data concerning loan transactions or other information.

In making any examination or investigation, the Commissioner can control access to any documents and records. The Commissioner can take possession of the documents and records. If the Commissioner takes possession, the licensee cannot remove any documents without a court order. Usually, the Commissioner does not take control of the documents unless they believe that the documents are in danger of being altered or destroyed.

Also, the Commissioner can:

- **Retain attorneys**, accountants, or other professionals and specialists as examiners to conduct or assist in the conduct of examinations or investigations.
- **Enter into agreements or relationships** with other government officials to improve efficiencies and to share resources.
- **Use, hire, contract or employ** public or privately available analytical systems, methods or software to examine or investigate the licensee, individual or person.
- **Accept and rely on examination or investigation reports** made by other government officials.
- **Accept audit reports** made by an independent certified public accountant for the licensee.

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No licensee subject to investigation or examination may knowingly withhold, abstract, remove, mutilate, destroy, or secrete any books, records, computer records, or other information.

 State Model Law for Implementation of the S.A.F.E. Act

Enforcement and Penalties

If a violation found, the Commissioner has options on how they handle the violation. For example, the Commissioner can:

- **Deny, suspend, revoke, condition or decline to renew a license** for a violation or if a licensee fails at any time to meet the requirements for licensure, or withholds information or makes a material misstatement in an application for a license or renewal of a license.
- **Impose fines.**
- **Issue orders or directives** as follows:
 - Order or direct persons to cease and desist from conducting business, including immediate temporary orders to cease and desist
 - Order or direct persons to cease any harmful activities or violations, including immediate temporary orders to cease and desist
 - Enter immediate temporary orders to cease business under a license or interim license issued if the Commissioner determines that such license was erroneously granted, or the licensee is currently in violation of the law
 - Order or direct such other affirmative action as the Commissioner deems necessary

The Commissioner can impose a civil penalty if the Commissioner finds, after notice and opportunity for hearing, that the licensee has violated or failed to comply with any requirement, regulation or order issued. *The maximum amount of penalty for each act or omission is \$25,000. Each violation or failure to comply with any directive or order of the Commissioner is a separate and distinct violation or failure.* Please keep in mind that each state is going to have different amounts for penalties for violations, but a violation of the SAFE Act is \$25,000 per violation.

 State Model Law for Implementation of the S.A.F.E. Act

Loan Originator Compensation

As we will discuss throughout the remainder of this course, there are a lot of federal laws and regulations that regulate the mortgage industry. Let's discuss two of the heavy hitters: **The Truth in Lending Act and the Real Estate Settlement Procedures Act**.

The Truth in Lending Act (TILA, Regulation Z) and the Real Estate Settlement Procedures Act (RESPA, Regulation X) are the two cornerstones of regulation for the mortgage industry. TILA has many different parts and sections, including a section on Loan Originator Compensation. As you are all about to be MLOs, it is essential to understand how compensation works for individual originators.

Loan Originator Compensation is a section of TILA that went into effect in 2014. The CFPB spearheaded the creation of the Loan Originator Compensation Rule; **the Dodd-Frank Wall Street Reform Act** originally mandated it.

Purpose and Background

We briefly discussed the mortgage market crisis of 2008 and 2009 and the creation of the Dodd-Frank Act of 2010. At that time, regulators became focused on the role of loan officers and mortgage brokers in the loan origination process, mostly because consumers generally only take out a few loans in their lifetime and rely on the guidance of loan originators during that process.

Before the implementation of the SAFE Act, MLOs' training and qualifications varied from state to state, and the structure of their compensation gave them strong incentives to steer consumers into expensive loans. During this period, borrowers often paid an upfront fee without realizing that the lenders in the transaction were also paying the MLOs' commissions which increased with the interest rate or other terms. This practice meant that MLOs were double-dipping.

The Dodd-Frank Wall Street Reform and Consumer Protection Act looked to strengthen loan originator qualification requirements and regulate industry compensation practices. The CFPB then issued new rules to implement the Dodd-Frank Act requirements, as well as to revise and clarify existing regulations and commentary on loan originator compensation. That was how the Loan Origination Compensation Rule (known as LO Comp) was born.

LO Comp: Key Points

The Loan Originator Compensation Rule (LO Comp) prohibits compensation based on terms or fees of a transaction or a proxy of a term of a transaction. LO Comp defines a **term of a transaction** as "any right or obligation of the parties to a credit transaction." For example, a mortgage broker cannot receive compensation based on the interest rate of a loan or the purchasing of title insurance. *To prevent evasion, LO Comp prohibits compensation based on a "proxy" for a term of a transaction.*

The rule also further clarifies the definition of a proxy to focus on whether:

- The factor consistently varies with a transaction term over a significant number of transactions.
- The loan originator has the ability, directly or indirectly, to add, drop, or change the factor in originating the transaction.

To prevent evasion, LO Comp generally prohibits loan originator compensation from being reduced to offset the cost of a change in transaction terms (often called a **pricing concession**). However, the final rule allows loan originators to reduce their compensation to defray specific unexpected increases in estimated settlement costs.

To prevent incentives to "up-charge" consumers on their loans, LO Comp prohibits loan originator compensation based upon the profitability of a transaction or a pool of transactions. However, subject to certain restrictions, the final rule permits some bonuses and retirement and profit-sharing plans to be based on the terms of multiple loan originators' transactions.

Specifically, the funds can be used for:

- Contributions to or benefits like tax-advantaged retirement plans, such as 401(k) plans and some pension plans.
- Bonuses and other types of non-deferred profit-based compensation if the individual loan originator originated ten or fewer mortgage transactions during the preceding 12 months.
- Bonuses and other types of non-deferred profit-based compensation that do not exceed 10% of the individual loan originator's total compensation.

What is Compensation?

Compensation is considered annual or other period bonuses, awards or merchandise, services, trips, or similar prizes as well as salaries and commissions.

If you are a loan originator, **you cannot receive compensation** based on:

- A term of a single transaction.
- The terms of multiple transactions conducted by the same MLO.
- The terms of multiple transactions conducted by multiple MLOs.

Examples of **prohibited compensation** include:

- A loan originator receives a higher compensation because the interest rate is above 5%, and they received 1% of the loan amount as a bonus because of that interest rate.
- A loan originator receives a higher bonus because they sell a loan with a demand feature/ prepayment penalty.
- A loan originator receives compensation if the borrower uses one title company over another.

There are **safe harbor** types of compensation provided for in this rule:

- The loan originator's overall dollar volume
- The long-term performance of the originator's loans
- An hour pay rate based on the actual number of hours worked
- Loans made to new customers versus loans to existing customers
- A payment that is fixed in advance for every loan the originator arranges
- The percentage of the loan originator's applications that close
- The quality of the loan originator's files submitted

Safe Harbor means that these types of compensation are allowed and would not be in violation of the LO Compensation Rule.

What is Steering?

Steering occurs when an MLO, who has the upper hand and knowledge of the industry, steers a borrower into the loan they think is best. Steering becomes a problem when an MLO steers a borrower into a loan that could potentially harm them for the sole purpose of obtaining a higher commission. The Loan Originator Compensation eliminates the ability of lenders to pay loan originators based upon terms and conditions of a loan, which makes it less likely an MLO is going to steer a borrower into a potentially harmful loan.

For an MLO to be sure **they are not steering** and meet the requirements of the LO Compensation Rule, the MLO must show:

- The consumer's loan offers for each type of transaction that the consumer expresses interest in.
- The loan options presented to the consumer including the following:
 - The lowest interest rate for which the consumer qualifies.
 - The lowest points and origination fees.
 - The lowest rate the consumer qualifies for a loan with no risky features, such as a prepayment penalty, negative amortization, or a balloon payment in the first seven years.

Prohibition Against Dual Compensation

LO Comp addresses consumer confusion over mortgage broker loyalties, especially in situations where the brokers were receiving payments from both the consumer and the lender. The final rule implements this restriction but provides an exception to allow mortgage brokers to pay their employees or contractors commissions. However, the commissions cannot be based on the terms of the loans that they originate.

Loan Originator Qualifications and Identifier Requirements.

LO Comp imposes duties on loan originator organizations to make sure that their loan originators are licensed or registered as applicable under the SAFE Act and other applicable laws. For loan originator companies, like depository institutions, the rule requires them to:

- Ensure that their loan originator employees meet the character, fitness, and criminal background standards, like existing SAFE Act licensing standards.
- Provide training to their loan originator employees that is appropriate and consistent with those loan originators' origination activities.

LO Comp contains special provisions concerning criminal background checks and the circumstances in which a criminal conviction is disqualifying, and for situations in which they can require credit checks.

Unique Identifier

LO Comp also requires that loan originators provide their unique identifiers on loan documents. Accordingly, mortgage brokers, lenders, and individual loan originators who are primarily responsible for an origination will be required to list on enumerated loan documents their unique identifiers, if any, along with their names.

Recordkeeping

LO Comp also extends existing recordkeeping requirements concerning loan originator compensation so that they apply to both lenders and mortgage brokers for *three years*. The rule also clarifies the definition of **loan originator**, for purposes of the compensation and qualification rules, including exclusions for some employees of manufactured home retailers, servicers, seller financiers, and real estate brokers; management, clerical, and administrative staff; and loan processors, underwriters, and closers.

 Loan Originator Compensation Rule:  Highlights of Final Rules on Loan Originator Compensation and Steering

Chapter 1 Review

Now that you've completed Chapter 1, let's do a quick review of the topics that were covered including the history of the mortgage industry, obtaining, and maintaining a license, Loan Originator Compensation, prohibited conduct and disciplinary action.

Mortgage Industry History

- The **Recession of 2008** brought about many changes to the mortgage industry through the passing of The Dodd-Frank Wall Street Reform Act. Known as Dodd-Frank.
- **Dodd-Frank** implemented MLO compensation rules, created the CFPB and the MLO contact of appraisers.
- The **SAFE Act** implemented NMLS, registration of all MLOs and the licensing of MLOs working for non-financial companies. SAFE stands for Secure and Fair Enforcement.
- The SAFE Act created the NMLS. NMLS stands for the Nationwide Multi-State Licensing System & Registry. Every MLO, under the SAFE Act, must have a **Unique Identifier** (also known as an NMLS ID number). Licensing is also required for MLO's whom do not work for Non-Depository Institutions.

Major Players

- **Fannie Mae (FNMA) and Freddie Mac (FHLMC)** are government sponsored entities that only buy Conventional Conforming Loans and they are overseen by Federal Housing Finance Agency (FHFA).
- Fannie & Freddie place the loans into a Mortgage Backed Security (MBS) which are sold into the Secondary Market.
- **Ginnie Mae** is a government agency that places closed government loans (such as FHA and VA) into Mortgage backed Securities, which are then sold into the Secondary Market.
- **Mortgage Brokers** cannot underwrite or fund loans.

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- **Mortgage Bankers** also known as **Mortgage Lenders** can fund and underwrite loans
- **Wholesaler or wholesale lending** is when a lender underwrites and funds Mortgage Broker loans.

Obtaining a License as an MLO

- Any person that **takes applications, negotiates terms or expects compensation on the loan**, is referred to as an MLO or Mortgage Loan Originator and is required to be licensed. Remember, there are penalties for Unlicensed Activity.
- Any person looking to be licensed, THAT's YOU! Must:
 - ❖ 1st Take **20-hours of Pre-licensing education**. The 20 hours of education is broken down into:
 - 3 hours of federal law
 - 3 hours of ethics
 - 2 hours of non-traditional
 - 12 hours of mortgage related topics
 - 2nd you must pass the **National SAFE MLO Test with UST**
 - The SAFE MLO test is comprised of 120 multiple choice questions, 5 of which are not graded.
 - You must obtain a score of 75% or higher out of 115 questions (which is 88 or more questions correct).
 - ❖ 3rd you must complete a **background check**, which is comprised of submitting your fingerprints as well as allowing for them to pull your credit.
 - ❖ REMEMBER: The states are not looking for a certain credit score. They are looking to see if you are of good moral and financial standing.
 - ❖ 4th you must complete an **application** for licensure. This application is known on the NMLS website as the MU-4 Form.
 - ❖ 5th you must be covered by a **surety bond, meet a net worth or state fund requirement**. Most entities cover MLO's, so be sure to talk with the company you will work for regarding the Surety Bond requirement.
 - ❖ And, last but not least, you MUST ALWAYS be **sponsored** by a licensed entity or company.
- Every MLO must have a **Unique Identifier** (AKA, NMLS ID#)
- If an MLO's license is inactive for over **3 years**, they may be required to take the 20-hours of pre-licensing education again in order to receive their license.

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- If an MLO's license is inactive for over 5 years, they may have to ALSO retake the SAFE MLO Test with UST in order to receive their license again.
- So please do not let your license go inactive, or you may regret it.
- The NMLS requires you to update your MU-4 form within 10 business days about any change in your contact (such as living address), or your legal or credit situation. The state you are licensed with may fine or suspend your license if you do not keep your account up to date.
- **You may be Disqualified from obtaining a license if you:**
 - ❖ Have had a license revoked in another state
 - ❖ Show a lack of financial responsibility
 - ❖ Have had any felonies in the past 7 years, or at any time if the felony involved Fraud, Breach of Trust, or Money Laundering. Those are the three kisses of death.
 - ❖ Or fail to complete any of the necessary requirements to obtain a license.

Maintaining a License as an MLO

- MLOs (and companies) must renew their licenses yearly by **December 31st**
- If you miss renewal, your state may allow you the option to apply for **reinstatement** (this is not true for all states).
- PLEASE get your licensed renewed in time! Renewal opens on November 1st of every year, so we recommend that you renew your license WAY before the December 31st deadline.
- To be eligible for renewal an MLO must:
 - ❖ **1st Complete Continuing Education (CE)** – 8 hours is required annually plus any state required law.
 - 3 hours of federal law
 - 2 hours of ethics
 - 2 hours of non-traditional
 - 1 hour of elective or any additional state specific education.
 - Some states require state specific education hours. Make sure you know your state's requirements! It is your job as an MLO to know what it takes to maintain your license.
 - ❖ **2nd an MLO must pay the renewal fees** (which vary by state)
 - ❖ **3rd an MLO must continue to meet the requirements for initial licensure** (for example: remain financially responsible, have a clean criminal record and no license revocations).

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Prohibited Acts

- **Avoid issues like:**
 - ❖ Committing Fraud
 - ❖ Collecting a fee for best efforts
 - ❖ Threatening, bribing or refusing to pay a third party (like an appraiser or an underwriter)
 - ❖ Don't forget all the disclosures. This is very important!
 - ❖ Make sure what you're advertising is actually available and with everything you do, avoid bait and switch tactics in your advertising.
 - ❖ Unlicensed activity is prohibited
 - ❖ Always account for your borrower's money – do not use it to pay your car payment!

Disciplinary Action & Enforcement

- The NMLS and CFPB have authority to **audit and examine** any company or MLO which they feel is putting the consumer at risk.
- Each state has a **Commissioner and state regulatory authority** who can examine or investigate a license.
- **Remember an Examination** is a routine audit for compliance
- **An Investigation** is triggered by a complaint or belief that violations are occurring, and usually goes deeper than just a routine examination.
- If anyone is found violation the SAFE Act, the maximum fine is \$25,000 per violation.

Loan Originator Compensation:

- **The LO Comp Rule was passed in 2014** and was mandated by the Dodd-Frank Act
- No loan originator compensation can be based **on terms or a proxy for a term**
- No **steering**
- No **dual compensation**
- Keep records on compensation for **three years**
- NMLS ID #s **must appear on applications**
- An MLO cannot be paid by both the Lender and borrower. They can only be paid by one, or the other.
- An MLO must keep all closing records for three years.

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- The MLO shows the consumer loan offers for **each type of transaction that they express interest in**, which should include the following:
 - ❖ The lowest interest rate for which the consumer qualifies
 - ❖ The lowest points and origination fees
 - ❖ The lowest rate for which the consumer qualifies, with no risky features, such as a prepayment penalty, negative amortization, or a balloon payment in the first seven years.
- There are permissible bonuses and contributions to a designed tax advantage plan.

CHAPTER 2

Products & Programs

Learning Objectives for Chapter 2

- ☐ Redefine all the different mortgage products like fixed, ARM, construction, and bridge
- ☐ Explain the basic qualifications for conventional, VA, FHA, and USDA loans
- ☐ Describe mortgage insurance, loan to value, bankruptcy, debt-to-income, down payment, loan limits, seller concessions and reserves
- ☐ Outline the QM and ATR Rules
- ☐ Understand non-traditional and non-QM loans
- ☐ Restate the requirements under HOEPA and Section 35 of TILA

The Products

The mortgage market has many different loan products available to suit a variety of borrower's needs. This section will address various loan products and how they may be of benefit to your future customers. There are two major types of mortgages: fixed-rate and adjustable-rate. At face value, it seems obvious what the difference is. Other loan options are available, like construction loans, bridge loans, and graduated payment loans. This section will dive into all of these loan products.

Fixed-Rate Mortgages

The fixed-rate mortgage is the most common type of mortgage available. Simply, it is a mortgage with a fixed interest rate over the entire term of the loan. A fixed-rate mortgage has fixed terms of 10 years, 15 years, 20 years, 25 years, or 30 years.

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Escrow/Escrowing: An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with a lender of funds to pay taxes and insurance premiums when they become due. These items are placed into an escrow account. This escrow account is where the funds to pay taxes and insurance are held until they are due to be paid

The only time a payment changes on a fixed-rate mortgage is in the event of the borrower's taxes and insurance increasing (if the borrower is **escrowing**) or when the **mortgage insurance** is removed.

Many borrowers choose to escrow their taxes and insurance. To escrow, the lender divides the amount of the borrower's taxes and insurance by 12 and adds it to the monthly payment. The lender pays the taxes and insurance when they become due.

Inflation of taxes or insurance is the only way that fixed-rate mortgage payments can go up. If that happens, the lender will divide the new amount of taxes by 12 and add that back into the payment.

The 30-year fixed-rate mortgage is considered a traditional mortgage. Some mortgages are non-traditional mortgages. What's the difference? **A traditional mortgage** is a 30-year fixed mortgage. **A non-traditional mortgage** is anything other than a 30-year fixed-rate mortgage, like a 15-year or a 25-year fixed-rate mortgage.

 [FTC: Real Estate Marketplace Glossary](#)

Adjustable-Rate Mortgages

An adjustable-rate mortgage, or ARM, also sometimes referred to as a variable-rate mortgage, is a mortgage loan where the interest rate periodically adjusts. The index, margin, and adjustment caps on the ARM determine the amount of each adjustment.

ARMs start with an **initial rate and payment**. The initial rate and payment amount on an ARM remain in effect for a limited period. That limited period can range from one month to several years. With most ARMs, the interest rate and monthly payment can change every month, quarter, year, three years, or five years. The period between rate changes is called the **adjustment period**. For example, an ARM that has an adjustment period of one year is called a one-year ARM, and the interest rate and payment can change once every year. An ARM with a three-year adjustment period is called a three-year ARM, and the interest rate can adjust every three years.

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An interest rate on an ARM has two parts: **the index and the margin (fully indexed rate)**. The index is a measure of market interest rates and the margin is the profit the lender adds. The index fluctuates with the market. The margin is assigned at the loan origination and always stays the same

The four most common indexes in the mortgage industry are:

- The LIBOR (London Interbank Offered Rate)
- The COFI (FHLBB 11th District Cost of Funds Index)
- The CMT (Constant Maturity Treasury)
- The SOFR (Secured Overnight Financing Rate)

At the time of an adjustment, the lender will add the current index number (this depends on the loan's assigned index) plus the margin.

For example, at the time of adjustment, a one-year ARM with a margin of 1.25% has an index (the LIBOR) of .50%. If you add the two together, the new interest rate on the ARM is 1.75%. This percent is called the **fully-indexed rate**.

Some ARMs also have **interest-rate adjustment caps**. Interest-rate caps are put into place to make sure that the borrower's interest rate never goes up more than a certain percentage every time it adjusts. Three types of interest rate caps exist on ARMs:

- **The first adjustment cap**: This allows the loan's interest rate to increase or decrease by only a certain amount at the first adjustment.
- **The subsequent adjustment cap**: This only allows the interest rate to increase or decrease by a specific percentage on any other adjustments after the first adjustment.
- **The lifetime adjustment cap**: This limits the number of total upward adjustments for the life of the loan (starting interest rate + the lifetime cap = the lifetime maximum interest rate).

The LIBOR (London Interbank Offered Rate) has been the index of use for years on ARMs but sometime in 2021, the LIBOR will be discontinued.

In the U.S., the Federal Reserve has recommended an index called the Secured Overnight Financing Rate (SOFR) as its recommended alternative to LIBOR and has published a transition plan to promote the use of SOFR on a voluntary basis.

The COFI is also being phased out after it's final publication in 2021.

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Let us do an example:

A borrower has an initial interest rate of 2.25%. The margin is 1.5%, and the index is the COFI. The ARM has 3/2/8 interest rate caps. The COFI, at its first adjustment, is at 1%. The COFI, at its second adjustment, is 3.25%. And the COFI at its third adjustment is 9.5%. What is the interest rate at the first adjustment? What is the interest rate at the second adjustment? AND what is the interest rate at the third adjustment?

This ARM has interest rate caps of 3/2/8. The first number (3) represents the amount the interest rate can increase or decrease at the first adjustment. The second number (in this case 2) is known as the Subsequent Adjustment Cap. This cap represents how much the interest rate can increase or decrease in the adjustment periods that follow the first adjustment. The third number (in this case 8) is known as the Lifetime Adjustment Cap. This cap limits the interest rate increase over the life of the loan.

To solve this problem, first look at what the interest rate is, by adding the margin and the index. The margin is always going to be 1.5%, but the COFI is showing at the first adjustment that it is at 1%. The two numbers then need to be added together.

$1.5\%(\text{margin}) + 1\% (\text{COFI Index}) = 2.5\%$ which is the fully indexed rate at the first adjustment.

Remember the adjustment caps of 3/2/8. The first adjustment cannot increase or decrease by more than 3% from the initial rate. The initial rate was 2.25% and the new fully indexed rate at the first adjustment is 2.5%. Since the interest rate at the first adjustment is 2.5%, the cap does not kick in and the interest rate at the first adjustment will be 2.5%.

What is the interest rate on the second adjustment?

First, we take the margin (1.5%), then we take the COFI index at the second adjustment (3.25%) and add them together.

$1.5\% + 3.25\% = 4.75\%$ which is the fully indexed rate.

Let's put it to the test using our adjustment caps of 3/2/8. On subsequent adjustments, the interest rate cannot increase or decrease by more than 2% from the first adjustment. Our interest rate at the first adjustment was 2.5%. Let's take the rate at the second adjustment (4.75%) and subtract the interest rate of the first adjustment (2.5%).

$4.75\% - 2.5\% = 2.25\%$

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This means the interest rate adjusted more than our cap! Now what we do is take the interest rate at the first adjustment (2.5%) and add our cap at the second adjustment (2%).

$2.5\% + 2\% = 4.5\%$ which is the interest rate at the second adjustment.

What is the interest rate on the third adjustment?

First, we take the margin (1.5%) then we take the COFI index at the third adjustment (9.5%), and we add them together.

$1.5\% + 9.5\% = 11\%$ which is the fully indexed rate.

This is where the lifetime cap would kick in. Remember, our caps are 3/2/8. The 8 represents the maximum amount the interest rate can increase over the life of the loan. To figure out what that interest rate cap would be, we take the initial rate (2.25%) and add the lifetime cap (8%).

$2.25\% + 8\% = 10.25\%$. This number would be the interest rate cap of the entire life of the loan.

On our third adjustment, the new fully indexed rate was 11%. This is over the cap limit. But remember, this also exceeds the subsequent adjustment cap of 2%. This means our interest rate cap would come into play for the third adjustment.

4.5% (interest rate at 2nd adjustment) + 2% (subsequent adjustment cap) = 6.5% . This would be the interest rate at the third adjustment.

Some ARMS have payment caps instead of or, in addition to, interest-rate caps. These payment caps limit the amount a borrower's payment can increase on any given adjustment. Those caps take the form of a percentage of the borrower's monthly payment. For example, if there is a payment cap of 7.5%, that means that a borrower's payment cannot increase more than 7.5% of their last payment on any adjustment, even if the increase in interest drives the payment higher than that amount. If the payment cap comes into play, the borrower doesn't pay all of the interest on the loan. That interest is added to the balance of the loan; this is called negative amortization.

 Consumer Handbook on Adjustable Rate Mortgages

Types of ARMs

There are three common types of ARMs: the hybrid ARM, the interest-only ARM, and the payment option ARM.

The Hybrid ARM: Hybrid ARMs are advertised as 3/1, 5/1, 7/1, or 10/1 ARMs. These types of ARMs are a mix between fixed-rate and adjustable-rate mortgages, hence the term hybrid. The ARMs are fixed for a specific amount of time before they begin adjusting. For example, the 3/1 interest rate is fixed for three years and then adjusts every one year after that fixed period ends.

The Interest-Only ARM: An interest-only (I/O) ARM payment plan allows the borrower to pay only the interest on their loan for a specified number of years. Typically, interest-only ARMs allow for interest-only payment for three to 10 years. This option allows the borrower to have smaller monthly payments for that period. After the interest-only period, the monthly payment increases, and the borrower pays both principal and interest. Some I/O ARMs allow for the interest rate to adjust during the I/O period, some do not.

Payment Option ARMs: The payment option ARM allows the borrower to choose from several payment options. The options typically include:

- An interest-only payment – the borrower pays only the interest on the loan each month.
- A minimum payment – the borrower pays a payment that can be less than the interest due that month, which may increase the amount the borrower owes on the mortgage (known as negative amortization).
- A combined PMT, which includes the interest payment and a payment towards the principal.

 [Consumer Handbook on Adjustable Rate Mortgages](#)

ARMs: A Good Fit?

ARMs are the second most common product in the mortgage industry. They differ from fixed-rate mortgages in many ways. **The most important difference from a fixed rate is that the interest rate on an ARM fluctuates.** For this reason, a lender will often charge lower interest rates on ARMs than on a fixed-rate product. At first, the ARM has less expensive payments because of that lower interest rate; it can also be less expensive over a more extended period than a fixed-rate mortgage if interest rates remain steady or move lower. However, there is a downside to ARMs, because if interest rates increase and that ARM adjusts its interest rate, the borrower's payment will increase along with the rate.

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Some questions an MLO should ask their borrower before suggesting an ARM, include:

- Is your income high enough – or likely to rise enough – to cover the higher mortgage payments if interest rates go up?
- Will you be taking on any other sizable debts, such as a car loan or school tuition, soon?
- How long do you plan to live in the home? (If they plan to sell soon, rising interest rates may not pose the problem that they might if they intend to stay in the home for a longer period).
- Do you plan to make any additional payments or pay the loan off early?

When discussing an ARM with a borrower, the product must fit their needs. It is an MLO's responsibility to discuss the risks and rewards of an ARM with their borrower. The MLO must show that the borrower has the ability to repay the loan at the highest possible interest rate.

 [Consumer Handbook on Adjustable Rate Mortgages](#)

Construction Loans

A construction loan generally has higher interest rates than longer-term mortgage loans used to purchase homes. The money borrowed through a construction loan is provided in a series of advances as the construction progresses.

For example, the loan pays out \$50,000 for the initial foundation work. A month later, another \$50,000 for the framing of the house, another \$20,000 for the drywall, \$10,000 for plumbing, and \$17,000 for the electrical work are issued. The borrower must pay interest at the end of each month on the amount that has been drawn on the loan. The construction loan is complete when the house is finished. The borrower goes to the lender that committed on the permanent loan and pays off the construction loan.

Payments sometimes start on a construction loan six to 24 months after the loan is made. The borrower can pay the loan off in a lump sum or convert the loan to a conventional mortgage loan.

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The second type of construction is a **Construction Permanent**. The borrower obtains one loan from a lender and only pays one set of closing costs. While they are building the house, they only pay interest. Once construction is done the lender will figure the new P&I to pay the loan off in the remaining term.

 [CFPB Construction Loans](#)

Bridge Loans

A bridge loan is a short-term loan secured by the borrower's current home (which is usually for sale) that allows the borrower to use their equity for building or down payment on a purchase of a new home before the current home sells.

A bridge loan is what it sounds like: a loan that bridges one transaction to another. Bridge loans may occur when a borrower must relocate for work. For example, the borrower does not have enough time to wait for her current home to sell before she must move to her new location. She wants to purchase a new home in her new location but needs the equity that she would receive from the sale of her current home to buy a new home. The bridge loan allows the borrower to move to her new location and purchase a new home without her original home selling. The borrower pays off the bridge loan once the old house sells.

 [FTC: Real Estate Marketplace Glossary](#)

Graduated-Payment Loans

A graduated-payment mortgage (GPM) is a mortgage that has a low initial monthly payment that gradually increases over a specified time frame, designated at the time of origination. A GPM uses **negative amortization** to allow the borrower to have an initially discounted monthly payment. GPMs typically require a larger than usual down payment. The purpose of a GPM is to allow a borrower with limited income, who can document a likely future increase in income, to buy a house sooner by starting with a smaller house payment that increases over time. In order for a borrower to qualify, the underwriters will check the numbers based on the full payment amount. A 2/1 temporary buydown is a type of graduated-payment mortgage. We will talk more about buydowns in Chapter 5.

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A GPM could be an excellent choice for a young professional, like a doctor or a lawyer. Their income is almost always going to increase over time as they gain more experience and move up in their careers.

For example, a borrower receives a \$100,000 loan. He selects a graduated-payment mortgage and initially pays only \$200 a month toward his mortgage. That \$200 only covers a portion of the \$600 of interest that accrues on the loan every month. That additional \$400 a month is added back to the principal balance. So, while the borrower took out a mortgage for \$100,000, the principal loan amount is growing, as opposed to going down with each monthly payment. So, at the end of the year, the principal loan amount has gone up by \$4,800. He now owes \$104,800 on his mortgage, even though he paid \$2,400 that year.

Negative Amortization:

Negative amortization occurs when a person's monthly payments do not cover the amount of interest accrued during that month. The amount of interest not covered is added onto the principal balance of the loan.

Regular amortization occurs when a payment covers the amount of interest being accrued plus an additional amount towards the principal balance of the loan. An amortization schedule shows how much a person would have to pay monthly to pay off their loan in a specific period. For example, the borrower has a 30-year fixed-rate mortgage, and they are paying \$900 P+I per month. If they make the \$900 P&I payment each month, the loan will pay the mortgage off in 30 years. If they pay more, it will speed up the amortization, and they will pay off their mortgage faster than 30 years.

Home Equity Lines of Credit (HELOCs)

A Home Equity Line of Credit, or HELOC, is a type of revolving loan that enables a homeowner to obtain multiple advances of the loan proceeds at his or her discretion, up to an amount that represents a specified percentage of the borrower's equity in their property.

A Home Equity Line of Credit is kind of like having a credit card on the borrower's home. It is an open-ended loan that allows the borrower to take money out of their home to use for other purposes. A lot of borrowers use HELOCs for home improvement projects. The borrower must have equity already built in their home to qualify for a HELOC.

A HELOC works like this: A borrower owes a small amount of money on their home, say \$50,000, but their home is worth \$150,000. The borrower can take a HELOC out on their

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home and have access to some of that \$100,000 in equity. They can use that \$100,000 for anything they want. A HELOC generally does not allow the borrower to take 100% of the equity out of the property. It usually allows around 80% of the equity, which leaves the borrower at least 20% equity in the property.

A HELOC usually only requires monthly interest-only payments on the balance and can be paid down. Once the borrower pays the loan down, the borrower can take out more money. For example, the borrower does a kitchen remodel that costs them \$25,000, using the HELOC. The borrower then pays back that \$25,000. Later, they decide to install a pool; the borrower can proceed to take that \$25,000 out again.

 [FTC: Real Estate Marketplace Glossary](#)

Balloon Mortgages

A balloon mortgage is a mortgage that requires a larger than usual one-time payment at the end of the term. These loans generally have P&I payments before the balloon payment comes due, but the borrower will owe a large amount at the end of the loan.

A balloon payment is more than two times the loan's average monthly payment and can often be thousands to tens of thousands of dollars. Most balloon loans require one large payment that pays off the remaining balance at the end of the loan. Some examples are 5/25, 7/23 or 360/180. Why is it called a 360/180? Because the loan amortizes over 360 months or 30 years (so the payment is a 30-year payment) but the loan is required to be paid in full at 180 months (or 15 years).

In a balloon mortgage, the borrower will pay interest and principal payments for a fixed term, usually the term of the balloon. After that fixed term is over, the borrower must pay off the balance of the loan.

Balloon Mortgages: A Good Fit?

This type of mortgage might work for someone who intends to sell their home after a short period. An example would be someone who often relocates for work. They would purchase their new home with a smaller monthly payment and then immediately pay it off when they sell it and move onto their next home.

This might also work for someone who earns a large amount of money yearly but does not have as steady of an income the rest of the year, like a farmer. They earn some income

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during the year but make the bulk of their money after a harvest. At harvest time, they put a large chunk of money on their balloon mortgage, and by the time the fixed period is up, and the balloon payment is due, they likely have already paid off that mortgage or have the funds to make that balloon payment.



Loan Programs: Conventional Loans/Conforming Loans

A conforming mortgage is a mortgage that conforms with Fannie Mae and Freddie Mac guidelines, specifically with the loan limit set by them yearly. **A non-conforming loan** is any loan that does not conform to Fannie Mae and Freddie Mac guidelines. **A conventional loan** can be either non-conforming or conforming. In this section, we are going to talk specifically about **conventional conforming mortgages**.

Conventional loans can be fixed-rate mortgages, adjustable-rate mortgages, balloon mortgages, or hybrid mortgages, as long as the loan meets Fannie or Freddie's requirements. To determine whether a loan is going to conform with Fannie Mae or Freddie Mac guidelines, an underwriter will submit the loan file through an **automated underwriting system, or AUS**. Fannie Mae's AUS is **Desktop Underwriter or DU**; Freddie Mac's AUS is **Loan Product Advisor or LP (formerly known as Loan Prospector)**. The most common loan types used in conforming lending are 30 year and 15-year fixed-rate mortgages.

Qualifications for Conventional Loans

Quick Facts on Conventional Loans

Maximum Debt-to-Income	Manually Underwritten – 28%/36% (but can go up to 45% if the borrower meets certain circumstances)
Minimum Down Payment	Minimum Down Payment is 3% (Up to 97% LTV)
Minimum Credit Score	Depends, but general rule of thumb is 640 FICO (thought it can go lower)

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Loan Limit	For 2020, \$510,400 conforming (adjusted annually) Over \$510,400 is a non-conforming conventional loan (jumbo loan) For 2021, the conventional loan limit is \$548,250.
Private Mortgage Insurance (PMI)	Required on conventional loans with less than 20% down (or LTVs over 80%)
Appraisal	Required unless Fannie or Freddie give an Appraisal Waiver when the loan goes through automated underwriting
Gift Funds	Yes, Allowed
Borrowers with Bankruptcy	2 years from Chapter 13 discharge or 4 years from dismissal (2 years with extenuating circumstances, 4 years from Chapter 7 filing (or 2 years with extenuating circumstances))
Borrowers after Foreclosure	7 years from foreclosure, 4 years from short sale
LTV requirements on Cash Out Refinances	85% Maximum LTV
Reserves	Usually 2 to 4 months (determined by LP or DU)
Seller Concessions	Depends on the down-payment amount
Non-Occupying Co-Borrower	Not Allowed
Assumable	No
Employment History	2 years required

Understanding Bankruptcy

When someone files **bankruptcy**, they are legally declared unable to pay their debts. Bankruptcy can severely impact borrowers' credit and their ability to borrow money. *There are two types of bankruptcy: Chapter 7 and Chapter 13.*

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Chapter 7 provides for the complete liquidation of the debtor's debts, while Chapter 13 provides for the debtor to pay back their lenders through a payment plan decided by the court.

 FTC Real Estate Glossary, US Courts Bankruptcy Basics

Debt-to-Income

Debt-to-income is a calculation made to determine whether the borrower can repay the loan they are attempting to receive. The debt-to-income ratio, or qualifying ratio, vary from program to program. There are two parts to the debt-to-income ratios:

- **The Front-End Debt to Income Ratio/Housing Expense Ratio:** This ratio simply takes the amount that the borrower will be paying for their mortgage and divides it by their gross monthly income.
- **The Back-End Debt to Income Ratio/ Total Expense Ratio:** This ratio takes all the borrower's monthly liabilities and divides it by their gross monthly income.

Please note, that Fannie Mae and Freddie Mac have both indicated that they can go up to 45% back-end DTI on manually underwritten loans if the borrower meets certain circumstances. For testing purposes, we are suggesting using 36% for the maximum DTI on conventional loans because there are extenuating circumstances that the borrower has to meet to get that higher DTI and questions on the test will not likely give you that information.

We will delve deeper into these ratios later in the course, but keep in mind that these will play an essential role in determining whether a borrower qualifies for a loan or not. Each specific program we will be discussing in this chapter has their own requirements for these ratios.

 FTC Real Estate Glossary; Fannie Mae Selling Guide; Freddie Mac Seller Servicer Guide

Loan-to-Value

Loan-to-value also known as LTV is another calculation made to determine whether a borrower qualifies for a program or not. Programs require that borrowers put a specific amount down or have a specific amount of equity in their property to obtain a loan. To determine a borrower's loan-to-value, the MLO or underwriter will take a loan amount and divide it by either the borrower's purchase price or the property's appraised value whichever is lower.

For example, a borrower is purchasing a condo for \$100,000. The appraised value is \$125,000, and the loan amount will be \$90,000 (the borrower is putting \$10,000 down). To calculate the LTV, take the loan amount and divide it by the purchase price. The total LTV is 90%.

Why do we take the lower of the two?

By taking the lower of the two numbers (appraised value v. the purchase price), the LTV becomes more appealing to the lenders due to the lessened amount of risk, which in turn makes the loan easier to resell on the secondary market.

Summarized: A high LTV typically indicates a higher risk to lenders.

Down Payment

The down payment is a portion of the price of the home. Depending on the program, the minimum down payment may be as little as 3% or as much as 20% (or more). **Lenders do not allow a borrower to borrow money to cover down payments as this will affect the borrower's DTI.**

Gifted funds for down payments can be used if the "gift" is from a blood relative who does not expect to be paid back. There are also some loan programs that require zero down, as well as certain situations where the borrower may qualify for a grant or down payment assistance programs.

Lenders and underwriters typically prefer down payments that are sourced solely from the borrower. A borrower sourced down payment shows the lender that the borrower has made a financial commitment to the home, which, in turn, shows the lender that it is a less risky investment.

Loan Limit

The loan limit for a conventional mortgage in 2021 on a one-unit property in the contiguous United States, plus the District of Columbia and Puerto Rico, **is \$548,250**. The loan limits for Alaska, Hawaii, Guam, and the U.S. Virgin Islands **is \$822,375** for a one-unit property. If a loan amount exceeds conventional loan limits, it will be considered a non-conforming product and cannot be sold to Fannie Mae or Freddie Mac.

PLEASE NOTE, these loan limits change annually. Depending on when you are taking the National Test, you may need to know a previous year's, AS WELL AS the new year's loan limits. You can click on the citation in this chapter, and it will take you to Fannie Mae's page on Loan Limits, it is updated with the annual numbers.

 [Fannie Mae Single-Family Loan Limits](#)

Seller Concessions

Seller concessions are the costs that the seller or lender are paying. These costs can include:

- Title insurance
- Origination fees
- Processing fees.

Some loan programs allow for the seller to only pay a set percentage of seller concessions, limiting the number of contributions paid to help cover the borrower's closing costs.

The limit on seller concessions on conventional loans depends on how much the borrower is putting down: If the borrower's down payment is less than 10%, the seller can contribute up to 3%. If borrower's down payment is between 10% and 25%, the seller can contribute up to 6%. If the borrower's down payment is more than 25%, the seller can contribute up to 9%.

Occupancy Type	LTV/CLTV Ratio	Maximum Concessions
Principal residence or second home	Greater than 90%	3%
	75.01%-90%	6%
	75% or less	9%

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Investment Property	All CLTV ratios	2%

Reserves

Reserves, or PITI Reserves (Principal/Interest/Taxes/Insurance Reserves), is the cash amount that the borrower has available after making a down payment and paying closing costs for the purchase of a home. Some loan programs require that a borrower have reserves available at the time of closing (they can be long term assets, not just liquid assets). Having the reserves available is viewed favorably by underwriters. It shows that the borrower is not only able to make their monthly mortgage payments but that they can do so without incurring the payments as financial hardship.

 [FTC Real Estate Glossary](#)

Private Mortgage Insurance

Private Mortgage Insurance (also known as PMI) is required on all conventional/conforming loans when the borrower's down payment is less than 20% or if the loan has an LTV of more than 80%. Private Mortgage Insurance (PMI) is insurance for conventional loans that protects the lender from incurring a loss in the event of default by the borrower. A third-company provider provides PMI.

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However, the payment for the PMI is part of the borrower's monthly mortgage payment. Do not get this confused with MIP, Mortgage Insurance Premium, which is FHA's Mortgage Insurance requirement.

 FTC Real Estate Glossary

The Homeowners Protection Act (HPA)

In July of 1999, **the Homeowners Protection Act** went into effect. Before this, the Federal Government did not regulate PMI. *The Homeowners Protection Act addresses how/when PMI is removed from a loan.*

The Homeowners Protection Act provides **two ways** for private mortgage insurance to be canceled/removed. They are:

- When the borrower has at least 20% equity in their home and has paid down the mortgage balance to 80% (this is at the option of the lender).
- When the balance owed drops to 78%, the lender/servicer is required to remove PMI.

Government Loans: FHA Loans

Please note, all qualifications for any loan program or type we talk about are subject to change overtime as market conditions change.

Quick Facts on FHA Loans	
Maximum Debt to Income	31%/43%
Minimum Down Payment	Minimum Down payment is 3.5% (Up to 96.5% LTV)
Minimum Credit Score	580 with 3.5% down or 500-579 if the borrower puts down 10% or more
Annual Mortgage Insurance	Yes- required
Upfront Mortgage Insurance	Yes - required
Appraisal	Required
Gift Funds	Yes- allowed

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Borrowers with Bankruptcy	2 years after Chapter 7 discharged, 1 year after Chapter 13 filing
Borrowers after Foreclosure	3 years from foreclosure or short sale
LTV requirements on cash-out refinances	85% maximum LTV
Reserves	No Reserve Requirement
Seller Concessions	6% Maximum
Non-Occupying Co-Borrower	Allowed
Assumable	Yes, with FHA creditworthiness check
Employment History	FHA loans are less strict on employment history, no specific requirement
Owner-Occupancy	Yes (must move in within 60 days) and continue occupancy for one year

The Department of Housing and Urban Development (HUD) insures FHA (Federal Housing Administration) Loans. FHA home loans are generally easier to obtain, as their underwriting guidelines are more lenient than conventional guidelines. A lender is approved through FHA to originate FHA loans. If approved as an unconditional Direct Endorser (DE), the lender can underwrite and close mortgage loans without prior FHA review or approval. FHA is the largest insurer of mortgages in the world.

When HUD insures a loan, it protects the lender from incurring damages due to a borrower defaulting on an FHA loan. For example, if a borrower had a \$100,000 FHA loan and the balance is down to \$80,000, and they default on the loan (resulting in foreclosure), the lender can submit a claim to FHA. The FHA insurance would cover the unpaid balance, interest that is due, unpaid real estate taxes and the costs for the foreclosure. FHA can also opt to take over the property and attempt to recover as much as possible.

Qualifications for an FHA Loan

FHA loans are more lenient on credit and employment history than conventional guidelines. They even allow for non-traditional credit and no credit score loans.

Assumption

Assumable loans allow for a borrower to assume a current mortgage, generally with little to no change in terms (especially the interest rate), if approved by the lender. For example: If a seller lists their home at \$240,000 but only owes \$200,000, a borrower could pay \$40,000 in cash and would then assume the seller's mortgage. By doing so, they assume the seller's current mortgage term and interest rate, which may be lower than the current market rate. Assumable mortgages typically have fewer closing costs and can serve as a unique marketing strategy for sellers.

Underwriting Standards for FHA Loans

Underwriters or lenders use FHA's **"4 Cs of Underwriting"** when evaluating FHA applications:

- Credit history of the borrower
- Capacity to repay the loan
- Cash/Capital assets available to close the mortgage
- Collateral, which evaluates the value of the home

Perfect credit history will always be the most appealing to underwriters. However, when evaluating an FHA file, some prior credit issues may not be a problem. The borrower must pay off all court-ordered judgments before an FHA loan can close. Also, the borrower can never have defaulted on a student loan or be delinquent or in default on any other type of federal debt. An underwriter will use the **Credit Alert Verification Reporting System (CAIVRS)** to determine whether a borrower has ever failed to repay their federal debts or obligations. The CAIVRS system is a database created by the Federal Government and used for this specific purpose.

FHA allows slightly higher debt-to-income ratios when qualifying for a loan. The higher ratio allows for some flexibility. If a borrower exceeds the debt-to-income ratios, they can often still obtain an FHA loan with proper compensating factor documentation.

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For example, if a borrower has successfully demonstrated that they have been able to pay a housing expense greater than or equal to the proposed monthly housing expense for the new mortgage in the past 12-24 months, they will probably qualify.

While FHA is less stringent on the profile of the borrower, they are stricter on the property conditions. If a property has significant defects or needs significant renovations or updating, an FHA loan will not be the best route for that borrower. FHA will not insure a loan collateralized by a dilapidated property.

The minimum down payment on an FHA loan is 3.5%.

Gift funds: A borrower can use gift funds received from a relative or employer for the entire amount of the down payment. To be considered a gift, the relative or employer cannot require repayment of the funds from the borrower. A gift letter must be signed by the donor, listing their name and contact information, as well as the specific dollar amount of the gift.

Upfront Mortgage Insurance Premiums (UFMIP)

A borrower pays UFMIP in a one-time payment at closing, or the cost is financed into the loan amount. ***The UFMIP is currently at 1.75% of the base loan amount.*** UFMIP is a requirement that applies, regardless of the term or LTV ratio on the FHA loan.

Upfront Mortgage Insurance Premiums

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Annual Mortgage Insurance Premiums

When a borrower takes out a mortgage, the annual mortgage insurance premium will be as follows:

Mortgage Term of More Than 15 Years			
Base Loan Amount	LTV	MIP (bps)	Duration
Less than or equal to \$625,500	≤ 90.00%	80	11 years
	> 90.00% but ≤ 95.00%	80	Mortgage term
	> 95.00%	85	Mortgage term
Greater than \$625,500	≤ 90.00%	100	11 years
	> 90.00% but ≤ 95.00%	100	Mortgage term
	> 95.00%	105	Mortgage term
Mortgage Term of Less than or Equal to 15 Years			
Base Loan Amount	LTV	MIP (bps)	Duration
Less than or equal to \$625,500	≤ 90.00%	45	11 years
	> 90.00%	70	Mortgage term
Greater than \$625,500	≤ 78.00%	45	11 years
	> 78.00% but ≤ 90.00%	70	11 years
	> 90.00%	95	Mortgage term

Annual Mortgage Insurance Premiums

What's the difference between PMI and MIP?

A borrower purchased Private Mortgage Insurance for a conventional loan through a third-party company. Mortgage Insurance Premium and Upfront Mortgage Insurance Premiums are paid directly to the FHA. It's important to remember the difference between the two, particularly when you are talking to your borrowers. Mortgage Insurance Premium on FHA loans can sometimes be less expensive than PMI, so it's important to compare both options when comparing loan scenarios

Mortgage Limits

FHA has a **maximum loan amount** that they will insure, known as the lending limit. FHA is required by the National Housing Act, as amended by the Housing and Economic Recovery Act of 2008, to set single-family forward loan limits at 115% of median house prices, subject to a floor and a ceiling on the limits. FHA calculates forward mortgage limits by Metropolitan Statistical Area and county.

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For example, FHA's 2020 minimum national loan limit, or "floor," of \$331,760 is 65% of the national conforming loan limit of \$510,400 in 2020, \$548,250 for 2021. This floor applies to "low-cost areas," which are counties where 115% of the median home price is less than the floor limit.

To find mortgage limits for a borrower, please visit:

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

FHA Streamlines

FHA Streamlines are a standard FHA refinance product. Streamlines are utilized by borrowers with current FHA mortgages when they would like to reduce their mortgage insurance, interest rate, or payment. The term "streamline" is used as less documentation and underwriting is required, and in some instances, an appraisal may not be required.

For more information on FHA streamlines:

https://www.hud.gov/program_offices/housing/sfh/ins/streamline

Reverse Mortgages/Home Equity Conversion Mortgages

A reverse mortgage is a type of home equity loan. The most common type of reverse mortgage is the **FHA Home Equity Conversion Mortgage or HECM**.

An HECM is a particular type of mortgage/home equity loan developed and insured by the Federal Housing Administration (FHA) that enables older homeowners to convert the equity they have in their homes into cash, using a variety of payment options to address their specific financial needs

Here are the basics about reverse mortgages:

- The borrower must be at least 62 years old, and
- Have a principal residence that is either paid off, or
- Have a low mortgage balance that can be paid off at settlement with the proceeds from the reverse loan
- Mandatory counseling is required before they can apply.
- Negative amortization
- No escrows for taxes and insurances

There is also a Reverse for Purchase HECM loan available for borrowers who may put a sizeable down payment and not have a required monthly mortgage payment.

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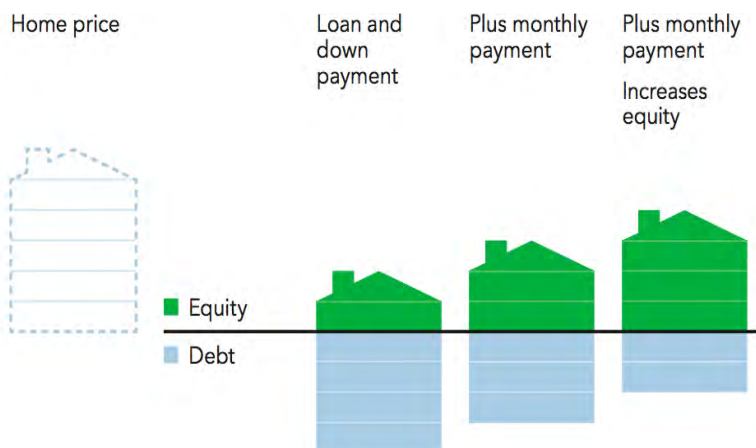
Understanding how a Reverse Mortgage works

Reverse mortgages tend to be a source of confusion for many, as there are quite a few misconceptions about how a reverse mortgage works. Reverse mortgages take the equity that has accumulated over time in an elderly borrower's home and pay it back to them through either installment payments, line of credit, or in a lump sum.

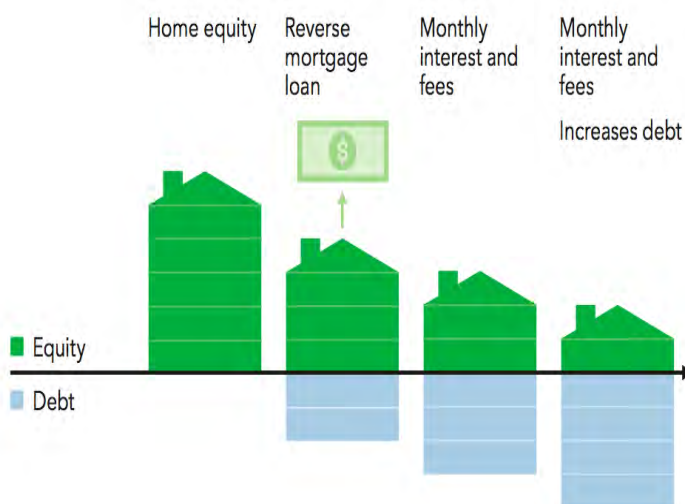
Per the CFPB, "With a reverse mortgage, you borrow money using your home as a guarantee from the loan, as you would a traditional mortgage. Unlike a traditional mortgage a reverse mortgage is repaid when the borrower no longer lives in the home. Although you won't make monthly mortgage payments, you'll need to continue to pay property taxes and homeowner's insurance and keep your house in good condition. Because interest and fees are added to the loan balance each month, your loan balance goes up – not down – over time. As your loan balance increases, your home equity decreases. Reverse mortgage borrowers must be age 62 or older. Borrowers usually use the loan to help pay for living expenses. "

Traditional mortgages

With a traditional mortgage, you usually borrow money to pay for the home at the time of the purchase, and pay it back over time. With each payment, you build your equity and your loan balance goes down.



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The installments that the elderly borrower receives during the reverse mortgage come from the negative amortization of the loan. The lender of the reverse mortgage will make payments to the borrower based on the built-up equity in the home. Typically, reverse mortgages do not require the borrower to make any payments until the borrower dies, sells the home, or moves out permanently.

If the borrower dies, there are a few options regarding how the reverse mortgage may be satisfied:

- The borrower's estate/heirs may sell the home and pay off the reverse mortgage.
- The borrower's estate/heirs may pay off the reverse mortgage and keep the property.
- The borrower's estate/heirs may surrender the property to the lender of the reverse mortgage.

What happens to my home when I pass away?

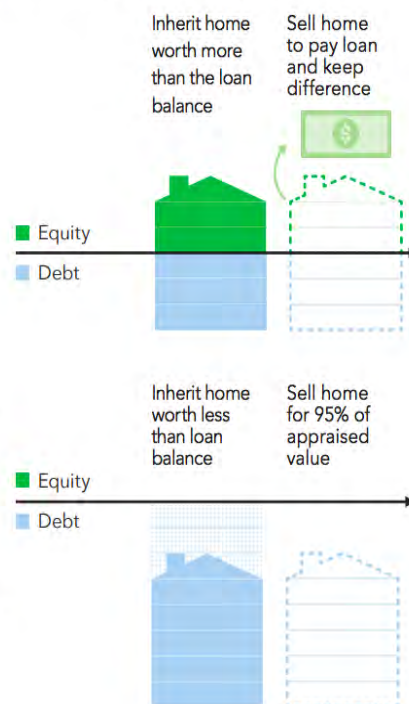
When the last remaining borrower passes away, the loan has to be repaid. Most heirs will repay the loan by selling the home.

How does it work when the loan balance is less than the home value?

Your heirs will use the loan proceeds to repay the loan and keep the difference.

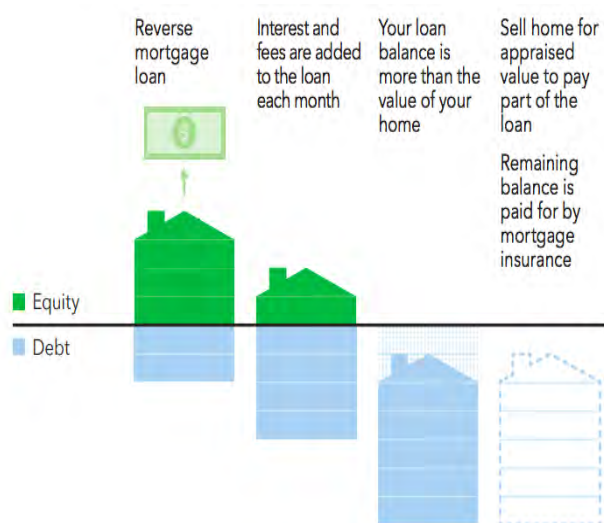
How does it work when the loan balance is more than the home value?

Your heirs won't have to pay more than 95% of the appraised value. The remaining balance of the loan is covered by mortgage insurance.



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The borrower's estate/heirs may have up to a year (depending on the lender/Note) from the borrower's death to determine how they would like to proceed with the handling of the property. If a borrower already has a traditional mortgage, some of the money that is borrowed from the HECM will be used to pay off the current mortgage. If they owe a lot on their current mortgage, they may not have much, or any, money from the reverse mortgage left to spend on other things. The benefit would be that they would free up the money they've been paying monthly on their current mortgage to use for other purposes.



There is no prohibition to a borrower who would like to sell their home if they have a reverse mortgage. If the borrower's reverse mortgage balance is less than what the home is worth, the sale of the house will work like any other sale of the house; the house will be sold, and the profit will be used to pay off the reverse mortgage. If the balance of the reverse mortgage is more than the value of the borrowers' home, the borrower does not have to pay the

difference. When the borrower sells their home for the appraised fair market value, mortgage insurance pays the remaining balance of the loan.

General Qualifications for a Reverse Mortgage

The borrower must meet the following requirements to be eligible for a reverse mortgage:

1. Be 62 years or older
2. Own property outright, paid-down a considerable amount has a good amount of equity
3. Occupy the property as their principal residence
4. Not be delinquent on any federal debt (i.e., have any federal tax liens or any other federal debt)
5. Have financial resources to continue to make ongoing property insurance payments, taxes and homeowner's association dues plus regular maintenance
6. Participate in a consumer information session given by a HUD-approved HECM counselor

The property must meet the following requirements:

1. Single-family home or 2-4-unit home with one unit occupied by the borrower
2. HUD-approved condominium project, or
3. Manufactured home that meets FHA requirements

The borrower must meet the following financial requirements:

1. Income, assets, monthly living expenses and credit history will be verified.
2. Timely payment of real estate taxes, hazard, and flood insurance premiums will be verified.

Costs associated with HECMs

Only certain costs are allowable on a HECM transaction. The costs include mortgage insurance premiums since this is an FHA program. Third-party charges, like appraisals, are also acceptable. The lender can charge an origination fee, which can be the greater of \$2,500 or 2% of the first \$200,000 of their home's value, plus 1% of the amount over \$200,000. The cap on HECM origination fees is \$6,000.

Servicers (who are servicing the HECM) can charge a monthly servicing fee of no more than \$30 if the loan has an annually adjusting interest rate or has a fixed-interest rate. They can also charge a monthly servicing fee of no more than \$35 if the interest rate adjusts monthly.

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At loan closing, the lender sets aside the servicing fee and deducts the fee from the available funds. Each month, the monthly servicing fee is added to the loan balance. Servicers can also choose to include the servicing fee in the mortgage interest rate.

 [HECM HUD Program](#)

Determining the “Principal Limit”

One of the first questions a borrower will generally ask is, “How much can I borrow?” That number is called **the principal limit**. The borrower’s age, the interest rate on the loan, and the equity in the borrower’s home determines the loan’s principal limit. For example, an older borrower, with a sizeable equity and a lower interest rate, will have a higher principal limit than a younger borrower with a lower priced home and higher interest rates.

 [CFPB Reverse Mortgage Discussion Guide](#)

Types of Payment Options for a Reverse Mortgage

During the origination process, the borrower will decide what type of payment plan they choose to take with their HECM. There are five payment options available on a HECM including:

- **Tenure**: The borrower receives monthly payments from the lender if the borrower lives in, and continues to occupy, the home as a principal residence. Payments will stop when the last borrower or surviving spouse passes away or leaves the home.
- **Term**: The borrower receives monthly payments for a fixed period (Example: 20-year term: The borrower receives monthly payments for 20 years).
- **Line of Credit**: The borrower can make withdrawals (up to a set maximum amount) at the borrower’s discretion.
- **Modified Tenure**: A combination of the tenure and a line of credit options.
- **Modified Term**: A combination of the term and line of credit options.

 [HECM HUD Program](#)

Reverse Mortgage for a Purchase

A borrower can purchase a home using a reverse mortgage. The program allows senior homeowners the ability to relocate to other geographical areas to be closer to family members or to downsize to a different home that meets their physical needs, like a one-story home. How does a reverse mortgage work in a purchase situation? The borrower puts down a large amount of money for their new home (usually 50% or more). The borrower can use the proceeds of the sale of their previous home, their savings, or a combination of both. The sizable down payment creates instant equity in the home that the borrower can draw upon in monthly installments.

 HECM HUD Program

VA Loans

Quick Facts on VA Loans	
Maximum Debt-to-Income	41% Residual Income
Minimum Down Payment	0% (100% financing available on purchase transactions)
Minimum Credit Score	N/A
Funding Fee	Required – based on down payment and entitlement
Appraisal	Required
Gift Funds	Allowed if the Borrower puts a payment down
Borrower with Bankruptcy	2 years after Chapter 7 discharge, 1 year after Chapter 13 filing
Borrowers after Foreclosure	2 years after foreclosure or short sale
LTV requirement on cash-out refinance	Maximum 90% LTV
Reserves	No reserve requirement
Seller Concessions	4%

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Assumable	Yes – with VA/lender approval
Owner-Occupancy	Yes – within 60 days

VA loans, or Veterans Affairs Loans, are loans specifically for veterans of the United States Armed Forces. VA loans simplify the process of buying or refinancing a home, particularly during a service member's time in service or after they are honorably discharged. VA loans are also available to a veteran's surviving spouse.

The VA **guarantees** a certain portion of all VA loans, meaning that the VA will pay the lender up to 25% of the loan value should a borrower default on their loan. A guarantee is different than insurance.

Eligibility and Entitlement

A veteran borrower must have suitable credit, income, and a valid Certificate of Eligibility (COE) to be eligible for a VA loan. A borrower can only use a VA loan for primary residences. They must have been honorably discharged or meet certain service requirements to obtain a valid COE.

If a borrower does not meet the minimum service requirements, they may still be eligible if they were discharged due to:

- Hardship
- The convenience of the government
- Reduction-in-force
- Certain medical conditions
- A service-connected disability

To see the full list of service requirements, please visit:

http://www.benefits.va.gov/homeloans/purchaseco_eligibility.asp

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Restoration of Entitlement

Veterans can have a previously used entitlement **restored** to purchase another home with a VA loan if:

- The property purchased with the prior VA loan has been sold and the loan is paid in full or
- A qualified veteran-transferee (buyer) agrees to assume the VA loan and substitute his or her entitlement for the same amount of entitlement originally used by the Veteran seller.

The entitlement may also be restored one time only if the Veteran has repaid the prior VA loan in full but has not disposed of the property purchased with the prior VA loan. Remaining entitlement and restoration of entitlement can be requested through the VA Eligibility Center by completing VA Form 26-1880.

VA Eligibility

Loan Limits

The VA has not set a specific cap as to how much a borrower may use to finance a home; however, the VA has set limits of assumable liability, which will affect the amount of money that a lender may be willing to lend a veteran borrower.

The amount a borrower qualified for with **full entitlement** without making a down payment is the maximum loan limit. The basic entitlement that is available to the veteran is \$36,000. Most lenders will lend up to four times the veteran's available entitlement without a down payment. As the veteran's basic entitlement, the VA guarantees to the lender that they will pay up to at least \$36,000 or 25% of the veteran's loan amount, whichever is less, if the veteran defaults on their loan. So, the veteran's loan limit would be $\$36,000 \times 4 = \$144,000$.

The VA has a second tier, called **bonus entitlement**, in case the veteran wants to buy a home that costs more than \$144,000. To help veterans do this, the VA offers bonus (or Tier 2) entitlement. To determine a veteran's bonus entitlement, the VA will look at the Federal Housing Finance Agency's (FHFA's) current national conventional financing confirming limit and the veteran's state's county loan limits. The VA will guarantee 25% of their loan amount, based on these loan limits.

VA Loan Limits

Funding Fees

VA funding fees vary for different situations. Veterans using their benefits for their first home purchase will pay a different funding fee than the veterans using their benefits for a second transaction. Funding fees may also vary for different branches of the military (i.e., National Guard or Reservists) or for veteran borrowers who also make a down payment.

Usage	Down Payment %	Funding Fee Required
First Use	Less than 5%	2.3%
	5% or more	1.65%
	10% or more	1.4%
After First Use	Less than 5%	3.6%
	5% or more	1.65%
	10% or more	1.4%

For cash-out refinance VA loans, the funding fee is 2.3% for first use and 3.6% if it's subsequent use. If a veteran borrower has a service-connected disability of 10% or more, there is never a funding fee, regardless of whether they are a Reservist, National Guard member, or a veteran of the other branches of the military.

A surviving spouse can also use the veteran's benefit if their veteran spouse died while in active duty, or the veteran spouse died from a service-connected disability. Funding fees do not have to be paid out of pocket by the veteran. The borrowers can finance the funding fee directly into the loan amount.

Funding Fees

Debt-to-Income and Residual Income

The VA only uses the back-end or total debt-to-income ratio when calculating debt-to-income. The maximum back-end debt-to-income ratio is 41%.

Underwriters will also look at a veteran's residual income. Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses, such as food, health care, clothing, and gasoline.

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The acceptable thresholds for residual income are based on the region in which the veteran lives. These thresholds are based on the information supplied by the Consumer Expenditures Survey, which is published by the Department of Labor. When determining a borrower's residual income, the underwriter will have to take into consideration all members of the household, including the veteran's dependents.

 VA Determining Eligibility

Notice of Value (NOV)

When a VA appraisal is completed, it is underwritten by a LAPP (Lender Approved Processing Program). The lender's underwriter then issues a Notice of Value or Certificate of Reasonable Value (CRV). The NOV must be submitted in conjunction with the appraisal report when originating a VA loan.

Closing Costs on VA loans

On VA loans, some fees are acceptable, while others are not. The VA maintains a 1% maximum origination charge. Reasonable and customary fees include:

- Appraisal fees
- Recording fees
- Credit report fees
- Prepaid items
- Flood determination
- Survey
- Title examination
- Title insurance
- Other fees authorized by the VA

It is unacceptable for a lender to charge any fees other than the 1% origination fee. The lender may not charge the veteran for any attorney's fees or escrow service fees associated with the settlement of the loan.

 VA Closing Costs

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IRRRLs

The VA IRRRL, or VA Interest Rate Reduction Refinance Loan, is similar to the FHA streamline but is offered as a VA to VA no-cash out refinance loan. IRRRLs do require an additional funding fee, and the veteran cannot receive any additional funds out of their property. These loans often do not require an appraisal, much like the FHA streamline.

The funding fee on an IRRRL is 0.50% for everyone. IRRRLs do not require an appraisal or a credit underwriting package. IRRRLs can also be done with no money out of pocket by including all costs in the new loan or by funding the new loan at an interest rate high enough to enable the lender to pay the costs. With this type of loan, the borrower cannot receive any cashback from the loan proceeds.



USDA Loans

Quick Facts on USDA Loans	
Maximum Debt-to-Income	29%/41%
Minimum Down Payment	0% (100% financing available on purchase transactions)
Minimum Credit Score	N/A
Guarantee Fee	Required
Income Limit	115% max of area media
Gift Funds	Allowed if the Borrower puts a payment down
Borrower with Bankruptcy	3 years after Chapter 7 discharge, 1 year after Chapter 13 filing
Borrowers after Foreclosure	3 years after foreclosure or short sale
Reserves	No reserve requirement
Seller Concessions	Unrestricted

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The USDA loan, or U.S. Department of Agriculture loan, is a type of mortgage that is available in rural areas of less than 35,000 people. USDA loans offer many benefits to borrowers, including no down payment, 100% financing, lower-than-market interest rates, and a lower PMI rate than any other loan program. USDA-approved lenders can only offer 30-year loans for USDA borrowers; however, the USDA can offer a Direct Loan to low, or very low, income applicants. Direct Loans are not an option for any borrower who doesn't go directly through the USDA.

The USDA guarantees USDA loans. The USDA program provides a 90% loan note guarantee to approved lenders to reduce the risk of extending a 100% loan to eligible rural homebuyers.

The guarantee fee on a USDA has two parts: the monthly and the initial guarantee fee. On USDA loans, the initial guarantee fee is 1%. The monthly guarantee fee is .35%. The initial guarantee fee can be added into the loan amount and push the LTV over 100%.

To qualify for a USDA loan, the borrower must prove that they have income up to 115% of the median income of the area. The borrower must also be living in or purchasing a property that is in a rural area.

To determine whether a borrower meets the income eligibility, please visit:

<https://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state>

To determine whether a borrower's home meets the property eligibility requirements, please visit:

<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

Conventional / Non-Conforming

Fannie Mae and Freddie Mac's guidelines are typically more stringent than other loan programs; therefore, not all borrowers will qualify for a Fannie Mae or Freddie Mac loan. Borrowers who would qualify for conventional/non-conforming loans are those with less than perfect credit, less than two years of job history, non-traditional types of income, higher DTIs, or loan amounts that exceed the loan limits.

Jumbo Loans

A jumbo loan is a single-family loan that exceeds Fannie Mae and Freddie Mac's loan limits (remember the loan limits change yearly). Jumbo loans are conventional, but non-conforming loans.

 [FTC Real Estate Glossary](#)

Subprime Mortgages (Alt-A)

Subprime loans are designed for borrowers who have less than perfect credit. These loans are available on a limited basis. They are one of the main causes of the mortgage meltdown in 2008 and 2009. They have been replaced in some form by Non-Qualified Mortgages (Non-QM loans).

Subprime loans were manually underwritten. They had little or no amortization or included negative amortization features. Subprime loans had low credit requirements (credit scores in the 500s). They also may not require private mortgage insurance or escrow features. A lot of these types of loans had little verification of what the borrower was presenting as their income, assets, or employment. The lack of verification made them incredibly risky for lenders. These loans usually came with much higher interest rates, and usually, the borrower could not afford the loan.

A few examples of subprime loans include:

- **NINA – No Income/No Asset Mortgages:** Often referred to as “No Doc” mortgages. The borrower is not required to provide any financial information regarding their income or their assets.
- **SISA- State Income/Stated Asset:** Only require the borrower to state their income and asset situation but do not require the verification of the income or asset information.
- **SIFA or SIVA – Stated Income/Full Asset or Stated Income/Verified Asset:** Only require the borrower to state their income but they need to provide asset information.
- **No Doc:** No additional income documents are required.
- **Low-Doc:** Minimal income documents are required.

The Interagency Guidance on Nontraditional Mortgage Product Risks

Federal financial regulatory agencies published the Interagency Guidance on Nontraditional Mortgage Product Risks in 2006. The Guidance provides guidelines to lenders regarding nontraditional mortgage products. The Guidance defines nontraditional mortgage products as products that allow borrowers to defer principal and, in some cases, interest. These include products with interest-only features and products that have the potential for negative amortization, including products with flexible payment options.

The Guidance is concerned about payment shock, competitive pressures, and ceding underwriting standards to third-party organizations. The guidance does not precisely pertain to subprime mortgage lending, but it does outline acceptable underwriting practices and consumer protection principles that all institutions should consider. If a lender is setting an introductory interest rate, they should consider ways to minimize the probability of disruptive early recasting or extraordinary payment shock.

Payment Shock

Payment shock occurs when a borrower's payment suddenly increases. Payment shock happens in situations where the interest rate is variable, or there is an introductory interest rate. The change in the interest rate causes the borrower's payment to increase, and in some situations, the borrower can no longer afford to pay their mortgage because the interest rate is so high. This situation causes the borrower to then default on the loan.

Qualification Standards

While implementing qualifying standards for nontraditional mortgage products, institutions should take into consideration the impact of payment shock. Nontraditional products are not appropriate for borrowers who have a high loan-to-value, high debt-to-income ratios, and low credit scores. An analysis of the borrower's repayment capacity should be conducted, including an evaluation of the borrower's ability to repay the debt at the loan's fully indexed rate, while avoiding an over-reliance on credit scores.

The Guidance also indicates that a lender should not rely solely on the amount of collateral (equity) the borrower has in the property when making the loan. This practice is not safe or sound underwriting. If a lender is going to allow no or low document loans or simultaneous seconds, the lender should document risk-mitigating features such as high credit scores, lower LTVs, lower DTIs, credit enhancements, and mortgage insurance. This

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practice is called **risk layering**. The Guidance indicates that a loan with minimum owner equity, like a simultaneous second-lien loan, should generally not have a payment structure that allows for delayed or negative amortization.

Underwriting Standards

The Guidance encourages that mortgage loan underwriting standards should address a substantial payment increase when determining whether a borrower can repay a nontraditional mortgage loan. A good example is an interest-only loan. If a borrower's loan initially has no interest but eventually begins to amortize, the underwriter should take into consideration whether the borrower can repay the loan at the highest possible interest rate that the loan allows.

Interagency Guidance on Nontraditional Mortgage Product Risks

Statement on Subprime Mortgage Lending

A year after the Interagency Guidance on Nontraditional Mortgage Product Risks was published, the same financial regulatory agencies issued the Statement on Subprime Mortgage Lending. The purpose of the statement was to promote consumer protection standards as well as encourage lenders to ensure that borrowers only obtain loans that they can afford to repay. The Statement includes guidelines for defining predatory lending, underwriting standards, establishing control systems, and consumer protection. The standards are concerned explicitly with certain ARM products that typically have these characteristics:

- Low initial payments based on a fixed introductory rate that expires after a short period and then adjusts to a variable-index rate plus a margin for the remaining term of the loan.
- Very high or no limits on how much the payment amount or the interest rate may increase ("payment or rate caps") on the reset date.
- Limited or no documentation of borrowers' income.
- Product features likely to result in frequent refinancing to maintain an affordable monthly payment.
- Substantial prepayment penalties or prepayment penalties that extend beyond the initial fixed interest rate period.

Consumer Protection

The Statement encourages lenders to give borrowers the necessary facts to understand the terms, costs, and risks associated with subprime products. MLOs should inform consumers of:

- Payment Shock
- Prepayment Penalties
- Balloon Payments
- Cost of Reduced Documentation Loans
- Responsibility for Taxes and Insurance

Predatory Lending

The Statement also defines **predatory lending**, which is a loan that has at least one of the following elements:

- Making loans based predominantly on the foreclosure or liquidation value of a borrower's collateral, rather than on the borrower's ability to repay the mortgage according to its terms.
- Inducing a borrower to repeatedly refinance a loan to charge high points and fees each time the loan is refinanced (known as "loan flipping", "churning" or "equity skimming").
- Engaging in fraud or deception to conceal the true nature of the mortgage loan obligation, or ancillary products, from an unsuspecting or unsophisticated borrower.

 Statement on Subprime Mortgage Lending

Qualified Mortgage

The Qualified Mortgage (QM) is a section of TILA that went into effect in 2014. It was mandated by the Dodd-Frank Wall Street Reform Act of 2010 and enforced by the CFPB. The QM Rule works hand in hand with the **Ability to Repay Rule (ATR)**.

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A Qualified Mortgage is a mortgage that has complied with the Ability to Repay requirements. There are currently six types of qualified mortgages:

1. General QM
2. Temporary QM
3. Small Lender
4. Balloon-Payment QM
5. Priced Based QM – a new category for 2021
6. Seasoned QM – a new category for 2021

Any lender can originate from the first two, while the other two are only allowed to be originated by small lenders. The QM requirements generally focus on prohibiting certain risky features and practices, such as negative amortization and interest-only periods and loan terms longer than 30 years.

Safe Harbor v. Rebuttable Presumption

A QM loan that is not higher-priced has a **safe harbor**. If the loan has a safe harbor, they are conclusively presumed to comply with the ATR requirements. Under a safe harbor, if a court finds that a lender originated a mortgage that was a QM, that finding conclusively establishes that the lender complied with the ATR requirements when they originated the mortgage.

For example, a consumer could claim that in originating the mortgage, their lender did not make a reasonable and good faith determination of repayment ability and that the lender, therefore, violated the ATR Rule. If a court finds that the loan met the QM requirements and was not higher-priced, the consumer will lose the claim.

A **rebuttable presumption** occurs when a QM loan is a higher-priced mortgage. Under a rebuttable presumption, if a court finds that a mortgage originated by a lender was a higher-priced QM, a consumer can argue that the lender violated the ATR Rule. For the consumer to win that argument, they must show that, based on the information available to the lender at the time, the consumer did not have enough residual income left to meet living expenses after paying their mortgage and other debts.

 [Consumer Financial Protection Bureau ATR/QM Small Entity Compliance Guide](#)

Types of Qualified Mortgages

There are different requirements for the four types of QM, but a few things that remain the same:

- A loan cannot be QM if they have negative amortization or interest-only payments.
- A loan cannot have a term longer than 30 years.
- There is a threshold on points and fees for QM loans; generally, 3% of the loan balance.

Of the four types of QM loans, the most common, and the one that most MLOs will come across is, the General QM. To be considered a General QM, the lender must:

- Underwrite based on a fully-amortizing schedule using the maximum rate permitted during the first three years after the date of the first payment. For loans with initial terms of five (5) years or longer, the borrower is qualified at the higher of the initial interest rate or the fully-indexed rate (margin and index).
- Consider and verify the consumer's income, assets, debt obligations, alimony and child support obligations.
- Determine that the consumer's total monthly debt-to-income is no more than 43%.

To be considered a qualified mortgage, points and fees cannot exceed the following thresholds (as of January 1, 2020):

- 3% of the total loan amount for a loan greater than or equal to \$109,898
- \$3,297 for a loan greater than or equal to \$65,939 but less than \$109,898
- 5% of the total loan amount for a loan greater than or equal to \$21,980 but less than \$65,939
- \$1,099 for a loan greater than or equal to \$13,737 but less than \$21,980
- 8% of the total loan amount for a loan less than \$13,737

To be considered a qualified mortgage, points and fees cannot exceed the following thresholds (as of January 1, 2021):

- 3% of the total loan amount for a loan greater than or equal to \$110,260
- \$3,308 for a loan greater than or equal to \$66,156 but less than \$110,260
- 5% of the total loan amount for a loan greater than or equal to \$22,052 but less than \$66,156
- \$1,103 for a loan greater than or equal to \$13,737 but less than \$22,052
- 8% of the total loan amount for a loan less than \$13,783

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There have been changes made to QM related to the expiration of the GSE patch and the definition of a General QM. From the rule:

The Seasoned QM rule was originally supposed to go into effect in March of 2021 but it was delayed. The General QM Definition is supposed to go into effect in July of 2021 but there is chatter that it will also be delayed. This is important information for students to be aware of but is likely to change and not likely to appear on the National Exam if you're taking it in 2021.

The General QM definition will be replaced by the Price Based QM definition. The main difference between the two is that the new definition removes the 43% DTI requirement. There are also new APR thresholds.

APR $\leq$ APOR + $< 2.25\%$ on first lien transactions and $\leq 3.5\%$ on second lien transactions is New Safe Harbor.

Seasoned QM:

- **Will Receive Safe Harbor even if HPML.** First-lien, ≤ 30 year fixed-rate
- Meet certain performance requirements over a 36-month seasoning period (*we will review in just a moment*)
 - During the 36-month seasoning period the loan may have **no more than two** delinquencies of **30 or more days**, and **no** delinquency of **60** or more **days** (if there is a delinquency of 30 or more days when the 36-month point is reached, the seasoning period is essentially extended as it would not end until there is no delinquency).
- Must be held in portfolio (cannot be sold/transferred) until the end of the seasoning period,
- **Comply with** points and fees test, no Negative Amortization, Balloon, I/O, and ATR (8 factors) underwriting requirements.

We mentioned APR a lot in this section, we talk in more detail about APR and how it works in our section on TRID.

 12 CFR 1026.43; ATR/QM Final Rule

Ability to Repay

The Ability to Repay Rule (ATR) is a section of TILA that went into effect in 2014. The Dodd-Frank Act mandated it, and the CFPB enforces it. The ATR Rule works with the QM rule, which we just discussed. Before the mortgage crisis in 2008, many mortgages were made to consumers without knowing whether the consumer could repay the mortgage or not. These loose underwriting practices contributed to a mortgage crisis that led to the nation's most serious recession since the Great Depression. ATR aims to remedy the loose underwriting practices and requires entities to determine whether the consumer can repay their loan.

The ATR Rule has eight underwriting factors that lenders must consider and verify:

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).
3. The monthly mortgage payment for the loan.
4. The monthly payment on any simultaneous loan secured by the same property.
5. The monthly payment for property taxes and insurance that the consumer is required to buy, and certain other costs related to the property, such as homeowners association fees or ground rent.
6. The borrower's debts, alimony, and child-support obligations.
7. The monthly debt-to-income ratio or residual income.
8. Credit history.

The rule requires that lenders consider at least these eight factors. These eight underwriting factors must also be verified using reasonably reliable third-party records. Examples of these records include W-2s or payroll statements.

To determine whether someone does have the ability to repay, each lender is responsible for developing and applying its underwriting standards and making changes to those standards over time, in response to information and changing economic and other conditions. It is the responsibility of the lender to make a reasonable and in good faith determination that the borrower has the ability to repay the loan.

 [Consumer Financial Protection Bureau ATR/QM Small Entity Compliance Guide; 12 CFR 1026.43](#)

Non-QM Loans

A Non-Qualified Mortgage, or Non-QM loan, is a loan that does not conform with the Qualified Mortgage rule; it also means that the loan is not accepted by government-sponsored entities like Fannie Mae or Freddie Mac. Non-QM loans cater to the not-so-perfect borrower.

Are Non-QM loans the new subprime loans? Maybe, but non-QM loans are still required to follow Ability to Repay requirements, so the past risk of low documentation or some of the subprime products coming back is slim, but it doesn't mean that Non-QM loans are not potentially risky.

With an increasingly diverse borrower base that includes millennials, self-employed, investors, and foreign nationals, conventional lending sometimes falls short. Responsible non-QM programs can help millions of creditworthy borrowers who don't fit the traditional credit box - and help lenders find growth even as traditional lending slows. Non-QM products can open the doors for a mortgage lender to help those less-than-perfect borrowers.

High-Cost Home Loans (HOEPA Loans – Section 32 of TILA)

The Homeownership and Equity Protection Act or HOEPA was an amendment made to TILA in 1994. Its purpose is to protect consumers from predatory lending practices associated with high-cost home loans. *HOEPA is known as Section 32 of Regulation Z (TILA).*

The following types of transactions are tested against the HOEPA coverage tests. If they meet these coverage tests, they are required to comply with restrictions under HOEPA. These types of transactions are:

- Purchase-money loans
- Refinances
- Closed-end home equity loans
- Open-end credit plans (like HELOCs)

There are some exceptions; these types of transactions are exempt from HOEPA:

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- Reverse mortgages
- Construction loans
- Loans originated and directly financed by a Housing Finance Agency
- Loans originated under the U.S. Department of Agriculture's Rural Development Section 502 Direct Loan Program

HOEPA applies to most types of consumer credit transactions secured by a consumer's principal dwelling – that means that vacation and second homes are not covered. Manufactured homes and other types of personal property, like RVs or houseboats, are subject to HOEPA coverage if the dwelling is the consumer's principal dwelling.

Determining if a Loan is High-Cost

There are three separate HOEPA coverage tests based on:

- The transaction's **APR (Annual Percentage Rate)**
- The amount of points and fees paid in connection with the transaction
- The prepayment penalties that are charged under the loan or credit agreement

The first test is the APR test. If the APR on the mortgage exceeds the **Average Prime Offer Rate (APOR)** for a comparable transaction by more than the below percentages, the loan is considered a high-cost home loan: The APOR is issued by the FFIEC weekly.

- 6.5% for first-lien transactions that are more than \$50,000 and secured by personal property
- 8.5% for junior-lien transactions (second mortgages) or first lien transactions that are less than \$50,000

The second test is the point and fees test. If a transaction exceeds the following thresholds, the loan is considered a high-cost mortgage, as of January 2020:

- 5% of the loan amount for loans greater than \$21,980 (OR)
- For loans less than \$21,980 the lesser of 8% of the loan amount or \$1,099

The second test is the point and fees test. If a transaction exceeds the following thresholds, the loan is considered a high-cost mortgage, as of **January 2021**:

- 5% of the loan amount for loans greater than \$22,052 (OR)
- For loans less than \$22,052 the lesser of 8% of the loan amount or \$1,103

The last test is the prepayment penalty coverage test. A transaction is a high-cost mortgage

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if the loan includes a prepayment penalty that:

- Is more than 36 months after consummation or account opening.
- Is an amount more than 2% of the amount prepaid.

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If the loan fails any of these three tests, it is considered a high-cost home loan. It does not have to fail all three, or two; just one fail and the loan is considered a high-cost home loan.

Restrictions and Additional Consumer Protections for High-Cost Mortgages

HOEPA requires additional and specific disclosure requirements, restricts terms on transactions, restricts fees and practices, and adds additional ability to repay requirements. HOEPA requires pre-loan counseling for all high-cost home loans, full appraisals, and escrows for the first five years.

Lenders are required to disclose to consumers at least three business days before **consummation**. (This is known as a "cooling off" period) The disclosure must be in writing and must inform the consumers that the loan will not be effective until consummation. It must explain the consequences of default, disclose loan terms such as the APR, the amount borrowed, and the monthly payment. In the case of variable rate loans, the disclosure must explain the maximum monthly payment.

HOEPA also restricts some risky loan features for high-cost mortgages, including balloon payments, prepayment penalties, and due-on-demand features.

HOEPA further restricts the following acts or practices on high-cost mortgages:

- Recommending default on any existing loan to be refinanced by a high-cost mortgage
- Charging a fee to modify, defer, extend or amend a high-cost mortgage
- Late fees cannot exceed 4% of the past-due payment, and pyramiding late fees is prohibited
- Fees for payoff statements are generally banned
- Points and fees cannot be financed; however, you can finance closing charges excluded from the definition of points and fees such as bona-fide third party charges
- You cannot purposely structure a transaction to evade HOEPA coverage
- Negative amortization
- A payment schedule that consolidates more than two periodic payments and pays them in advance from the loan proceeds is prohibited (Balloon payment)
- An increase in interest rate after default
- Paying a contractor under a home-improvement contract from the proceeds of high-cost mortgage

- Selling a high-cost mortgage in the secondary market without providing a high-cost mortgage notice to the assignee
- Refinancing any high-cost mortgage into another high-cost mortgage within one year after having extending credit, unless the refinancing is in the consumer's best interest.

Ability to Repay Requirements for High-Cost Mortgages

For closed-end HOEPA loans, lenders must follow the Ability to Repay Rule. For open-end high-cost mortgages, repayment ability must be determined using HOEPA's ability to repay rules. In general, the lender must consider:

- Current and reasonably expected income or assets (verified by W-2s, tax returns, etc.)
- Current obligations, including any mortgage-related obligations, like taxes and required insurances

Homeownership Counseling Requirements

The final piece of HOEPA is homeownership counseling requirements. Before making a high-cost home loan, the borrower must undergo homeownership counseling. The lender must receive a written certification from the homeownership counselor that the borrower has completed the required counseling. HOEPA's home counseling rule does not only apply to high-cost mortgages, but also applies to negative amortization loans made to the first-time borrower. It also requires that all federally-related loan applicants receive a list of housing counselors. The list of housing counselors must be sent three business days after receiving the application.

 12 CFR 1026.32

Higher-Priced Loans (HPML – Section 35 of TILA)

Higher-priced mortgages (HPML) are similar to high-cost mortgages. *TILA Section 35 covers higher-priced mortgages (Remember – Section 32 is high-cost mortgage loans).*

A mortgage loan covered by Section 35 is a **closed-end consumer credit transaction**, secured by a consumer's principal dwelling, with an APR that exceeds the APOR for a comparable transaction by:

- 1.5% for loans secured by a first lien loan
- 3.5% for a second-lien loan.

If the APR is higher than the APOR index plus the trigger listed above, it is a Higher-Priced Mortgage.

If a lender extends a higher-priced mortgage, the loan must have an escrow account for the collection and payment of property taxes and premiums for mortgage-related insurance. The escrow account is required for at least five years.

A lender is prohibited from extending a higher-priced mortgage loan without first obtaining a written appraisal of the property to be mortgaged. The appraisal must be provided to the borrower no later than three business days before consummation.

When originating higher-priced mortgages, the lender:

- Cannot rely on the collateral alone for repayment of the loan, without considering the borrower's financial ability to make payments
- Cannot rely on the consumer-provided information on income and assets without verification
- Cannot charge a prepayment penalty if the rate can change in the first four years of a loan; otherwise you can charge a two percent (2%) penalty
- Must escrow for at least the first 60 months of the loan.

 12 CFR 1026.35

Chapter 2 Review

Now that you've completed Chapter 2, let's do a quick review of the topics that were covered including the products and programs use in the industry, as well as information on higher-priced, high-cost, qualified mortgage and ability to repay.

The Products

- **Fixed-Rate mortgages**: One of the most popular programs which sets the interest rate at closing and will remain the same for the life of the loan.
- **Adjustable-Rate Mortgage (ARM)**: This product is not for every borrower, as the interest rates can go up or down at each adjustment, which may put the borrower at risk.
- The five parts of an ARM loan are:
 - ❖ Program
 - ❖ Caps
 - ❖ Margin
 - ❖ Index
 - ❖ Fully-indexed rate
- With most ARM products, the interest rate will remain the same for the initial term and then is subject to change at each adjustment period.
- The CAPS, are exactly as they state:
 - ❖ **An adjustment cap**, which limits the amount the interest rate can go or down at each adjustment.
 - ❖ The life cap is the addition of the starting interest rate and the 3rd number of the caps, which gives the highest the interest rate can go over the life of the loan.
- There are two types of construction loans: **Construction with a permanent take out and construction permanent.**
- **A bridge loan** in temporary financing against the equity of the borrower's present home to make a down payment on a new home or to start building a home.
- **Graduated payment mortgage**:
 - ❖ Lower payments at the beginning of the loan which then increase gradually to help the borrower.
 - ❖ The lower payments could result in negative amortization.

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- **HELOC – Home Equity Line of Credit:** A loan that uses the equity in a home to borrow money and pay it back as the buyer sees fit. and only pay Interest is only paid on the amount drawn each month.
 - ❖ The interest rate is floating, usually against prime.
- **Balloon mortgages** allow for 30-year amortization, but the mortgage will be called due when the balloon period ends.
 - ❖ The balloon cannot be less than five years

The Programs

- **Conventional Conforming Loans:** Any loan that meets Fannie Mae or Freddie Mac's requirements and will be purchased from approved lenders.
- **Non-Conforming Loans:** Any loan that will not be purchased by Fannie Mae or Freddie Mac because the loans do not meet their guidelines. The loans will be purchased by private investors.
- Conventional Loans:
 - ❖ Minimum 3% down payment
 - ❖ 28%/36% DTI ratios
 - ❖ Annually changing loan limits
 - ❖ PMI required with less than 20% down
 - ❖ 2 years from Chapter 13 discharge or 4 years from dismissal (2 years with extenuating circumstances)
 - ❖ 4 years from Chapter 7 filing (two years with extenuating circumstances)
 - ❖ Seven years from foreclosure, four years for short sale
 - ❖ 3% seller concessions
- Debt-to-Income Ratios:
 - ❖ The Front-End Debt-to-Income Ratio/Housing Expense Ratio: This ratio simply takes the amount that the borrower will be paying for their mortgage and divides it by their gross monthly income.
 - ❖ The Back-End Debt-to-Income Ratio/Total Expense Ratio: This ratio takes all the borrower's monthly liabilities and divides them by their gross monthly income.
- **Loan-to-Value** is another calculation made to determine whether a borrower qualifies for a property or not.

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- **Seller concessions:**
 - ❖ The seller will help the borrower with the down payment, closing costs or discount points.
 - ❖ There are limits for each program.
- **Private mortgage insurance** allows borrowers to put less than 20% down.
 - ❖ The premium is paid by the borrower.
 - ❖ PMI has to be terminated at 78% LTV as required by Homeowners Protection Act (HPA).
 - ❖ The borrower can request that PMI be terminated at 80%. per the HPA.
- **FHA – Federal Housing Administration loans** are insured by the FHA
 - ❖ 3.5% down payment
 - ❖ 31%/43% DTI ratios
 - ❖ 580 credit score with 3.5% down
 - ❖ Two years after Chapter 7 Discharge, one year after Chapter 13 filing
 - ❖ Three years after a foreclosure
 - ❖ 6% maximum seller concessions
 - ❖ Assumable
 - ❖ MIP and UFMIP required
 - ❖ Underwriters or lenders use FHA's "4 Cs of Underwriting" when evaluating FHA applications:
 - Credit history of the borrower
 - Capacity to repay the loan
 - Cash assets available to close the mortgage
 - Collateral, which evaluates the value of the home
 - ❖ FHA Streamlines are a standard FHA refinance product. Streamlines are utilized by borrowers with current FHA mortgages when they would like to reduce their mortgage insurance, interest rate, or their payment.
 - ❖ Reverse Mortgages (HECMs) allow borrowers 62 and older to use the equity in their home to help them meet their living expenses or supplement their income. The loan results in negative amortization.
- **VA loans** are guaranteed by the VA:
 - ❖ 41% DTI with Residual Income
 - ❖ 0% down payment (100% financing available dependent on veterans' benefits)
 - ❖ Funding Fee required
 - ❖ Two years after Chapter 7, one year after Chapter 13
 - ❖ Two years after a foreclosure

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- ❖ 4% seller concessions
- ❖ Assumable
- ❖ Valid COE required
- ❖ IRRLS – VA streamline (known as Interest Rate Reduction Refinance Loan)
- **USDA:** Mortgage loans for rural areas of less than 35,000 people.
 - ❖ 100% financing available
 - ❖ 29%/41% DTI ratios
 - ❖ Guarantee fee
 - ❖ There are income limitations. (115% max of area median income)
 - ❖ Three years from Chapter 7 discharge, one year from Chapter 13 filing

Conventional/Non-Conforming

- **Jumbo Loans:** They exceed the Fannie Mae and Freddie Mac loan limits.
- **Subprime loans** are designed for borrowers who have less than perfect credit.
 Examples of Subprime Loans include:
 - ❖ No Income/No Assets (NINA)
 - ❖ Stated Income/Stated Asset (SISA)
 - ❖ No Doc & Low Doc Loans
- **Interagency Guidance on Nontraditional Mortgage Product Risks:**
 - ❖ Provides guidance on how lenders should handle nontraditional mortgage products
 - ❖ Concerned with payment shock
 - ❖ Advises lenders to underwrite loans based on the fully-indexed rate
 - ❖ Advises lenders to participate in risk layering
- **Statement on Subprime Mortgage Lending:**
 - ❖ Includes guidelines for defining predatory lending, underwriting standards, establishing control systems, and consumer protection
 - ❖ The Statement encourages lenders to give borrowers the necessary facts to understand the terms, costs, and risks associated with subprime products
 - ❖ The Statement also defines predatory lending

Qualified Mortgage

- A section of TILA, created in 2014, mandated by Dodd-Frank, enforced by the CFPB
- Works with the ATR Rule

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- Four types of QMs:
 - ❖ General
 - ❖ Temporary
 - ❖ Small Creditor
 - ❖ Balloon
- **Safe Harbor & Rebuttable Presumption**
- A loan cannot be QM if they have negative amortization or interest-only payments
- A loan cannot have a term longer than 30 years
- There is a threshold on points and fees for QM loans – generally, 3% of the loan balance.
- To be considered a **General QM**, the creditor must:
 - ❖ Underwrite based on fully-amortizing schedule using the maximum rate permitted during the first three years after the date of the first payment. For loans with initial terms of five years or longer, the borrower is qualified at the higher of the initial interest rate or the fully-indexed rate (margin and index)
 - ❖ Consider and verify the consumer's income, assets, debt obligations, alimony and child support obligations
 - ❖ Determine that the consumer's total monthly debt-to-income is no more than 43%
- To be considered a qualified mortgage, points and fees cannot exceed the following thresholds (as of January 1, 2020):
 - ❖ 3% of the total loan amount for a loan greater than or equal to \$109,898
 - ❖ \$3,297 for a loan greater than or equal to \$65,939 but less than \$109,898
 - ❖ 5% of the total loan amount for a loan greater than or equal to \$21,980 but less than \$65,939
 - ❖ \$1,099 for a loan greater than or equal to \$13,737 but less than \$21,980
 - ❖ 8% of the total loan amount for a loan less than \$13,737
- To be considered a qualified mortgage, points and fees cannot exceed the following thresholds (as of January 1, 2021):
 - ❖ 3% of the total loan amount for a loan greater than or equal to \$110,260
 - ❖ \$3,308 for a loan greater than or equal to \$66,156 but less than \$110,260
 - ❖ 5% of the total loan amount for a loan greater than or equal to \$22,052 but less than \$66,156
 - ❖ \$1,103 for a loan greater than or equal to \$13,737 but less than \$22,052
 - ❖ 8% of the total loan amount for a loan less than \$13,783

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- **A Non-Qualified Mortgage, or Non-QM loan**, is a loan that does not conform with the Qualified Mortgage rule; therefore, it is not accepted by government-sponsored entities like Fannie Mae or Freddie Mac.

Ability to Repay

- Section of TILA, effective 2014, mandated by the Dodd-Frank Act, enforced by the CFPB
- **The ATR Rule** has eight underwriting factors that creditors must consider and verify:
 - ❖ 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
 - ❖ Current employment status (if you rely on employment income when assessing the consumer's ability to repay)
 - ❖ The monthly mortgage payment for the loan
 - ❖ The monthly payment on any simultaneous loan secured by the same property
 - ❖ The monthly payment for property taxes and insurance that the consumer is required to buy, and certain other costs related to the property such as homeowner's association fees or ground rent
 - ❖ The borrower's debts, alimony, and child-support obligations
 - ❖ The monthly debt-to-income ratio or residual income
 - ❖ Credit history
- The eight underwriting factors must also be verified using reasonably reliable third-party records. Examples of these records include W-2s or payroll statements.

Homeownership Equity Protection Act (HOEPA)

- Amendment to TILA made in 1994
- Protect consumers from predatory home loans associated with high-cost home loans
- Also known as **Section 32 of Regulation Z (TILA)**
- Doesn't apply to:
 - ❖ Reverse Mortgages
 - ❖ Construction Loan

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- ❖ USDA loans
- ❖ Loans originated by a Housing Finance Agency
- Three tests:
 - ❖ APR
 - ❖ Points and Fees
 - ❖ Prepayment Penalty Test
- If the loan fails any of these three tests, it is considered a high-cost home loan
- HOEPA requires additional and specific:
 - ❖ Disclosure requirements
 - ❖ Restricts terms on transactions
 - ❖ Restricts fees and practices
 - ❖ Adds additional ability to repay requirements
 - ❖ Requires pre-loan counseling for all high-cost home loans
 - ❖ Full appraisal
 - ❖ Escrows for the first five years.

Higher Priced Mortgage Loans (HPML, Section 35 of TILA)

- Known as section 35 of TILA
- Deals with higher-priced mortgage loans
- APR that exceeds the APOR for a comparable transaction by:
 - ❖ 1.5% for loans secured by a first lien loan
 - ❖ 3.5% for a second-lien loan.
- The escrow account is required for at least five years.
- When originating higher-priced mortgages, the creditor cannot:
 - ❖ Rely on the collateral alone for repayment of the loan, without considering the borrower's financial ability to make payments
 - ❖ Rely on the consumer provided information on income and assets without verification
 - ❖ Charge a prepayment penalty if the rate can change in the first four years of a loan, otherwise a 2% penalty can be charged
 - ❖ The lender must escrow for at least the first 60 months of the loan

Chapter 3

The Initial Application

Learning Objectives for Chapter 3

- ☐ Describe the difference between pre-approval and pre-qualification
- ☐ Explain the TILA umbrella and what TILA considered an advertisement
- ☐ Restate the advertising requirements under TILA and the MAP Rule
- ☐ Outline all the initial disclosures required at the time of application
- ☐ Understand what constitutes an application under
- ☐ Describe how to determine what types of loans to show a borrower
- ☐ Restate the requirements under ECOA and HMDA

The Initial Interview

The initial interview is a crucial part of the origination process, mainly for MLOs. It gives the MLO the opportunity to ask all the questions and receive the answers that will help them decide which options will be best for the borrower.

Pre-Qualified v. Pre-Approved

Many people have probably heard of the term **pre-qualification**. Getting pre-qualified is often the first step for someone looking to purchase a new home. the borrower supplies the lender with their overall financial picture, including debt, income, and assets. The lender evaluates the information and lets the borrower know for how much they would likely qualify. Loan pre-qualification includes an analysis of the borrower's credit report and an in-depth look at the borrower's income ability to purchase a home.

Pre-approval is sometimes the second step; it is a conditional commitment to grant the mortgage. What's the difference between pre-qualification and pre-approval?

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The Differences	Pre-Qualification	Pre-Approval
Do I need to fill out a mortgage application?	No	Yes
Do I have to pay an application fee?	No	Maybe
Does it require a credit history check?	No	Yes
Is it based on a review of my finances?	No	Yes
Does it require an estimate of my down payment amount?	No	Yes
Will the lender give me an estimate for a loan amount?	Yes	No
Will the lender give me a specific loan amount?	No	Yes
Will the lender give me interest rate information?	No	Yes

The Truth in Lending Act (Regulation Z, TILA)

Federal Mortgage Law Quick Facts:	Truth in Lending Act
Regulation:	Regulation Z (think TILA-ZILA)
Acronym:	TILA
Year Created:	1968
Main Purpose:	Protect consumers from predatory lending practices
Disclosures/Notice Required:	HOEPA notice, homeownership counseling notice, TRID
Important Terms Related to this Law:	High-cost loans, ability to repay, higher-priced loans, qualified mortgage,

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	advertising, right of rescission, CHARM Booklet, Loan Estimate Annual Percentage Rate
Entity Responsible for Enforcement:	CFPB
Other Laws that have influenced it:	Dodd-Frank
Federal Mortgage Law Quick Facts:	Truth in Lending Act
Regulation:	Regulation Z (think TILA-ZILA)

We have mentioned the Truth in Lending Act (TILA, Regulation Z) a few times in the past two chapters. The Truth in Lending Act is the oldest remaining piece of legislation regulating mortgages in the United States. In 1968, TILA was enacted and implemented by Regulation Z. It has gone through several changes over the decades, including many additions. Its purpose, though, remains the same, and that is to protect consumers.

Reg. Z applies to any individual or business that offers or extends credit if the following four conditions are met:

- The credit is offered to consumers
- Credit is offered regularly
- The credit is subject to a finance charge (interest) or must be paid in more than four installments according to a written agreement
- The credit is for personal, family or household purposes

Reg. Z does not apply to loans made for business, commercial, or agriculture purposes and only applies to 1-4-unit properties.

A lender is considered to have regularly offered credit if they extend credit more than 25 times in the preceding calendar year (or more than five times for transactions secured by a dwelling).

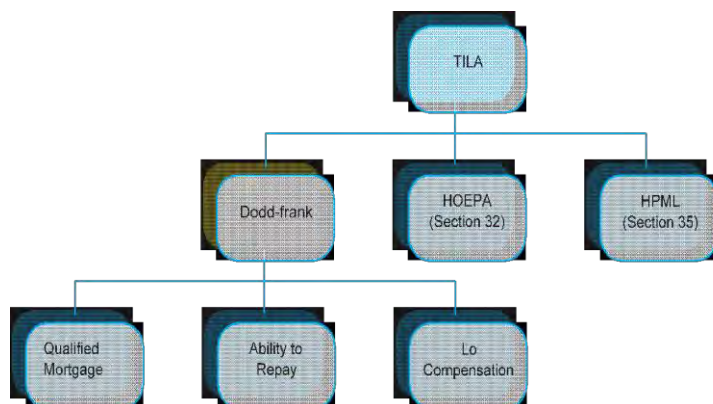
 12 CFR 1026.2

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The TILA Umbrella

Many rules fall under the TILA umbrella, and it is essential to remember what they are.

We've already talked about HOEPA, HPML, QM, ATR, and LO Compensation earlier in this course. They all fall under the TILA umbrella. The TILA umbrella also covers a few other topics, including the definition of an application, advertising, the right of rescission, the consumer handbook on adjustable-rate mortgages (CHARM booklet) and the TILA-RESPA Integrated Disclosure Rule.



Dodd-Frank is its own separate law, but it appears in this hierarchy because Dodd-Frank mandated Qualified Mortgage, Ability to Repay, and LO Compensation. TILA is the law that these three now fall under because of their creation.

Document Retention & Penalties

Anyone who gives false or inaccurate disclosure information, consistently understates the APR, or otherwise fails to comply with Reg. Z **can be fined up to \$5,000** and be imprisoned for up to one year, or both.

 12 CFR 1026.25

General Advertising Requirements Under the Truth in Lending Act (TILA, Regulation Z)

Advertising is a crucial way to drum up business in the mortgage industry. It can also be a compliance nightmare, as many laws regulate advertisements in the mortgage industry. TILA is one of those laws. TILA defines an advertisement as anything produced with the intent to sell a credit plan, including:

- Newspapers and magazine ads
- Leaflets and flyers
- Catalogs
- Radio, TV, or public address systems
- Signs or displays
- Billboards
- Point of sale literature
- Price tags
- Cash register receipts
- Online, internet or social media
- Websites

Rate sheets use for internal purposes, education, and state-required material (unless combined with a sales offer), and brochures that explain details about a mortgage, are not considered advertisements.

If a lender advertises directly to a borrower, they are required to:

- Advertise only terms that are the specific terms that the lender will offer in credit plans
- State the finance charge rate using the term Annual Percentage Rate or APR
- Specify that the APR might increase after consummation of the loan; the ad must be specific on this detail
- Advertise the APR in conjunction with the simple annual or periodic rate applied to an unpaid balance, but the APR must be advertised as conspicuously as the simple annual or periodic rate

If the rate is present in the advertisement, the APR must be disclosed. One way to remember is if an MLO lists any number in their advertisement, it will most likely “trigger” the requirement to disclose the APR. **A trigger term** is a phrase that represents the attractive features of the credit plan within the advertisement.

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Some trigger terms are:

- 10% down payment
- \$1000 down
- 80% financing
- Trade-in with \$5,000 appraised value
- Monthly payments less than \$500 on all loan plans
- Pay \$32.11 per \$1000 borrowed
- \$850 per month

If anything like the above appears, the ad must also disclose:

- The price of the home
- The amount of the down payment required, or that none is required
- The number of payments necessary to repay the loan
- The amount of the monthly payment for the entire term of the loan
- Due dates or period of payments scheduled to repay
- The APR

Some examples of terms that do not require the disclosure of the APR include:

- Easy monthly payments
- Low down payments
- Pay bi-weekly
- Terms to fit any budget
- Financing available
- FHA or VA loans available

We mentioned APR a lot in this section, we will talk more about this in our TRID section.

Advertising an Adjustable-Rate Credit Plan

If a lender is advertising an adjustable-rate credit plan, there are additional requirements for their advertising. The advertisement must say that the APR may increase or is subject to change.

It is important to remember that a lender is not required to advertise every type of credit plan that is available. Still, lenders cannot hide more consumer-friendly plans to bait and switch products with borrowers. The lender must honor any plan it advertises.

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Oral Disclosure

If a borrower asks about a credit plan and the costs associated with it, the MLO must disclose the APR. The APR must be first!

 12 CFR 1026.24; Regulation Z

The Mortgage Acts and Practice Rule (MAP Rule, Regulation N)

Federal Mortgage Law Quick Facts:		Mortgage Acts and Practices	
Regulation:		Regulation N	
Acronym:		The MAP Rule	
Year Created:		2011	
Main Purpose:		Regulate Advertising	
Disclosures/Notice Required:		N/A	
Important Terms Related to this Law:	Commercial	communication,	mortgage credit product, term
Entity Responsible for Enforcement:		The Federal Trade Commission	
Other complementary Laws:		TILA	
Federal Mortgage Law Quick Facts:		Mortgage Acts and Practices	
Regulation:		Regulation N	

The Mortgage Acts and Practice Rule, or MAP Rule, was created in 2011 to prohibit misrepresentation in a commercial communication about any term(s) of a mortgage credit product.

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There are three important terms to remember when discussing the MAP Rule:

- **Term** means any of the fees, costs, obligations, or characteristics of, or associated with, the product. It also includes any of the conditions on, or related to, the availability of the product.
- **Mortgage credit product** refers to any form of credit that is secured by real property or a dwelling, and that is offered or extended to a consumer; primarily for personal, family, or household purposes.
- **Commercial communication** refers to any written or oral statement, illustration, or depiction, whether in English or any other language, that is designed to affect a sale or create interest in purchasing goods or services. This applies whether it appears on, or in, a label, package, package insert, radio, television, cable television, brochure, newspaper, magazine, pamphlet, leaflet, circular, mailer, book insert, free-standing insert, letter, catalog, poster, chart, billboard, public transit card, point of purchase display, film, slide, audio program transmitted over a telephone system, telemarketing script, on-hold script, upsell script, training materials provided to telemarketing firms, program-length commercial (“infomercial”), the internet, cellular network, or any other medium. Promotional materials, items and Web pages are included in the term **commercial communication**.

 12 CFR §1014.2

Prohibited Acts under the MAP Rule

It is a violation of the MAP Rule for any person to make any material misrepresentation, expressly or by implication, in any commercial communication, regarding any term of any mortgage credit product, including, but not limited to, misrepresentations about:

- The interest charged for the mortgage credit product, including, but not limited to, misrepresentations concerning:
 - The amount of interest that the consumer owes each month that is included in the consumer’s payments, loan amount, or total amount due
 - Whether the difference between the interest owed and the interest paid is added to the total amount due from the consumer
- The annual percentage rate, simple annual rate, periodic rate, or any other rate
- 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

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- The existence, cost, 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
- The terms, amounts, payments, or other requirements relating to taxes or insurance associated with the mortgage credit product, including, but not limited to, misrepresentations about:
 - Whether separate payment of taxes or insurance is required
 - The extent to which payment for taxes or insurance is included in the loan payments, loan amount, or total amount due from the consumer
- Any prepayment penalty associated with the mortgage credit product, including, but not limited to, misrepresentations concerning the existence, nature, amount, or terms of such penalty
- The variability of interest, payments, or other terms of the mortgage credit product, including, but not limited to, misrepresentations using the word “fixed”
- Any comparison between:
 - Any rate or payment that will be available for a period less than the full length of the mortgage credit product
 - Any actual or hypothetical rate or payment
- The type of mortgage credit product, including, but not limited to, misrepresentations that the product is, or involves, a fully amortizing mortgage
- The amount of the obligation, or the existence, nature, or amount of cash or credit available to the consumer in connection with the mortgage credit product, including, but not limited to, misrepresentations that the consumer will receive a certain amount of cash or credit as part of a mortgage credit transaction
- 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
- 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 maintenance, or for failure to meet other obligations
- The effectiveness of the mortgage credit product in helping the consumer resolve difficulties in paying debts, including, but not limited to, misrepresentations that any mortgage credit product can reduce, eliminate, or restructure debt or result in a waiver or forgiveness, in whole or in part, of the consumer’s existing obligation with any person

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- The association of the mortgage credit product, or any provider of such product, with any other person or program, including, but not limited to, misrepresentations that:
 - The provider is, or is affiliated with, any governmental entity or other organization
 - The product is, or relates to, a government benefit, or is endorsed, sponsored by, or affiliated with any government or other program, including, but not limited to, using formats, symbols, or logos that resemble those of such entity, organization, or program
- The source of any commercial communication, including, but not limited to, misrepresentations that a commercial communication is made by, or on behalf of, the consumer's current mortgage lender or servicer
- The right of the consumer to reside in the dwelling that is the subject of the mortgage credit product, or the duration of such right, including, but not limited to, misrepresentations concerning how long, or under what conditions, a consumer with a reverse mortgage can stay in the dwelling
- The consumer's ability or likelihood to obtain any mortgage credit product or term, including, but not limited to, misrepresentations concerning whether the consumer has been preapproved or guaranteed for any such product or term
- The consumer's ability or likelihood to obtain a refinancing or modification of any mortgage credit product or term, including, but not limited to, misrepresentations concerning whether the consumer has been preapproved or guaranteed for any such refinancing or modification
- 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.

Please note that all covered commercial communications must be kept for a minimum of two years from the date that the communication was made to the consumer to comply with the MAP Rule.

 12 CFR §1014.3 & §1014.5

Suitability of Products and Programs

It is part of the MLO's job to provide options and guidance to a borrower when they are looking for a new home or to refinance their current one. Understanding the borrower's needs and long-term goals helps when presenting options to a borrower. Having an in-depth conversation with the borrower and understanding their goals and what they wish to accomplish with their mortgage is part of an MLO's job. Most of the time, an MLO presents three options to the borrower that they think will be suitable. We will take some time and go through some scenarios to better understand how to decide which product could be suitable for a borrower.

Scenario 1

A borrower walks into your office looking to obtain a mortgage loan. They are in a desperate financial position and are thinking about canceling their health insurance just to be able to afford to keep their house. This borrower remarks that they have just returned from Iraq and have no money for closing costs to refinance their property. What are some questions that you might ask this borrower? What are some options that you might present to this borrower?

- A VA loan- They said they had just returned from Iraq, so I would assume that they were in the military.
- A 30-year fixed mortgage- To lower the payment for the borrower to help with their financial burden
- An ARM- Depending on the interest rate and the payment with the ARM, it might give the borrower temporary relief until they get on their feet again. They could refinance again before the ARM adjusts or when they choose to move again.
- I would ask them if they are indeed active military, or were in the military, to determine whether they qualify for the VA loan.
- I would also ask how long they have lived in their home and how much time they have left on their current mortgage to determine whether stretching the mortgage out could alleviate the financial hardship.
- I would then ask if they intend to stay in this home, because if they plan on staying temporarily, an ARM might help them short term.

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Scenario 2

An elderly borrower walks into your office. She has just retired from her position as a school teacher and has lived in her home for 25 years. She is very close to paying it off, and its value has skyrocketed over the last few years. Her mortgage payment is high, and she feels like she doesn't have enough money to comfortably live a retired life or to visit her grandsons in another state.

- An HECM, or reverse mortgage, would be the first option. The borrower appears to be old enough, and this would allow her some better cash flow, because she could pay a smaller amount or pay nothing at all. She would be receiving cash from her equity to help her do the things she wants to do
- A 30-year fixed-rate mortgage would be an excellent second option. This option would lower the borrower's payment and allow her to pay extra or save when she wants, without tapping into her equity.
- A 30-year fixed-rate mortgage with cash out of the equity would be the third option. This would allow the borrower to take out some money in equity and drop her payment without going into the reverse mortgage option. She could get enough money to put into her savings to help her when she needs it, or to see her grandsons.
- First, I would verify that she is at least 62 years of age to make sure she even qualifies for the reverse mortgage.
- Second, I would ask if she has someone who will want to inherit the house. If so, the reverse mortgage option would probably not be a good choice.
- I would then ask if she is set on paying off her house soon. If so, none of the options will work well for her goal to pay off the house quickly.

Scenario 3

A young couple walks into your office looking to purchase their first home. They want to invest in a starter home and think they'll only be in that home for five to seven years. They want to start a family and know that they will need a larger home later and don't feel like they can buy that larger home now.

They still want some freedom in their finances to travel and do the things they want to do, but have also bounced around the idea that they might try to pay off this home and keep it as a rental property when they move onto their next house. They live in a college town, so they would easily be able to rent it out.

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- The 30-year fixed-rate mortgage would be the first option. It gives the borrowers the lowest possible payment and the financial flexibility to do what they want. They could also pay whatever they want monthly without being stuck with a higher payment. This option would allow them to pay it off early if they wanted to.
- A 15-year fixed-rate mortgage would be an excellent second option. This option would allow them to pay it off quickly but would not allow them the same financial flexibility as a longer term. The option would help them meet their goal of paying off the home and keeping it as a rental property.
- The third option would be a 5/1 ARM or 7/1 ARM. Because they intend to be out of the house in five to seven years, they could ride out the ARM until it adjusts and then sell it and move to their next home. This option would not necessarily be the best if they want to keep the property long term as an investment property, but it would possibly allow them more financial freedom to pursue their goals.
- I would ask them which goal is most important: paying off the house and renting it out, or having more financial freedom?
- Second, I would verify that they are planning on moving within five to seven years to make sure that the ARM option is viable for them.
- I would then ask if they have any other goals in mind. This question will allow me to make sure I have all my bases covered with the three options I offered.

The Initial Disclosures

Some federal laws mandate that, at the time of application, or within three business days of that application, an MLO must send specific disclosures to the borrower. How do we know if we have an application? According to the Truth in Lending Act (TILA), an application is a collection of six pieces of information:

- **Property address**
- **Estimated property value**
- **Name of the borrower**
- **Social Security Number to pull a credit report**
- **Income (the borrower's income)**
- **Loan amount requested**

Use the acronym “PENCIL” to remember these six pieces. If, at any time, an MLO has these pieces of information, the MLO has an application and must make the appropriate disclosures to the borrower.

The Uniform Residential Loan Application (URLA/ Form 1003)

The Uniform Residential Loan Application (URLA) is known as Form 1003 by Fannie Mae and Form 65 by Freddie Mac. The backbone of the origination process is the loan application. This form provides the foundation of the loan with loan terms, borrower information, residence and employment history, income, assets, liabilities, and important questions regarding credit, liabilities, and HMDA data. Part of the MLO's job is to make sure that the 1003 is as complete and accurate as possible. In this section, we are going to briefly look at the information located on the 1003 and discuss the importance of the pieces of information being gathered.

The 2021 version of the 1003 is designed to be completed by borrowers online, but it can still be taken over the phone. It is a fully executable PDF. A Spanish version is also available to help facilitate the completion of the English version.

There are two forms that MLOs should be familiar with: The Borrower Information (7 pages) and the Lender Information Form (2 pages). These two forms go hand in hand and complete the 1003. The Borrower Information portion is where all the borrower's pertinent information will be placed, such as their name, address, Social Security number, financial information, income, debts, and other personal required information. The Lender Information portion provides all the pertinent loan and property information. This section provides the details specific to the loan being originated.

The Borrower Information pages consists of nine sections:

1. Borrower Information
2. Assets & Liabilities
3. Real Estate
4. Loan Property Information
5. Declarations
6. Acknowledgements & Agreements
7. Military Service
8. Demographic Information
9. LO Information

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Section 1a-e: Borrower Information

Section 1a is the personal information of the Borrower. One thing to note on this section is Alternate Names. This is where a borrower's alias name or alternates should go, like a woman's maiden or past married name, for example. Prior to 2021, there was no field to capture a borrower's email address and cell phone number.

1. Type of Credit - Individual v. Joint Credit. Borrower should indicate whether they are applying alone or if there are two or more borrowers.

Type of Credit
☐ I am applying for **individual credit**.
☐ I am applying for **joint credit**. Total Number of Borrowers: _____
 Each Borrower intends to apply for joint credit. **Your initials:** _____

Section 1: Borrower Information. This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

1a. Personal Information	
Name (First, Middle, Last, Suffix) _____ Alternate Names – List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix) _____ Type of Credit ☐ I am applying for individual credit . ☐ I am applying for joint credit . Total Number of Borrowers: _____ Each Borrower intends to apply for joint credit. Your initials: _____	Social Security Number (or Individual Taxpayer Identification Number) _____ Date of Birth (mm/dd/yyyy) ____/____/____ Citizenship ☐ U.S. Citizen ☐ Permanent Resident Alien ☐ Non-Permanent Resident Alien List Name(s) of Other Borrower(s) Applying for this Loan (First, Middle, Last, Suffix) – Use a separator between names _____
Marital Status ☐ Married ☐ Separated ☐ Unmarried (Single, Divorced, Widowed, Civil Union, Domestic Partnership, Registered Reciprocal Beneficiary Relationship)	Dependents (not listed by another Borrower) Number _____ Ages _____ Contact Information Home Phone () ____-____ Cell Phone () ____-____ Work Phone () ____-____ Ext. _____ Email _____
Current Address Street _____ Unit # _____ City _____ State _____ ZIP _____ Country _____ How Long at Current Address? ____ Years ____ Months Housing ☐ No primary housing expense ☐ Own ☐ Rent (\$ _____ /month)	
If at Current Address for LESS than 2 years, list Former Address ☐ Does not apply Street _____ Unit # _____ City _____ State _____ ZIP _____ Country _____ How Long at Former Address? ____ Years ____ Months Housing ☐ No primary housing expense ☐ Own ☐ Rent (\$ _____ /month)	
Mailing Address – if different from Current Address ☐ Does not apply Street _____ Unit # _____ City _____ State _____ ZIP _____ Country _____	

2. Total Number of Borrowers – Enter the number of Borrowers completing the application(s) for this transaction (and signing the note if the loan is approved).
3. Dependents – Enter based on the definition of “dependents” applicable for your loan (the definition can vary between FHA, VA, USDA, and Conventional).

Dependents (not listed by another Borrower)

Number _____

Ages _____

- a. Per FHA – A dependent is a member of the family other than the head, spouse, or co-head, who is under 18 years of age or is a person with disabilities or a full-time student.
- b. For VA purposes, a **dependent** is a family member who relies on the veteran financially and meets certain criteria. Examples of dependents for VA purposes are a spouse; unmarried children, including stepchildren, adopted children, and biological children who are under the age of 18; or are between age 18 and 23 and attending school full-time; or were seriously disabled prior to reaching age 18. Parents in the veteran's direct care whose net worth and income are below the limit put in place by law & parents (biological, step, adopted, foster, etc.) are defined as those who, for at least one year, “stood in the relationship of a parent to a veteran at any time before his or her entry into active service.”

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4. No Primary Housing Expense – Select only if the borrower is not obligated to pay rent OR they do not own the home where they live.

Current Address				
Street _____	Unit # _____			
City _____	State _____	ZIP _____	Country _____	
How Long at Current Address? ____ Years ____ Months Housing ☐ No primary housing expense ☐ Own ☐ Rent (\$ _____ /month)				

For example, if the borrower lives with relatives and is under no obligation to pay monthly rent. Do not select if you own the home where you live and there are no mortgage liens or home equity loans on the property. Instead, select OWN.

Section 1b: Employment & Self-Employment Section

Section 1b is the employment and self-employment section.

Complete this section for each job, self-employment, or business the borrower owns from which they receive income and that they would like considered in qualifying for this loan.

1b. Current Employment/Self-Employment and Income		☐ Does not apply
Employer or Business Name _____ Phone (____) _____ - _____		Gross Monthly Income Base \$ _____ /month Overtime \$ _____ /month Bonus \$ _____ /month Commission \$ _____ /month Military Entitlements \$ _____ /month Other \$ _____ /month TOTAL \$ _____ 0.00/month
Street _____ Unit # _____		
City _____ State _____ ZIP _____ Country _____		
Position or Title _____		
Start Date ____ / ____ / ____ (mm/dd/yyyy)		Check if this statement applies: ☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.
How long in this line of work? ____ Years ____ Months		
☐ Check if you are the Business Owner or Self-Employed		☐ I have an ownership share of less than 25%. Monthly Income (or Loss) \$ _____ ☐ I have an ownership share of 25% or more. \$ _____

Select Does not apply and skip to Section 1d: Previous Employment/Self-Employment and Income if the borrower does not have a job AND is not self-employed AND does not own a business.

For business name – Enter the name of the borrower’s employer, the name of the business they own, or the borrower’s name if they are self-employed and do not operate under a business name.

Phone - Enter a main phone number of their employer. DO NOT enter the borrower’s personal work phone number because it should be reported under Contact Information in Section 1a.

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Gross Monthly Income Section - Enter all income received from this employer each month, filling in the applicable line items and TOTAL. **Do not** enter income here if the borrower is self-employed or own a business; instead, enter that income in Monthly Income (or Loss).

Gross Monthly Income - Military Entitlements - Enter the sum of Military Entitlements received for Active, Reserve, or National Guard duty, excluding Base pay [for example, Basic Allowance for Subsistence (BAS), Basic Allowance for Housing (BAH), and other military entitlements shown on the Leave and Earnings Statement (LES)]. Enter Military Base pay in Base.

Gross Monthly Income		
Base	\$ _____	/month
Overtime	\$ _____	/month
Bonus	\$ _____	/month
Commission	\$ _____	/month
Military Entitlements	\$ _____	/month
Other	\$ _____	/month
TOTAL \$	0.00/month	

Gross Monthly Income – Other -Enter other monthly income received from this job that is not otherwise specified in the line items above (The entry of Other income is not common). Enter non-employment income in Section 1e: Income from Other Sources.

Business Owner or Self-employed – Ownership Share: Select the percentage of the business you own.

☐ Check if you are the Business Owner or Self-Employed	☐ I have an ownership share of less than 25%. Monthly Income (or Loss) _____
	☐ I have an ownership share of 25% or more. \$ _____

Business Owner or Self-employed – Monthly Income (or Loss): Enter the amount of income (or loss) earned from self-employment or the business they own. Enter a loss as a negative number using the following format: “-2,000”. Your lender may assist your borrower in calculating this income.

Section 1c: Additional Employment

Section 1c is used for any additional current employment the borrower might have. Please note, it's the same as Section 1b. Complete this section only if the borrower has

income from more than one job, a self-owned business, or is self-employed. Repeat this section for each job, self-owned business, or self-employment that the borrower would like considered by the lender. Select Does not apply and skip to Section 1d: Previous

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income			☐ Does not apply
Employer or Business Name _____		Phone (____) _____	Gross Monthly Income Base \$ _____ /month Overtime \$ _____ /month Bonus \$ _____ /month Commission \$ _____ /month Military Entitlements \$ _____ /month Other \$ _____ /month TOTAL \$ 0.00/month
Street _____		Unit # _____	
City _____ State _____ ZIP _____		Country _____	
Position or Title _____			
Start Date ____/____/____ (mm/dd/yyyy)		Check if this statement applies: ☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.	
How long in this line of work? ____ Years ____ Months			
☐ Check if you are the Business Owner or Self-Employed		☐ I have an ownership share of less than 25%. Monthly Income (or Loss) _____ ☐ I have an ownership share of 25% or more. \$ _____	

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Employment/Self-Employment and Income if the borrower does not have more than one job, a self-owned business, or is self-employed.

Section 1d: Previous Employment

Section 1d is specific to previous employment.

Complete this section if the borrower has received income from their current job(s) or self-employment(s)

for less than two years. Describe any periods of unemployment (for example, the borrower was a student or homemaker). Select Does not apply and skip to Section 1e: Income from Other Sources if the borrower has earned income from a job, self-employment, or self-owned business for the past two or more years, or if they did not have any previous jobs or self-employment.

1d. IF APPLICABLE, Complete Information for Previous Employment/Self-Employment and Income				☐ Does not apply
Provide at least 2 years of current and previous employment and income.				
Employer or Business Name _____			Previous Gross Monthly Income \$ _____ /month	
Street _____	Unit # _____			
City _____	State _____	ZIP _____	Country _____	
Position or Title _____			☐ Check if you were the Business Owner or Self-Employed	
Start Date ____/____/____ (mm/dd/yyyy)				
End Date ____/____/____ (mm/dd/yyyy)				

Section 1e: Other Sources of Income

Section 1e is for other sources of income. Enter income the borrower receives from sources, other than their current employment or self-employment that they would like considered in qualifying for the loan. Select Does not apply and skip to Section 2a: Assets – Bank Accounts, Retirement, and Other Accounts You Have if they do not receive income from any other sources. If something does not appear on that list, talk to your underwriter. We **CANNOT** ask if they are receiving alimony, child support, or separate maintenance UNLESS they wish to disclose. We **MUST ALWAYS ASK** if they are paying it for liability and DTI purposes.

1e. Income from Other Sources		☐ Does not apply
Include income from other sources below. Under Income Source, choose from the sources listed here:		
• Alimony • Automobile Allowance • Boarder Income • Capital Gains	• Child Support • Disability • Foster Care • Housing or Parsonage	• Interest and Dividends • Mortgage Credit Certificate • Mortgage Differential Payments • Notes Receivable • Public Assistance • Retirement (e.g., Pension, IRA) • Royalty Payments • Separate Maintenance • Social Security • Trust • Unemployment Benefits • VA Compensation • Other
NOTE: Reveal alimony, child support, separate maintenance, or other income ONLY if you want it considered in determining your qualification for this loan.		
Income Source – use list above		Monthly Income
		\$ _____
		\$ _____
		\$ _____
Provide TOTAL Amount Here		\$ 0.00

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Section 2a-d: Financial Information

Section 2a is used for bank accounts, retirement accounts, and other accounts the borrower may have. Enter information about each of the borrower's asset accounts, including the current value of each account. If the borrower has received a gift or grant, and they have deposited it in an account, include it in the Cash or Market Value amount for that account. Itemize each gift or grant, even if not yet deposited, in Section 4d: Gifts or Grants You May Have Been Given or Will Receive for this Loan.

Section 2: Financial Information — Assets and Liabilities. This section asks about things you own that are worth money and that you want considered to qualify for this loan. It then asks about your liabilities (or debts) that you pay each month, such as credit cards, alimony, or other expenses.

2a. Assets – Bank Accounts, Retirement, and Other Accounts You Have

Include all accounts below. Under Account Type, choose from the types listed here:

• Checking • Certificate of Deposit • Stock Options • Bridge Loan Proceeds • Trust Account
 • Savings • Mutual Fund • Bonds • Individual Development • Cash Value of Life Insurance
 • Money Market • Stocks • Retirement (e.g., 401k, IRA) Account (used for the transaction)

Account Type – use list above	Financial Institution	Account Number	Cash or Market Value
			\$
			\$
			\$
			\$
			\$
			\$
Provide TOTAL Amount Here			\$ 0.00

Assets are what the borrowers own, including items that are not paid off and owned free and clear. Examples of assets are:

- Houses
- Bank Accounts
- Savings Accounts
- Cars
- Life insurance
- Stocks and bonds
- 401K accounts

Section 2b: Other Assets and Credits You Have

This is used for other assets or credits the Borrower may have that are not account related. Other assets not included in the accounts listed in Section 2a that the borrower would like considered in qualifying for the loan (Note that gifts are not entered in this section but in Section 4d). Credits they will receive toward the property purchase. Select Does not apply and skip to Section 2c: Liabilities-Credit Cards, Other Debts, and Leases that You Owe if they do not have any other assets or credits. Types of Assets Considered Include:

1. Earnest Money -Enter this Credit Type and the Cash Value of the deposit submitted with a purchase offer to show that the borrower's offer is being made in good faith.
 *Do not enter this credit if the amount of the earnest money is included in an asset

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account in 2a (for example, in the checking account from which the earnest money check will be drafted).

2. **Employer Assistance** - Enter this Credit Type and the Cash Value of funds provided by an employer for the transaction. Do not enter this credit if the funds are already included in a depository account in 2a or entered as a relocation credit, a grant, or a subordinate lien on this transaction.
3. **Lot Equity** - Enter this Credit Type and the Market Value of the net equity in the lot (market value less any outstanding liens) for certain unique transactions. This generally applies when you hold title to the land on which a manufactured home will be permanently attached.
4. **Relocation Funds** - Enter this Credit Type and the Cash Value of funds provided by an employer as part of a relocation package. Do not enter this credit if the funds are already included in a depository account in 2a or entered as an employer assistance credit, a grant, or a subordinate lien on this transaction.
5. **Rent Credit** - Enter this Credit Type and the Market Value based on the portion of rental payments credited towards this transaction under a documented rental/purchase agreement.
6. **Sweat Equity** - Enter this Credit Type and the Cash or Market Value of materials provided for or labor performed on the property.
7. **Trade Equity** - Enter this Credit Type and the Market Value of equity assigned to you if you will trade property with the seller as part of this transaction.

Section 2c: Liabilities

This is where all the borrower's liabilities would be located on the application. This is not used for real estate liabilities. Enter the details of all personal debt that the borrower now owes or will owe before this mortgage loan closes, including debts not listed on their credit report, debts with payments that are currently deferred, and personal debts that will be paid off at or before closing, even if they will be paid off by this mortgage loan. Select Does not apply and skip to Section 2d: Other Liabilities and Expenses if they do not have any personal debt. **Liabilities**

are what the borrowers OWE, which means there is a loan against these items. Such items include:

- Mortgage loan debt
- Automobile loans or leases
- Student loans

2c. Liabilities – Credit Cards, Other Debts, and Leases that You Owe ☐ Does not apply				
List all liabilities below (except real estate) and include deferred payments. Under Account Type, choose from the types listed here: • Revolving (e.g., credit cards) • Installment (e.g., car, student, personal loans) • Open 30-Day (balance paid monthly) • Lease (not real estate) • Other				
Account Type – use list above	Company Name	Account Number	Unpaid Balance To be paid off at or before closing	Monthly Payment
			\$ ☐	\$
			\$ ☐	\$
			\$ ☐	\$
			\$ ☐	\$
			\$ ☐	\$

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- Credit cards with balances outstanding
- Commercial loans
- Amounts owed to alimony, child support, or separate maintenance payments
- IRS tax liens
- Judgments

Section 2d: Other Liabilities and Expenses

This is the section for all other liabilities and expenses that are not connected with a financial institution, like alimony or child support. Select Does not apply and skip to Section 3a: Property You Own, if you do not have any other liabilities or expenses.

2d. Other Liabilities and Expenses ☐ Does not apply	
Include all other liabilities and expenses below. Choose from the types listed here:	
Alimony • Child Support • Separate Maintenance • Job Related Expenses • Other	Monthly Payment
	\$
	\$
	\$

Section 3: Financial Information – Real Estate

If the application is for a refinance, the borrower should put the property being refinanced first.

Enter the details about each property (including undeveloped land) the borrower owns and/or for which they are obligated on a mortgage. Enter timeshares only if they are a titled owner of the property. Enter the associated mortgage(s) details for each

property if they are obligated on a mortgage, no matter what their relationship is to the property; whether they own the property by themselves, jointly with someone else, or are not on the title to the property. Select I do not own any real estate and skip to Section 4a: Loan and Property Information if the borrower does not own real property and is not obligated on a mortgage.

Section 3: Financial Information — Real Estate. This section asks you to list all properties you currently own and what you owe on them. ☐ I do not own any real estate					
3a. Property You Own ☐ If you are refinancing, list the property you are refinancing FIRST.					
Address		Street	Unit #		
		City	State	ZIP	Country
Property Value	Status: Sold, Pending Sale, or Retained	Intended Occupancy: Investment, Primary Residence, Second Home, Other	Monthly Insurance, Taxes, Association Dues, etc. if not included in Monthly Mortgage Payment	For 2-4 Unit Primary or Investment Property	
				Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income
\$			\$	\$	\$
Mortgage Loans on this Property ☐ Does not apply					
Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance	To be paid off at or before closing	Type: FHA, VA, Conventional, USDA-RD, Other
		\$	\$	☐	Credit Limit (if applicable)
		\$	\$	☐	\$

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Property Value - Provide an estimate of the current property value from the borrower, loan originator, appraisal, or a valid property valuation source.

**Status: Sold,
Pending Sale,
or Retained**

Status - Enter Sold if they recently sold the property. Enter Pending Sale if the property is currently under contract for sale. Enter Retained if they will continue to own the property after this mortgage loan closes (for example, if the property is a vacation home or investment property that is not the subject of the mortgage loan), the subject loan is a refinance, or the property is currently listed for sale but is not under contract yet.

If the borrower will continue to own the property after closing, provide its intended use.* Enter Investment if neither they nor any other Borrower on the subject transaction intends to occupy the property. Enter Primary Residence if they intend to occupy the property as their primary residence, OR the mortgage loan meets the requirements for Primary Residence eligibility. Enter Second Home if they or any other Borrower intend to occupy the property, but it won't be their primary residence (for example, a vacation home). Enter Other if none of the other intended uses apply (for example, if the property is undeveloped land) or if the borrower intends to occupy the property but does not know how they intend to occupy it.

**Intended Occupancy:
Investment, Primary
Residence, Second
Home, Other**

1. **Monthly Insurance, Taxes, Association Dues, Etc.** - Enter the sum of any of these expenses that are not included in the amount entered for Monthly Mortgage Payment under Mortgage Loans on this Property. Association dues (condo, PUD, co-op fees, or special assessments) are not generally included in a monthly mortgage payment and therefore should be entered here.
2. **Monthly Rental Income** - If owned, a Retained property is a 2-4-unit primary residence or an investment property. Enter the gross monthly rental income the borrower receives from the property.
3. **Net Monthly Rental Income** - The Lender will calculate Net Monthly Rental Income for qualification purposes for a 2-4-unit primary residence or an investment Retained property.
4. **Mortgage Loans on this Property** - Select Does not apply and skip to Section 4a: Loan and Property Information if they are not obligated on a mortgage for this property.
5. **Account Number** - Enter the last four digits of the account number unless the Lender directs otherwise.

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6. **Monthly Mortgage Payment** - Enter the mortgage payment amount. Include the cost of insurance and taxes in this amount if they did not enter them separately under Monthly Insurance, Taxes, Association Dues, etc.
7. **Unpaid Balance** - To be paid off at or before closing. Enter the balance due on the mortgage loan. They can obtain this amount from their credit report or other document, such as their mortgage statement ▪ Select To be paid off at or before closing for any mortgage loans that will be paid off at or before closing.
8. **Type** - Leave this field blank if the borrower is unsure about the type of mortgage loan.
9. **Credit Limit** - Enter the maximum amount that the borrower is permitted to borrow if they have a home equity line of credit on the property

Section 3b & 3c

3b and 3c should be completed if the borrower has additional properties. Complete this section only if the borrower owns more than one property. Repeat this section for each property, as needed. Select Does not apply and skip to Section 4a: Loan and Property Information if they do not own more than one property.

Section 4 – Loan and Property Information

This is the section for information on the property being refinanced or purchased.

1. **Loan Amount** - Enter the total loan amount the borrower is applying for.
2. **Loan Purpose** - Select Purchase if they are applying for a mortgage loan to buy the property; OR select Refinance if they already own the property, even when no mortgages are currently on the property (for example, if the borrower owns the property free and clear and intends to take out equity/cash); OR select Other if the transaction is neither a purchase nor a refinance. Other loan purposes could be a temporary construction loan that is not intended to serve as permanent financing, OR a new subordinate loan, the proceeds of which will not be used for a purchase or refinance transaction.
3. **Unit #** - Enter the property unit's identifier, if there is one. Include any unit number that is part of the legal property address (for example, "A", "1", "1A", or "123").

Section 4: Loan and Property Information. This section asks about the loan's purpose and the property you want to purchase or refinance.

4a. Loan and Property Information

Loan Amount \$ _____ Loan Purpose ☐ Purchase ☐ Refinance ☐ Other (specify) _____

Property Address Street _____ City _____ State _____ ZIP _____ Unit # _____
 _____ County _____

Number of Units _____ Property Value \$ _____

Occupancy ☐ Primary Residence ☐ Second Home ☐ Investment Property ☐ FHA Secondary Residence

1. **Mixed-Use Property.** If you will occupy the property, will you set aside space within the property to operate your own business? (e.g., daycare facility, medical office, beauty/barber shop) ☐ NO ☐ YES

2. **Manufactured Home.** Is the property a manufactured home? (e.g., a factory built dwelling built on a permanent chassis) ☐ NO ☐ YES

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4. **Property Value** - Enter the current estimated value of the property. At loan closing, this is the property value used for loan qualification purposes, generally obtained from the appraisal report.
5. **Occupancy** - Select Primary Residence if at least one Borrower applying for the loan intends to occupy the property as his or her primary residence, OR the mortgage loan meets the requirements for Primary Residence eligibility (for example, if the borrower is a parent/legal guardian providing housing for a disabled adult child or children, or they are providing housing for their occupant parents who are unable to work or do not have sufficient income to qualify). Select Second Home if any Borrower intends to occupy the property but not as their primary residence (for example, as a vacation home). Select Investment Property if all Borrowers intend to own, but not occupy, the property.
6. **FHA Secondary Residence** - In addition to completing the Occupancy field, select FHA Secondary Residence if they are applying for an FHA loan that they or any Borrower will occupy, in addition to the primary residence, but for less than six months of the year. This option does not refer to a vacation home.
7. **Mixed-Use Property** - A Mixed-Use Property is a property that has a business use in addition to a residential use. Neither retail space within a multi-unit property, nor use of a room in the property as a home office are considered Mixed-Use Properties. If one or more Borrowers will occupy the property, select YES if the borrower will operate a business within the property (for example, a daycare facility). Select NO if they will not operate a business within the property. Otherwise, leave this blank.
8. **Manufactured Home** - Select YES if the dwelling was delivered to the property site on wheels and a permanent chassis. Otherwise, select NO. Note: A modular home is not considered a Manufactured Home.

Section 4b

This is only used for any concurrent financing a Borrower may receive on the same subject property. Enter the details if they are applying for more than one new mortgage loan to purchase or refinance this property (for example, they are applying for a second mortgage at the same time as the first mortgage). Select: Does not apply if they are applying for only one new mortgage loan.

1. **Loan Amount/Amount to be Drawn** - Enter the loan amount if it is a closed-end loan (no additional funds can be drawn after closing) OR, enter the amount the borrower will draw (borrow) from a line of credit at closing.
2. **Credit Limit**- Enter the maximum amount that they are permitted to borrow if the loan is a line of credit.

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Section 4c

This section is for any potential rental income that the property could earn. If this property is a 2-4-unit primary residence or investment property purchase, the Borrower would state the Expected Monthly Rental Income Amount and the Lender would calculate the Expected Net Monthly Rental Amount. The light grey shading indicates that this is completed by the Lender, not the Borrower.

Expected Monthly Rental Income - Enter the estimated gross rental income (before expenses) the borrower expects to receive on the property they are purchasing. Select Does not apply if they are not purchasing property that will generate rental income. Note: Rental income earned from properties they already own is entered in Section 3: Financial Information – Real Estate.

Section 4d

This section is for any gifts or grants that the Borrower may have received for the loan.

1. Enter the information, if applicable. Select Does not apply if they have not been given and will not receive gifts or grants for this loan. Individuals are sources of Cash Gifts and Gifts of Equity; entities are sources of Grants.
2. ☐ **Deposited** ☐ **Not Deposited** ☐ Enter only for Cash Gift and Grant. Select Deposited if they have received a cash gift or grant, AND they have deposited it in their account(s), AND it is included in the Cash or Market Value shown for the account in Section 2a. Assets – Bank Accounts, Retirement, and Other Accounts You Have. Do not select Deposited or Not Deposited for Gift of Equity.

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Section 5 – Declarations

C. Are you borrowing any money for this real estate transaction (e.g., money for your closing costs or down payment) or obtaining any money from another party, such as the seller or realtor that you have not disclosed on this loan application?

This may include a rebate of realtor commission on or after closing or guaranteed cash payments from the seller

D. 1. Have you or will you be applying for a mortgage loan on another property (not the property securing this loan) on or before closing this transaction that is not disclosed on this loan application?

Section 5: Declarations. This section asks you specific questions about the property, your funding, and your past financial history.

5a. About this Property and Your Money for this Loan

A. Will you occupy the property as your primary residence? If YES, have you had an ownership interest in another property in the last three years? If YES, complete (1) and (2) below: (1) What type of property did you own: primary residence (PR), FHA secondary residence (SR), second home (SH), or investment property (IP)? (2) How did you hold title to the property: by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?	☐ NO ☐ YES ☐ NO ☐ YES _____ _____
B. If this is a Purchase Transaction: Do you have a family relationship or business affiliation with the seller of the property?	☐ NO ☐ YES
C. Are you borrowing any money for this real estate transaction (e.g., money for your closing costs or down payment) or obtaining any money from another party, such as the seller or realtor, that you have not disclosed on this loan application? If YES, what is the amount of this money?	☐ NO ☐ YES \$ _____
D. 1. Have you or will you be applying for a mortgage loan on another property (not the property securing this loan) on or before closing this transaction that is not disclosed on this loan application? 2. Have you or will you be applying for any new credit (e.g., installment loan, credit card, etc.) on or before closing this loan that is not disclosed on this application?	☐ NO ☐ YES ☐ NO ☐ YES
E. Will this property be subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid through your property taxes (e.g., the Property Assessed Clean Energy Program)?	☐ NO ☐ YES

The borrower must disclose all applications for mortgage credit for another property made with another lender or creditor during the mortgage process.

E. Will this property be subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid through your property taxes (e.g., the Property Assessed Clean Energy program)?

The borrower must disclose if there are or will be any energy liens on the property they are purchasing or refinancing that they pay or will repay through their property taxes (This question is not asking about standard real estate property taxes or homeowners' association liens).

F. Are you a co-signer or guarantor on any debt or loan that is not disclosed on this application? A co-signer is jointly liable on any debt or loan; a guarantor is only liable if the primary Borrower cannot pay.

H. Are you currently delinquent or in default on a Federal debt?

They must disclose if they are delinquent or in default on any debt owed to the Federal Government (for example, a federally backed student loan, FHA loan, USDA Rural Development loan, or Veterans' Administration loan).

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J. Have you conveyed title to any property in lieu of foreclosure in the past 7 years?

The borrower must disclose if they were on the title for a property which was conveyed through a deed in lieu of foreclosure in the past 7 years, even if they were not responsible for repayment of the mortgage loan.

M. Have you declared bankruptcy within the past 7 years?

Check the box next to each applicable bankruptcy type, if applicable.

Section 6 – Acknowledgements & Agreements

Section 6 is Acknowledgements & Agreements, which tells the borrower about legal obligations when they sign the application.

Borrower Signature: Read this entire section and make sure that the borrower has read it and agreed with its terms by signing their name. Additional Borrower Signature: If the URLA is being used with the URLA-Additional Borrower, make sure they read this entire section, and acknowledge they have read it and agree with its terms by signing their name.

It is important that MLOs review this section of the 1003 with their borrowers carefully. This should be answered truthfully by all borrowers and can help MLOs pinpoint potential issues with the loan.

See the version of the 1003 provided in the back of this textbook for the wording of each declaration page.

Section 7 – Military Service

Military Service ☐ NO ☐ YES: Answer this question for all loan types, then complete the rest of the section, as applicable.

Section 7: Military Service. This section asks questions about your (or your deceased spouse's) military service.

Military Service of Borrower

Military Service – Did you (or your deceased spouse) ever serve, or are you currently serving, in the United States Armed Forces? ☐ NO ☐ YES

If YES, check all that apply:

- ☐ Currently serving on active duty with projected expiration date of service/tour ____ / ____ / ____ (mm/dd/yyyy)
- ☐ Currently retired, discharged, or separated from service
- ☐ Only period of service was as a non-activated member of the Reserve or National Guard
- ☐ Surviving spouse

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Section 8 – Demographic Information

Section 8: Demographic Information. This section asks about your ethnicity, sex, and race.

Demographic Information of Borrower

The purpose of collecting this information is to help ensure that all applicants are treated fairly and that the housing needs of communities and neighborhoods are being fulfilled. For residential mortgage lending, Federal law requires that we ask applicants for their demographic information (ethnicity, sex, and race) in order to monitor our compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to provide this information, but are encouraged to do so. You may select one or more designations for "Ethnicity" and one or more designations for "Race." **The law provides that we may not discriminate** on the basis of this information, or on whether you choose to provide it. However, if you choose not to provide the information and you have made this application in person, Federal regulations require us to note your ethnicity, sex, and race on the basis of visual observation or surname. The law also provides that we may not discriminate on the basis of age or marital status information you provide in this application. If you do not wish to provide some or all of this information, please check below.

Collection of the new demographic information began in January of 2018, per the Home Mortgage Disclosure Act (HMDA). The borrower can choose to complete all, some, or none of the information. Demographic Information of Borrower: Complete this section by either providing the demographic information or checking I do not wish to provide this information for Ethnicity, Sex, and Race.

Ethnicity: Check one or more ☐ Hispanic or Latino ☐ Mexican ☐ Puerto Rican ☐ Cuban ☐ Other Hispanic or Latino – Print origin: _____ <i>For example: Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, and so on.</i> ☐ Not Hispanic or Latino ☐ I do not wish to provide this information Sex ☐ Female ☐ Male ☐ I do not wish to provide this information	Race: Check one or more ☐ American Indian or Alaska Native – Print name of enrolled or principal tribe: _____ ☐ Asian ☐ Asian Indian ☐ Chinese ☐ Filipino ☐ Japanese ☐ Korean ☐ Vietnamese ☐ Other Asian – Print race: _____ <i>For example: Hmong, Laotian, Thai, Pakistani, Cambodian, and so on.</i> ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ Native Hawaiian ☐ Guamanian or Chamorro ☐ Samoan ☐ Other Pacific Islander – Print race: _____ <i>For example: Fijian, Tongan, and so on.</i> ☐ White ☐ I do not wish to provide this information

To Be Completed by Financial Institution (for application taken in person):

Was the ethnicity of the Borrower collected on the basis of visual observation or surname?	☐ NO ☐ YES
Was the sex of the Borrower collected on the basis of visual observation or surname?	☐ NO ☐ YES
Was the race of the Borrower collected on the basis of visual observation or surname?	☐ NO ☐ YES

The Demographic Information was provided through:

☐ Face-to-Face Interview (includes Electronic Media w/ Video Component)
 ☐ Telephone Interview
 ☐ Fax or Mail
 ☐ Email or Internet

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Section 9 – Loan Origination Information

This section is completed by the lender and provides the borrower with contact information for the organization and individual that originated the loan.

Section 9: Loan Originator Information. To be completed by your Loan Originator.

Loan Originator Information

Loan Originator Organization Name _____

Address _____

Loan Originator Organization NMLSR ID# _____ State License ID# _____

Loan Originator Name _____

Loan Originator NMLSR ID# _____ State License ID# _____

Email _____ Phone (____) _____-_____

Signature _____ Date (mm/dd/yyyy) ____/____/____

Lender Loan Information

Everything on this form is filled out by the lender, not the borrower. It should be provided to the borrower for review. Together, the 1003 and the Lender Loan Information sheet make a complete 1003. There are four sections in the Lender Loan Information:

1. Property and Loan Information
2. Title Information
3. Mortgage Loan Information
4. Qualifying the Borrower

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Section L1: Property and Loan Information

Unlike Section 4a on the Borrower 1003, which covers the loan and property info from the borrower's perspective, this section covers it from the lender's perspective.

To be completed by the Lender:
 Lender Loan No./Universal Loan Identifier _____ Agency Case No. _____

Uniform Residential Loan Application — Lender Loan Information
 This section is completed by your Lender.

L1. Property and Loan Information	
Community Property State ☐ At least one borrower lives in a community property state. ☐ The property is in a community property state. Transaction Detail ☐ Conversion of Contract for Deed or Land Contract ☐ Renovation ☐ Construction-Conversion/Construction-to-Permanent ☐ Single-Closing ☐ Two-Closing Construction/Improvement Costs \$ _____ Lot Acquired Date ____/____/____ (mm/dd/yyyy) Original Cost of Lot \$ _____	Refinance Type ☐ No Cash Out ☐ Limited Cash Out ☐ Cash Out Refinance Program ☐ Full Documentation ☐ Interest Rate Reduction ☐ Streamlined without Appraisal ☐ Other _____ Energy Improvement ☐ Mortgage loan will finance energy-related improvements. ☐ Property is currently subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid for through property taxes (e.g., the Property Assessed Clean Energy program).
Project Type ☐ Condominium ☐ Cooperative ☐ Planned Unit Development (PUD) ☐ Property is not located in a project	

1. **Transaction Detail** - Check Conversion of Contract for Deed or Land Contract when the mortgage loan proceeds will be used to pay off the balance due on a contract for deed or land contract, whether the loan is a purchase or refinance transaction. Check Renovation when the mortgage loan proceeds will be used to finance the cost of renovations to the property, and the value assigned to the renovations is included in the appraised value.
2. **Refinance Type** - Identify the applicable Refinance Type based on the investor, guarantor, or lender guidelines. This field may not apply if a Refinance Program is provided (for example, when Interest Rate Reduction is entered for a VA loan).
 1. Select No Cash Out for FHA, Freddie Mac, or USDA-RD No Cash Out refinances.
 2. Select Limited Cash Out for Fannie Mae Limited Cash Out refinances.
 3. Select Cash Out for Fannie Mae, FHA, Freddie Mac, or VA Cash Out refinances.
3. **Refinance Program** - Identify the applicable Refinance Program based on the investor, guarantor, or lender guidelines. This field may not apply (for example, Refinance Program is not applicable for Fannie Mae loans).
 1. Select Full Documentation for FHA and USDA-RD
 2. Select Interest Rate Reduction for VA
 3. Select Streamlined without Appraisal for FHA and USDA-RD
 4. Select Other and fill in the blank as required to describe refinance programs not listed above.

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4. **Energy Improvement** - Check Mortgage loan will finance energy-related improvements if the mortgage loan proceeds will be used to finance energy-related improvements, whether the Loan Purpose is Purchase or Refinance.
 1. Check Property is currently subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid for through property taxes (e.g., the Property Assessed Clean Energy program) if there is an energy lien on the property that the Borrower(s) are repaying through property taxes (This option does not refer to standard real estate property taxes or homeowners' association liens on the property).

L2: Title Information

This is for information related to the title of the property.

Manner in Which Title Will be Held/Indian Country Land Tenure

Before closing, the Lender should discuss with the Borrower(s) how they will hold title to the property. A reservation is an area of land "reserved" by or for an Indian land, village, or tribe(s) to live on and use.

There are three basic categories of land tenure in Indian Country: Fee Lands, Allotted Trust Lands, and Tribal Trust Lands.

L2: Title Information	
Title to the Property Will be Held in What Name(s):	For Refinance: Title to the Property is Currently Held in What Name(s):
Estate Will be Held In ☐ Fee Simple ☐ Leasehold Expiration Date ____ / ____ / ____ (mm/dd/yyyy) Manner in Which Title Will be Held ☐ Sole Ownership ☐ Joint Tenancy with Right of Survivorship ☐ Life Estate ☐ Tenancy by the Entirety ☐ Tenancy in Common ☐ Other	Trust Information ☐ Title Will be Held by an Inter Vivos (Living) Trust ☐ Title Will be Held by a Land Trust Indian Country Land Tenure ☐ Fee Simple On a Reservation ☐ Individual Trust Land (Allotted/Restricted) ☐ Tribal Trust Land On a Reservation ☐ Tribal Trust Land Off Reservation ☐ Alaska Native Corporation Land

- Select Fee Simple On a Reservation if the land is held by an owner, whether Indian or non-Indian, with no restrictions.
- Select Individual Trust Land (Allotted/Restricted) (also referred to as Allotted Trust Land) if the land is held in trust for the use of a tribe. The Federal Government holds the title, and the individual (or heirs) holds the beneficial interest. Restricted fee land is land in which an individual Indian holds legal title, but with legal restrictions against alienation or encumbrance.
- Select Tribal Trust Land on a Reservation if the land is held in trust by the United States Government for the use of a tribe. The United States holds the legal title, and the tribe holds the beneficial interest. Tribal trust land is held communally by the tribe and is managed by the tribal government.

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- Select Tribal Trust Land Off Reservation if the land was purchased by a tribe outside of its reservation boundaries and then converted to trust land through a regulated process with the Bureau of Indian Affairs.
- Select Alaska Native Corporation Land if the land is owned by an Indian tribe and was conveyed by the United States to a Native Corporation pursuant to the Alaska Native Claims Settlement Act (43 U.S.C. 1601 et seq.) or conveyed by the United States to a Native Corporation in exchange for such land.

L3: Mortgage Loan Information

This section outlines the loan that the borrower is applying for.

Terms of Loan - Note Rate – Enter the interest rate stated on the note signed by the Borrower(s). For an Adjustable-Rate Mortgage, enter the initial interest rate.

▪ **Loan Term** – Enter the amortization term of the loan. For a balloon loan, enter the amortization term on which the payment is based.

L3. Mortgage Loan Information	
Mortgage Type Applied For ☐ Conventional ☐ USDA-RD ☐ FHA ☐ VA ☐ Other: _____	Terms of Loan Note Rate _____ % Loan Term _____ (months)
Amortization Type ☐ Fixed Rate ☐ Other (explain): _____ ☐ Adjustable Rate If Adjustable Rate: Initial Period Prior to First Adjustment _____ (months) Subsequent Adjustment Period _____ (months)	Mortgage Lien Type ☐ First Lien ☐ Subordinate Lien
Loan Features ☐ Balloon / Balloon Term _____ (months) ☐ Interest Only / Interest Only Term _____ (months) ☐ Negative Amortization ☐ Prepayment Penalty / Prepayment Penalty Term _____ (months) ☐ Temporary Interest Rate Buydown / Initial Buydown Rate _____ % ☐ Other (explain): _____	Proposed Monthly Payment for Property First Mortgage (P & I) \$ _____ Subordinate Lien(s) (P & I) \$ _____ Homeowner's Insurance \$ _____ Supplemental Property Insurance \$ _____ Property Taxes \$ _____ Mortgage Insurance \$ _____ Association/Project Dues (Condo, Co-Op, PUD) \$ _____ Other \$ _____ TOTAL \$ 0.00

Amortization Type- Select Adjustable Rate if the mortgage loan has an interest rate that periodically adjusts based upon a specified term and external index.

Proposed Monthly Payment for Property -

- **Subordinate Lien(s) (P&I)** - Enter the total of all required monthly payments associated with any subordinate lien on the property at closing as entered for Monthly Mortgage Payment under Sections 3a. Property You Own and/or 4b. Other New Mortgage Loans on the Property You are Buying or Refinancing.
- **Supplemental Property Insurance** - Enter the total of the monthly payments for property insurance the Borrower(s) are required to obtain in addition to homeowner's insurance (for example, flood, earthquake, or other hazardous condition coverage).
- **Mortgage Insurance** - Enter the monthly payment for mortgage insurance (or mortgage insurance equivalent such as FHA MIP or RD guaranty).

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- Association/Project Dues (Condo, Co-Op, PUD, or special assessments) - Enter the monthly cost of the: a) owners' association dues for properties in a condo or PUD project; b) co-op corporation fees that are the responsibility of the Borrower(s); or (c) any special assessment that is the responsibility of the Borrower(s).
- Other - Enter the total amount of other required expenses, such as the monthly cost of ground rent on a leasehold or a Community Land Trust property.

L4: Qualifying the Borrower (Part 1)

This section is broken into four parts: Due from the Borrower(s), Total Mortgage Loans, Total Credits, & Calculation.

- A. Sales Contract Price: Enter the sales price stated in the sales contract.
- B. Improvements, Renovations, and Repairs: Enter the cost of these items when included as part of the transaction.

L4. Qualifying the Borrower – Minimum Required Funds or Cash Back	
DUE FROM BORROWER(S)	
A. Sales Contract Price	\$
B. Improvements, Renovations, and Repairs	\$
C. Land (if acquired separately)	\$
D. For Refinance: Balance of Mortgage Loans on the Property to be paid off in the Transaction (See Table 3a. Property You Own)	\$
E. Credit Cards and Other Debts Paid Off (See Table 2c. Liabilities — Credit Cards, Other Debts, and Leases that You Owe)	\$
F. Borrower Closing Costs (including Prepaid and Initial Escrow Payments)	\$
G. Discount Points	\$
H. TOTAL DUE FROM BORROWER(S) (Total of A thru G)	\$ 0.00
TOTAL MORTGAGE LOANS	

- C. Land (if acquired separately): Enter the cost or value of land (depending on investor requirements) that is not part of the sales contract price or included in the current indebtedness against the property. For example, when the Borrower(s) own or buy the land outside of the purchase price of the property in a Construction Conversion or Construction-to-Permanent transaction where the Borrower purchases the land separately outside of the sales contract and the sales contract price reflects only the price of building the improvement, OR a Manufactured Housing transaction where the Borrower owns the land and the sales contract price is to purchase only the manufactured home that is then permanently placed on the Borrower's land.

E. Credit Cards and Other Debts Paid Off: Enter the total debt (other than mortgage debt secured by the property) that is to be paid off at or before closing of the mortgage loan. Include the sum of the amounts entered in Unpaid Balance under Section 2c. Liabilities—Credit Cards, Other Debts, and Leases that You Owe, that have been checked as To be paid off at or before closing.

F. Borrower Closing Costs: Enter the amount of closing costs that are used in qualifying the Borrower(s), including closing costs, prepaid items and initial escrow deposits, and the

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costs for private mortgage insurance (PMI) or equivalent (FHA Upfront Mortgage Insurance Premium (MIP), VA Funding Fee, and USDA-RD Guarantee Fee).

G. Discount Points: Enter the total of all discount points charged by the lender.

L4: Qualifying the Borrower (Part 2)

I. Loan Amount, Loan Amount Excluding Financed Mortgage Insurance (or Mortgage Insurance Equivalent):

Enter the base loan amount before the inclusion of financed private mortgage insurance or equivalent (FHA Upfront Mortgage Insurance Premium, VA Funding Fee, and USDA-RD Guarantee Fee). Financed Mortgage Insurance (or Mortgage Insurance Equivalent) Amount: Enter the amount of private mortgage insurance or equivalent (FHA Upfront Mortgage Insurance Premium, VA Funding Fee, and USDA-RD Guarantee Fee) that will be included in the loan amount. Loan Amount: Enter the sum of the base loan amount plus the financed mortgage insurance in the right-hand column.

I. Loan Amount	
Loan Amount Excluding Financed Mortgage Insurance (or Mortgage Insurance Equivalent) \$	
Financed Mortgage Insurance (or Mortgage Insurance Equivalent) Amount \$	\$ 0.00
J. Other New Mortgage Loans on the Property the Borrower(s) is Buying or Refinancing (See Table 4b. Other New Mortgage Loans on the Property You are Buying or Refinancing)	\$
K. TOTAL MORTGAGE LOANS (Total of I and J)	\$ 0.00
TOTAL CREDITS	
L. Seller Credits (Enter the amount of Borrower(s) costs paid by the property seller)	\$
M. Other Credits (Enter the sum of all other credits — Borrower Paid Fees, Earnest Money, Employer Assisted Housing, Lease Purchase Fund, Lot Equity, Relocation Funds, Sweat Equity, Trade Equity, Other)	\$
N. TOTAL CREDITS (Total of L and M)	\$ 0.00
CALCULATION	
TOTAL DUE FROM BORROWER(S) (Line H)	\$ 0.00
LESS TOTAL MORTGAGE LOANS (Line K) AND TOTAL CREDITS (Line N)	-\$ 0.00
Cash From/To the Borrower (Line H minus Line K and Line N) NOTE: This amount does not include reserves or other funds that may be required by the Lender to be verified.	\$ 0.00

J. Other New Mortgage Loans on the Property: Enter the amount of any other new loans that will be obtained by the Borrower and secured by the property at the same time as the subject loan; for example, if the Borrower is obtaining a new second mortgage in addition to the first mortgage (with the same or a different Lender), enter the amount of the new second mortgage here. Note: The amount entered here should be the same as the sum of the amounts entered for Loan Amount/Amount to be Drawn in Section 4b. Other New Mortgage Loans on the Property You are Buying or Refinancing.

L. Seller Credits: Enter the amount of Borrower(s) costs paid by the property seller.

M. Other Credits: Enter the sum of all purchase credits, in addition to those itemized under 2b. Other Assets and Credits You Have. Note: Add together all of the following that apply to the transaction: Borrower credits (e.g., borrower paid fees (before closing), earnest money, lot equity, sweat equity); lender credits; credits from other third parties (e.g., relocation funds, employer assisted housing); non-cash credits from the seller (e.g., trade equity, rent credit); and other credits that do not “fit” into the listed options.

Monthly Income and Combined Housing Expense

The borrower's income information and the borrower's housing liabilities are included in this section. Income includes things like:

- Base employment income
- Overtime income
- Bonuses
- Commissions
- Dividends/interest from investments
- Net rental income (if the borrower has rental property)
- Any other income that the borrower wants to be considered
- Child Support and Alimony cannot be asked for or used, unless the borrower volunteers it
- Social Security or Disability income
- Public assistance.

PITI

MLOs will see the abbreviation PITI frequently and will need to explain it to borrowers.

PITI is:

- Principal
- Interest
- (real estate) Taxes
- Insurance

If an MLO sees the abbreviation PI or P&I, it refers to the principal and interest payments of the mortgage. If the MLO sees PIT, it refers to the principal, interest, and taxes portion of the payment.

Some borrowers will not escrow their taxes and insurance, so it will never be combined into their monthly payment. Some borrowers will be able to escrow their real estate taxes, their insurance, and their homeowner's association dues all into the payment. Some people have to add mortgage insurance (MI) so that insurance has a dual meaning to it.

Remember, Hazard Insurance and Mortgage Insurance are different.

How is a mortgage payment disbursed? **An amortization schedule** is what a mortgage lender uses to calculate a borrower's monthly payments. A borrower is charged interest

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over the duration of their loan, and their monthly mortgage payment is divided among the principal balance and interest. To do this, the lender looks at the original loan balance after their last payment and calculates the amount of monthly interest owed versus the amount applied toward the principal.

Let's consider an example of a \$200,000, 30-year conventional mortgage at 4% interest (for illustrative purposes only). The sum of the principal and interest payments always equals \$955, but disbursement of dollars varies, based on how far along the borrower is with repayment. After a year of mortgage payments, 31% of their payment goes toward the principal. After 10 years, 45% goes toward principal; with 67% going toward principal after 20 years. Over 30 years, the borrower will pay a total of \$343,739, based on the estimated monthly mortgage payment of \$955.

Additional Forms & Addendums

There are three additional forms and addendums that can be used in conjunction with the 1003.

1. Continuation Sheet *
2. Unmarried Addendum
3. Additional Borrower

The Continuation sheet is a separate sheet where the borrower can fill out more information. The URLA-Continuation Sheet is an optional form designed for use, particularly when the URLA is being manually completed. Use the URLA-Continuation Sheet if more space is needed to complete either the URLA or URLA Additional Borrower forms. Use this free form text block for additional rows of information that do not fit in the URLA or URLA-Additional Borrower tables, or for any other information related to the loan application. Sign the URLA-Continuation Sheet to acknowledge and agree that this supplemental information is accurate. If the URLA is being used with the URLA-Additional Borrower, sign the URLA-Continuation Sheet to acknowledge and agree that this supplemental information is accurate.

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This unmarried addendum is completed by the Lender for each Borrower with an unmarried status, only when a Borrower selected Unmarried for Marital Status on the URLA or URLA-Additional Borrower forms under Section 1a.

Personal Information, AND The information must be collected to determine how state property laws directly or indirectly affecting creditworthiness apply, including ensuring clear title.

Uniform Residential Loan Application — Unmarried Addendum

For Borrower Selecting the Unmarried Status

Lenders Instructions for Using the Unmarried Addendum
 The Lender may use the Unmarried Addendum only when a Borrower selected "Unmarried" in Section 1 and the information collected is necessary to determine how State property laws directly or indirectly affecting creditworthiness apply, including ensuring clear title.

For example, the Lender may use the Unmarried Addendum when the Borrower resides in a State that recognizes civil unions, domestic partnerships, or registered reciprocal beneficiary relationships or when the property is located in such a State. "State" means any state, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States.

If you selected "Unmarried" in Section 1, is there a person who is not your legal spouse but who currently has real property rights similar to those of a legal spouse? ☐ NO ☐ YES

If YES, indicate the type of relationship and the State in which the relationship was formed. For example, indicate if you are in a civil union, domestic partnership, registered reciprocal beneficiary relationship, or other relationship recognized by the State in which you currently reside or where the property is located.

☐ Civil Union ☐ Domestic Partnership ☐ Registered Reciprocal Beneficiary Relationship ☐ Other (explain) _____

State:

The additional borrower is almost a complete copy of the URLA 1003 form, EXCEPT that does not have sections 2-4, but includes the statement in each section My Information for Section 2/3/4 is listed on the Uniform Residential Loan Application with _____ (insert name of Borrower).

When should you use the Additional Borrower form?

- If there is one borrower, complete the URLA.
- If there are two borrowers with joint financial information, complete the URLA, plus the URLA additional borrower, OR complete a separate URLA for each borrower.
- If there are two borrowers with separate financial information, complete the URLA, plus the URLA Additional Borrower, or complete a separate URLA for each borrower.
- For three or more borrowers, use any combination of URLA and URLA additional borrower forms.

Home Mortgage Disclosure Act

Federal Mortgage Law Quick Facts:

Regulation:

The Home Mortgage Disclosure Act

Regulation C (An excellent way to remember HMDA and its regulation is HMDAC, or you can associate "C" with collection for collection of data)

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Acronym:	HMDA
Year Created:	1975
Main Purpose:	Used to track information to prevent discrimination
Disclosures/Notice Required:	Monitoring statement on the 1003
Important Terms Related to this Law:	Redlining, blockbusting, disparate impact, disparate treatment
Entity Responsible for Enforcement:	The CFPB
Other Complimentary Laws:	ECOA; Fair Housing Act
Regulation:	Regulation C

We mentioned HMDA in the last section on Government Monitoring on the 1003. HMDA requires that financial institutions collect and report specific data. The data is collected and analyzed to prevent and detect discriminatory lending practices and to determine whether a financial institution is lending fairly in all areas they serve.

HMDA was enacted in 1975 and implemented by Regulation C. Dodd-Frank outlined some changes for HMDA that were implemented, starting in 2017, and are still ongoing. HMDA's primary purpose is requiring financial institutions to make the HMDA reports. The reports are then used to help determine whether financial institutions:

- Are serving their communities' housing needs
- Are assisting public officials in distributing public investment to attract private investment
- Are assisting in identifying potential discriminatory lending patterns and enforcing anti-discrimination statutes

The government uses HMDA data to prevent **redlining and blockbusting (We will talk more about these in Chapter 6).**

In July of 2014, the CFPB proposed amendments to Regulation C to implement the Dodd-Frank requirements. These changes affected the collection, recording, and reporting (in 2020, the reporting is quarterly) of additional information to further HMDA's goal to modernize how covered institutions report HMDA data.

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Four things are essential to understanding how HMDA works:

- The types of institutions that are required to report
- The types of transactions that are reported
- What specific information is required to be collected, recorded, and reported
- How the information is reported and disclosed

Alert! HMDA is in the process of establishing guidelines for tracking information by NMLS number to concentrate on companies and MLOs.

Institutional Coverage – Who should Report Under HMDA?

On January 1st, 2018, HMDA adopted a uniform loan-volume threshold for all institutions. An institution is subject to Regulation C if it originated at least 25 covered closed-end mortgage loans in each of the preceding two calendar years or at least 500 covered open-end lines of credit in each of the preceding two calendar years and it meets other applicable coverage requirements.

A bank, savings association, or credit union will be subject to Regulation C if it originated at least 25 covered closed-end mortgage loans or at least 500 covered open-end lines of credit in each of the two preceding calendar years and it meets current Regulation C asset-size, location, and loan activity tests.

A for-profit lending institution other than a bank, savings association, or credit union would be subject to Regulation C if it originated at least 25 covered closed-end mortgage loans or at least 500 covered open-end lines of credit in each of the two preceding calendar years and it satisfies the existing location test.

Financial institutions originating fewer than 500 open-end lines of credit in either of the two preceding years were not required to begin collecting such data until January 1st, 2020.

Transactional Coverage: What Transactions Must be Reported on Under HMDA?

A Financial Institution or Lender should not report loan information on:

- Loans originated or purchased by the institution acting as a trustee or in some other fiduciary capacity
- Vacant land loans
- Temporary financing (bridge or construction loans)
- Purchase of an interest in a pool of loans (mortgage participation certificates, for investment purposes)
- Purchase of servicing rights
- Loans acquired as part of a merger or acquisition of another company or branch

Reportable Data Under HMDA

The following information must be provided under the current HMDA rule:

- Loan application Number
- Date of Application
- Loan Amount Requested
- Type of Property
- Lien Position
- Occupancy Status
- Gross Annual Income
- Type of Loan (Conventional, RHS, VA or FHA)
- Purpose of Loan
- Action Taken
- Denial Reason (if applicable)
- Action Taken Date
- MSA
- Property Address
- Property City
- Property State
- Property Zip
- Property County
- Census Tract
- Ethnicity (both borrower and co-borrower)
- Race (both borrower and co-borrower)
- Purchaser (if the loan was sold to another entity during the calendar year;
- APR
- Date of the interest rate lock
- Amortization Type
- Whether it was a HOEPA loan

The geographic location must be reported for loan applications where the institution has a home or branch office in the community.

Disclosure and Reporting of HMDA Data

The institution must also:

- Make the statement available to the public in at least one branch office in any additional MSA where it has offices within 10 business days after receiving the report.
- Post the address for requests in each branch office in each MSA where it has an office and send the disclosure statement within 15 calendar days after receiving a written request.

The LAR (Loan Application Register) must be made available to the public after deleting the following fields:

- Application or Loan Number
- Date application was received
- Date of action taken.

These deletions are required to protect the privacy interest of applicants and borrowers. The modified HMDA-LAR for the previous year's applications must be made available to the public by March 31st of the calendar year.

The HMDA report is due to the respective regulating body by March 1st of every calendar year. The Financial Institution or lender must retain its full (unmodified) HMDA-LAR for at least three years for examination purposes. It must also be prepared to make each modified HMDA-LAR available for three years and each FFIEC disclosure statement available for five years. Institutions can charge a reasonable fee for costs incurred in providing or producing the data for public release. The reporting for 2020 is to be done quarterly.

 [12 C.F.R. 1003.4](#);  [New HMDA Rule Executive Summary](#);  [HMDA Small Entity Compliance Guide](#)

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The Equal Credit Opportunity Act (ECOA, Regulation B)

Federal Mortgage Law Quick Facts:	The Equal Credit Opportunity Act
Regulation:	Regulation B (EBOA)
Acronym:	ECOA
Year Created:	1974
Main Purpose:	To prevent discrimination on specified protected classes
Disclosures/Notice Required:	Notice of Adverse Action, Appraisal Notice, ECOA Notice
Important Terms Related to this Law:	Protected class, adverse action; appraisal, disparate impact, disparate treatment
Entity Responsible for Enforcement:	The CFPB
Other Complimentary Laws:	The Home Mortgage Disclosure Act; Fair Housing Act
Regulation:	Regulation B (EBOA)

Another important law that we must consider when taking an application is the Equal Credit Opportunity Act (ECOA, Regulation B). The Act's purpose is to require financial institutions and other firms engaged in the extension of credit to “make credit equally available to all creditworthy customers without regard to sex or marital status.” ECOA makes it unlawful for “any lender to discriminate against any applicant with respect to any aspect of a credit transaction on the basis of race, color, religion, natural origin, sex, or marital status or age.” ECOA also prohibits discrimination because all or part of the applicant’s income derives from any public assistance program or because the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act.”

Protected Classes Under ECOA:

Race, Color, Religion, National Origin, Sex, Marital Status, and Age

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There are two comprehensive prohibitions against discriminatory lending practices in ECOA:

- A lender shall not discriminate against an applicant on a prohibited basis regarding any aspect of a credit transaction.
- A lender shall not make any oral or written statement, in advertising or otherwise, to applicants or prospective applicants, that would discourage on a prohibited basis, a reasonable person from making or pursuing an application.

These two prohibitions are not solely applicable during the application; they apply through the entire process, and even before the borrower talks to an MLO about the loan (through advertisements). MLOs need to be careful not to take any action, on a prohibited basis, to discourage someone from attempting to apply for a loan.

For example, a lender cannot advertise its credit services exclusively to one class if it discourages other classes. This might occur if the MLO only advertises with images of people that look like the MLO (no racial diversity), or if the MLO only advertises to a particular religion. We have even seen issues with MLOs who only advertise in a single language when there is another language predominantly spoken in the area. Further, a lender cannot use prescreening tactics that would discourage potential applications.

 12 CFR 1002.4

Taking an Application Under ECOA

Under ECOA, an MLO cannot request or collect information about an applicant's race, color, religion, national origin or sex except when the information is necessary to comply with other fair lending rules or is required by state or federal agencies to determine specific eligibility for a particular program. (The Home Mortgage Disclosure Act requires some information to be obtained for government monitoring, as we discussed).

Marital Status

A lender cannot request information about an applicant's spouse, or former spouse, except under these situations:

- The non-applicant spouse will be a permitted user of or joint obligor on the account (like an authorized user or a co-borrower)
- The non-applicant spouse will be contractually liable on the account

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- The applicant is relying on the spouse's income, at least in part, as a course of repayment
- The applicant resides in a community property state
- The applicant is relying on alimony, child support, or separate maintenance income as a basis for obtaining the credit

When an applicant applies for individual credit, an MLO cannot ask the applicant's marital status, except when the credit transaction is to be secured. The lender can ask the applicant's marital status and if the applicant either resides in a community property state

If the application is for joint credit, the lender can ask the applicant's marital status, but may only use the terms: "married," "unmarried," and "separated." The term "unmarried" may be defined to include divorced, widowed, or never married.

Alimony, Child Support or Separate Maintenance Income

A lender cannot ask directly if an applicant is receiving alimony, child support, or separate maintenance payments. It can be asked if it is a general statement about income. For example, an MLO could ask, "Do you have any other income that you would like to claim, such as interest, rent, investment alimony or child support?" The borrower does not have to reveal that information, and you are required to tell them they do not have to.

The only situation where they would be required to disclose alimony, child support or separate maintenance is if they are going to use that income to qualify for the loan. If the borrower volunteers information about alimony, childcare, or separate maintenance to the MLO, it can then be considered.

On the flip side, if the borrower pays child support, alimony, or separate maintenance, they must disclose that information, because it is considered a liability and must be taken into consideration when determining their ability to repay the loan.

Evaluating an Application Under ECOA

A lender can consider any information in evaluating applicants if they do not use the information with the intent or the effect of discriminating against an applicant on a prohibited basis. To that end, a lender cannot:

- Consider any of the prohibited factors, including age and the receipt of public assistance
- Use child-bearing or child-rearing information, assumptions or statistics to determine whether an applicant's income may be interrupted or decreased
- Consider whether there is a telephone listing in the applicant's name
- Discount or exclude part-time income from an applicant or the spouse of an applicant

For example:

- A lender cannot deny a loan application because the applicant receives food stamps or welfare payments.
- A lender cannot deny a loan application just because the applicant is a single mother with four children.

One note on age: If an applicant is under eighteen years of age, the applicant is not old enough to enter a binding contract, which can be used in determining that an applicant is not able to obtain the loan.

 12 CFR 1002.5

Adverse Action and Notifications Under ECOA

Sometimes the loan just does not pan out; what do we do then? Under ECOA, it is the lender's responsibility to notify an applicant of any action taken on the applicant's request for credit, whether favorable or adverse, within 30 days of receiving the completed application. Notice of approval may be expressly stated or implied. For example, if the lender provides the credit card, money, property, or services that the applicant applied for, that is an implied approval.

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If the action is adverse, an Adverse Action Notice must be sent within 30 days. There are two exceptions:

- The lender must notify an applicant of adverse action within 90 days after making a counteroffer, unless the applicant accepts or uses the credit during that time.
- The lender may not have to notify the applicant of adverse action if the application was incomplete, and the lender sent the applicant notice that the application was incomplete.

The Adverse Action notice must be in writing and contain all required information, including:

- The lender's name
- The lender's address
- The nature of the action taken
- An ECOA notice that includes the identity of the federal agency responsible for enforcing compliance with ECOA
- Specific principal reasons for the action taken or disclose that the applicant has the right to request the reason(s) for denial within 60 days of receiving the lender's notification and who to contact to receive that information.

 12 CFR 1002.9

Appraisals under ECOA

ECOA requires that lenders provide an applicant a copy of all appraisals and other written valuations that were developed in connection with the application, promptly upon completion or at least three business days before the consummation of the transaction, whichever is earlier. If the loan is granted an Appraisal Waiver from Fannie or Freddie, lenders are required to inform the borrower that an appraisal will not be required, and that they have the option of having one ordered at their cost.

 12 CFR 1002.9

Fair Housing Act

The Fair Housing Act is similar to ECOA with one small difference, which is important to remember: The Fair Housing Act adds disability to the list of protected classes. ECOA does not prohibit discrimination based upon disability.

The Fair Housing Act applies to all types of housing (including rentals), so if an individual uses a wheelchair and is renting an apartment, the Fair Housing Act prohibits discrimination based on that fact. It also applies to mortgage transactions.

 The Fair Housing Act

The TILA RESPA Integrated Disclosure Rule (TRID)

Federal Mortgage Law Quick Facts:	The TILA-RESPA Integrated Disclosure Rule
Regulation:	N/A
Acronym:	TRID
Year Created:	2015
Main Purpose:	Simplify the disclosure process
Disclosures/Notice Required:	Loan Estimate, Closing Disclosure
Important Terms Related to this Law:	Changed Circumstance, tolerances, business days, consummation, application
Entity Responsible for Enforcement:	CFPB
Other Complementary Laws:	RESPA, TILA
Regulation:	N/A

Another initial loan disclosure is the Loan Estimate. The Loan Estimate is a disclosure required by the TILA-RESPA Integrated Disclosure Rule. The TILA-RESPA Integrated Disclosure Rule, or TRID, was created in 2015 to simplify and clarify the disclosure process. TRID requires two disclosures: The Loan Estimate, and the Closing Disclosure.

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TRID does not apply to:

- Reverse Mortgages
- HELOCs.

The Loan Estimate replaced two disclosures that were required by RESPA and TILA: The Good Faith Estimate (GFE) and the Initial Truth-in-Lending Disclosure (TIL). The Closing Disclosure also replaces disclosures required by RESPA and TILA, the HUD-1 Settlement (HUD-1). The new disclosures were simplified in their format and created to help clarify complicated mortgage terms for consumers.

Those transactions must continue to use Good Faith Estimates, Truth in Lending Disclosures, and the HUD-1 Settlement Statement. If you plan to originate a lot of reverse mortgages or HELOCs, get familiar with these two disclosures. We have provided a copy of them in the index of this textbook.

In addition to the new disclosures, TRID also implemented some new rules regarding how an MLO and their lender can do business. One of the rules is that a lender cannot require or condition that the consumer submit any documents verifying information related to the application before providing the Loan Estimate.

Further, lenders are not allowed to impose any fee to the borrower for a mortgage transaction until the borrower has received the LE, and they have indicated an **intent to proceed** with the transaction. The only exception to the rule is for a bona-fide and reasonable fee for obtaining a consumer's credit report.

What does it mean for a borrower to indicate an intent to proceed? A borrower indicates an intent to proceed with the transaction when they communicate that they are continuing with the loan, once the LE has gone out. Intent to proceed can be a verbal "let's move forward," or a written communication like an e-mail or printed form. A lot of lenders have a separate disclosure that a borrower has to sign, indicating their intent to proceed. A consumer's silence is not indicative of an intent to proceed. The lender is required to document the communication of the intent to proceed.

 [The Consumer Financial Protection Bureau's Small Entity Compliance Guide on the TILA- RESPA Integrated Disclosure Rule](#)

Mortgage Disclosure Improvement Act (MDIA)

The Mortgage Disclosure Improvement Act, or MDIA, was enacted in 2009 to ensure that consumers received good faith estimates of Truth in Lending Act (TILA) disclosures and to provide sufficient time for consumers to review the disclosures before closing. It is a part of the Truth in Lending Act and was implemented by Regulation Z. MDIA introduced the 3/7/3 Rule. Disclosures had to go out three days after application, the loan could not close for seven business days, and it required a re-disclosure of an inaccurate APR at least three business days prior to closing.

MDIA is still an active and applicable law. After However, when TRID became effective in 2015 lenders began to place less emphasis on MDIA. The emphasis shifted to TRID because it also required timely disclosures to consumers after application and prior to consummation. TRID is the predominate rule that lenders follow for their disclosure process.

The Loan Estimate (LE)

The Loan Estimate (LE) form integrates the Good Faith Estimate and the initial TIL in all covered transactions. The lender is required to provide the LE within three business days following the receipt of the borrower's loan application. The LE must contain a **good faith estimate** of credit costs and transaction terms, be in writing, and contain the information required under TRID. The LE must also be delivered or placed in the mail no later than the seventh business day before **consummation** of the transaction.

The final Loan Estimate is required to be received by the borrower no less than four business days before closing. If the Initial LE is mailed, you must show proof that it was mailed within the three-business day requirement.

Remember: What is an application?

An application refers to the submission of a consumer's financial information to obtain an extension of credit. An application consists of the submission of the following six pieces of information:

- The property address
- An estimate of the value of the property
- The consumer's name

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- Credit report/The consumer's social security number
- The consumer's income
- The mortgage loan amount sought.

Once the lender receives the six pieces of information that constitute an application, the lender has three business days to provide the borrower with the LE. A lender is not allowed to require or condition that the consumer submit any documents verifying information related to their application before providing the LE. For example, a lender cannot require that the borrower provide their W-2s to verify their income before sending the borrower a copy of their LE. If the borrower voluntarily provides detailed information, the lender can review it before providing them the LE.

If a borrower withdraws their application before the three business days pass, the lender does not need to provide the LE.

For the LE, **a business day** is a day on which the lender's offices are open to the public for carrying out substantially all its business functions. For example, if the lender is open on Saturday, that would count as a business day for providing the LE to the consumer.

If a lender does not know an exact number or have the ability to calculate various costs at the time the LE is delivered, they are required to act in good faith and exercise due diligence in obtaining information necessary to complete the LE. If some information is unknown, they can use estimates. When a lender uses estimated figures on the LE, the lender must designate them as estimates on the LE.

Fee Tolerances

Lenders are responsible for ensuring that the figures stated in the Loan Estimate are made in good faith and consistent with the best information available to the lender at the time. The LE was made in good faith if there is little or no difference between the charges on the LE and the actual charge paid on the Closing Disclosure (CD). We will talk more in-depth about the CD later on.

In most situations, if the charge paid to the consumer exceeds the amount initially disclosed on the LE, it is not in good faith. Still, there are some situations where there is a specific tolerance that allows certain charges to change between the LE and the CD. There are three tolerances based on specific types of fees:

1. **Zero-tolerance fees:** These charges cannot increase at all between the original disclosure on the LE and the final charge on the CD.

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2. **10% cumulative-tolerance fees:** This group of fees cannot cumulatively go up more than 10% from the disclosure on the LE and the final charge on the CD.
3. **No-tolerance fees:** These types of fees can change by any amount between the original disclosure on the LE and the final charge on the CD.

Fees that are considered **zero-tolerance** include:

- Fees paid to the lender, mortgage broker or an affiliate of either
- Fees paid to an unaffiliated third party if the lender did not permit the consumer to shop for the third-party provider for a settlement service
- Transfer taxes

These fees cannot change from the beginning of the transaction to the end of the transaction. If they do, that's a significant violation of TRID. Simply put, these fees should be known up front and should not change throughout the loan origination process.

Fees that are considered a **10%-tolerance fee** include:

- Recording fees
- Charges for third-party services where:
 - The charge is not paid to the lender or the lender's affiliate
 - The consumer is permitted by the lender to shop for a third-party service
 - The consumer selects a service provider on the lender's written list of service providers.

If a borrower selects someone who is on the lender's service provider list, that fee now falls into the 10% cumulative fee tolerance. If any amount paid by the consumer at closing exceeds the amount disclosed by more than the applicable tolerance threshold, the lender is responsible for refunding the excess to the consumer no later than 60 calendar days after consummation.

Fees that are considered **no-tolerance fees** include:

- Prepaid interest
- Property insurance premiums
- Amounts placed in escrow, impound or reserve or similar account
- For services required by the lender, if the lender permits the consumer to shop, and the consumer selects a third-party service provider not on the lender's written list of service providers.

No tolerance means they can charge any amount from the beginning to the end of the

transaction. This tolerance is easily confusable with zero-tolerance, so pay close attention to the difference.

If a lender allows a borrower to shop for a service, they will provide a list of service providers that they recommend that the borrower use for those services. If the borrower does not choose from one of those recommended providers and instead chooses another provider, it is not the lender's responsibility if the fee increases.

The written list of service providers must be separate from the LE. The lender must provide it in the same time frame as the LE. The list must identify at least one available settlement service provider for each service and must state that the consumer can choose a different provider for that service. The lender can also identify a written list of providers that the consumer is not permitted to shop, as long as those services are clearly and conspicuously distinguished from the services that the consumer is permitted to shop.

Please refer to the sample Loan Estimates provided to you in the index of this course during this section. There are different versions of the LE based upon the type of transaction (refinance, purchase, etc.).

Page One of the Loan Estimate

Starting from the very beginning, at the top of the LE, the lender must include their name and their address. The date issued must also be included and is a way to verify that the lender sent the Loan Estimate in compliance with TRID's rules (at the time of or within three business days of application).

At the top, on the right side of page one, the lender will include the loan term, purpose, product, loan type, loan ID # (a loan number is required for any company that is funding the loan), and information regarding the rate lock.

A rate-lock occurs when the interest rate for a loan is locked for a particular period. It cannot change from the point it is locked moving forward unless the lock expires. This part of the LE will let the borrower know whether their rate is locked or not. The lender must also include the date and time the rate lock will expire. Loans must fund by the lock date, or the rate and fees are subject to change.

Loan Terms

The lender is required to disclose the basics of the loan, including:

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- The loan amount
- The interest rate
- The monthly principal & interest payment
- Whether the loan has a prepayment penalty
- A balloon payment]

Next to each of the first three disclosed terms is a yes or no question (ARM loans will require yes in all cases):

- Can this amount increase after closing? This question is answered with a YES or a NO to let the borrower know if the terms of their loan could change after the loan has closed.
- Can the loan amount change after closing? Only in a situation where negative amortization is allowed.
- Can the interest rate change after closing? Only if it is an adjustable-rate mortgage.
- Can the monthly principal and interest payments go up? Generally, only when it is an adjustable-rate mortgage or another nontraditional mortgage product.

To the right of the balloon and prepayment penalty, if the loan has these features, the lender must include the amount of those features. In the example given, this loan does have a prepayment penalty, and it could be as high as \$3,240 if the borrower pays the mortgage off during the first two years.

Projected Payments

The projected payments section shows the borrower what their payment will look like throughout the loan. In this scenario, this is a fixed-rate mortgage, so the payment will not change much throughout the loan. This loan does include mortgage insurance which will eventually fall off.

As shown in the example, during the first seven years of the loan, the principal and interest will be \$761.78, the mortgage insurance adds another \$82 to the payment, and the estimated escrow is \$206. As we mentioned before, the amount of the escrow can increase at any time, thereby making the payment increase. The example then shows that in year eight, the mortgage insurance will drop off, and the payment will drop by \$82.

Costs at Closing

The bottom of page one is the overall Estimated Closing Costs, and it adds up all the costs that are on page two. There is also an Estimated Cash to Close section. This section shows

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the amount of money the borrower will either bring to closing or receive at closing. In this scenario, this is a purchase transaction, and the borrower will need to bring their down payment as well as their closing costs. Borrowers get confused, because if the seller or lender is paying part of the costs, it is not reflected on the 1st page; the credit is shown on the 2nd page.

Something to note: This first page is a brief overview of the loan. It is a good place for a borrower to compare and contrast different options from the same, or different, lenders to make sure they're getting a good deal. The second page goes into greater detail about the costs associated with the loan.

Page Two of the Loan Estimate (LE)

Page Two of the LE contains the closing costs details. There are multiple sections. The lender breaks the costs down into Loan Costs, Other Costs, and Calculating Cash to Close. This page is where the Loan Estimate goes into detail about the costs of the loan. This page must be as accurate as possible, as TRID imposes fee tolerances. Remember those tolerances we talked about earlier in this section; this is where they begin to come into play.

According to TRID guidelines, numbers should generally be disclosed using decimal places on the LE. There are some exceptions where the number should be rounded to the nearest dollar. Those exceptions can be found at § 1026.37(o)(4).

Loan Costs

The Loan Costs section includes:

- A. Origination Charges (includes lender fee, processing fee, underwriting fee and closing fee)
- B. Services You Cannot Shop For
- C. Services You Can Shop For
- D. Total Loan Costs

The origination charge includes the compensation to the lender and Mortgage Loan Originator, as well as the amount of discount points being used to buy down the interest rate. These origination charges are considered **zero-tolerance fees**. According to TRID, the fees disclosed in this box (plus transfer taxes which appear in box E on this page) cannot change from their initial disclosure on the LE and their disclosure on the CD, period.

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Services that a borrower cannot shop for can include:

- Appraisal fees
- Credit report fees
- Flood determination fees
- Flood monitoring fees, tax monitoring fees
- Tax status research fees.

These fees are charged by a third-party provider that the lender requires the borrower use; hence the title, “Services You Cannot Shop For.”

If a borrower can shop from a list of providers, TRID imposes a **10% cumulative-fee tolerance**. The sum of the fees cannot increase more than 10% from their original disclosure on the LE and their disclosure on the CD. Using this LE as an example, the \$3,198 cannot increase more than 10% on the CD, or this lender would be in violation of TRID.

Services that a borrower can shop for, in this scenario, include

- Pest inspection fees
- Survey fees
- Title fees

TRID also gives a **no-tolerance** to services that a borrower can shop for that are not on a provider’s list, like hazard insurance; meaning that these fees can increase by any amount from their disclosure on the LE to the CD without penalty. The lender has no control over what those third-party providers charge the borrower because the borrower picked them, not the lender.

The fees in boxes A-C are added up on line D and placed at the bottom of the left-hand column. On the right-hand column, Other Costs are added in, which include:

- E. Taxes and Other Government Fees. These fees generally fall into the 10% fee-tolerance (except transfer taxes, which are zero-tolerance).
- F. Prepaids – These are prepaid homeowner’s insurance premiums, mortgage insurance premiums, prepaid interest, and property taxes. These fall under the no fee-tolerance category.

A prepaid is an amount required by the lender that the borrower must pay in advance, which is prorated. Rent is paid in advance. Mortgage interest is always paid in arrears.

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Discount Points and Lender Credits

Discount points are the cost to lower the borrower's interest rate in exchange for an upfront fee.

Lender credits lower the borrower's closing costs in exchange for a higher interest rate.

These two terms can be used to mean other things as well. Some lenders use the word "point" to refer to any upfront fee that is calculated as a percentage of the borrower's loan amount, whether or not they receive a lower interest rate.

Some lenders also offer lender credits that are not connected to the interest rate; sometimes as a temporary offer or to compensate for a problem. There aren't always points or lender credits on a loan.

Take a look at this chart that shows some trade-offs related to points:

COMPARE THREE SCENARIOS OF HOW POINTS AFFECT INTEREST RATE

RATE	4.875%	5.0%	5.125%
POINTS	+0.375	0	-0.375
YOUR SITUATION	You plan to keep your mortgage for a long time. You can afford to pay more cash at closing.	You are satisfied with the market rate without points in either direction.	You don't want to pay a lot of cash upfront and you can afford a larger mortgage payment.
YOU MAY CHOOSE	Pay points now and get a lower interest rate. This will save you money over the long run.	Zero points.	Pay a higher interest rate and get a lender credit toward some or all of your closing costs.
WHAT THAT MEANS	You might agree to pay \$675 more in closing costs, in exchange for a lower rate of 4.875%. Now: You pay \$675 Over the life of the loan: Pay \$14 less each month	With no adjustments in either direction, it is easier to understand what you're paying and to compare prices.	You might agree to a higher rate of 5.125%, in exchange for \$675 toward your closing costs. Now: You get \$675 Over the life of the loan: Pay \$14 more each month

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In this situation, the borrower qualifies for \$180,000 on a 30-year fixed-rate loan of an interest rate of 5% with zero points.

 What are (discount) points and lender credits, and how do they work?

Prepaid interest

Prepaid interest is interest paid in advance. Prepaid interest exists because, in a mortgage situation, the borrower pays interest in arrears. For example, a mortgage payment made on May 1st pays for April's interest.

Calculation for daily prepaid interest: $\text{Principal balance} \times \text{Interest Rate} / 360 \text{ days for Conventional loans (365 days for government loans)} = \text{daily interest cost}$.

A borrower or new homebuyer will pay interest up to the day that is 30 days away from their first mortgage payment; meaning, if a borrower closes a transaction on June 15th, their first mortgage payment will be due on August 1st. The borrower will pay the interest accrued between June 15th and July 1st at closing. This fee is called prepaid interest.

The daily interest for the borrower's loan is \$17.44. They close on the 15th of the month, and there are 15 days before the 1st of the next month. $15 \times \$17.44 = \$262$. The lender adds this as a prepaid interest paid at closing.

Page Two of the LE Continued

Continuing on the second column of page two of the LE:

- **Initial Escrow Payment at Closing:** In most situations, at the time of closing, the borrower must make an initial payment into their escrow account to make sure that they have enough to pay property taxes and insurance when they come due (there could be a two month delay in the payments, thus the reason for the deposit at closing).
- **Other:** This section can include any optional fees in this situation. There is an optional owner's title insurance policy. That means that the lender does not require this fee, but the borrower may want to buy it.

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- Total Other Costs: This line adds up boxes E, F, G, and H.
- Total Closing Costs: This is a subtotal of both the Total Loan Costs D and Total Other Costs I (D+ I), as well as any Lender Credits. The Lender Credit would be shown and then subtracted, if applicable. For example, the lender was crediting the borrower \$2,000 towards their closing costs. The lender would disclose \$2,000 in this section, and the total closing costs would go down from \$8,054 to \$6,054.

The final section of page two is Calculating Cash to Close. This section itemizes the total closing costs, including:

- Any closing costs that financed into the loan
- Any down payment/funds from the borrower
- Any deposit already made
- Funds for the borrower
- Any seller credits and adjustments and other credits to get to the Estimated Cash to Close (how much the borrower needs to bring to closing to cover everything).

This page is detailed and gives a good estimate of what the borrower should expect to see at closing.

Revisions to the Loan Estimate

Generally, a lender can revise a Loan Estimate at any time before they provide the Closing Disclosure. However, the lender must ensure that the consumer receives the final revised LE no later than four business days before closing (or consummation).

The lender is permitted to rely on the charges disclosed on the revised LE to reset tolerances in more limited circumstances; meaning that a lender can review an LE if it stays within the original tolerances, except when specific things occur. For example, the original LE discloses that the borrower will pay \$1,000 in title work, and this fee is a 10% cumulative-tolerance fee. It goes up before the disclosure of the CD by \$1,200, and let's say that it doesn't exceed the 10% cumulative tolerance; the lender can then disclose a revised LE to the borrower.

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If that increase does exceed the 10% cumulative tolerance, the lender cannot send a revised LE unless there are other specific circumstances. Those circumstances are called Changed Circumstances and they are the only way that an LE can be revised if a fee exceeds a tolerance (For the record, if there is not a Changed Circumstance in place, the lender cannot charge the amount that exceeds the tolerance, cannot charge the borrower, and must absorb that cost).

The following are acceptable Changed Circumstances:

- An extraordinary event out of anyone's control (also known as an Act of God)
 - Example: a weather disaster like a hurricane or tornado
- Information specific to the consumer or the transaction that the lender relied upon when providing the disclosures that was inaccurate or changed after the disclosures were provided.
 - Example: The appraisal comes back lower than initially expected, and the borrower no longer qualifies for the original product. They do qualify for a different product with different charges; for example, now they need to have mortgage insurance.
- New information specific to the consumer or transaction that the lender did not rely on when providing the disclosures.
 - Example: At the time of disclosure there was an unknown tax lien on the property, and that disqualifies the borrower for a specific product, but still qualifies them for a different product with different charges.

If a Changed Circumstance occurred, it may cause one or more third-party charges subject to the ten 10% cumulative-tolerance to increase, in which case the lender can rely on a new revised LE and reset the tolerances.

A lender may also provide and use a revised LE and reset tolerances if a Changed Circumstance affected the borrower's creditworthiness or the value of the property, which resulted in the consumer being ineligible for an estimated loan term previously disclosed.

Further, if a consumer requests revision to the terms of the mortgage, the lender may use a revised LE to reset tolerances. If the consumer requested revisions to the credit terms or settlement that affect items disclosed on the LE, this can cause an estimated charge to increase. The lender must provide the new revised LE no later than three business days after the date of the Changed Circumstances.

Page Three of the Loan Estimate

The third page of the Loan Estimate ties up loose ends. It gives the borrower some additional information about the Lender and Loan Officer. It also gives the borrower some figures to compare to other possible loan products and lenders that the borrower may be shopping.

Comparisons

The comparisons section gives the borrower the total amount they will have paid in five years versus the amount of principal they will have paid off. The section also gives the **Annual Percentage Rate (APR), and the Total Interest Percentage (TIP).**

Annual Percentage Rate and Total Interest Percentage

The Annual Percentage Rate (APR) is the cost of the loan over the life of the loan, expressed as a rate. It is not the interest rate! It is the cost of credit expressed as a rate. In this scenario, the costs of the loan make up 4.274% of what the borrower will pay over the loan term.

APR is a measure of the cost of credit, sometimes referred to as the ***TOTAL COST*** of the loan, expressed as an annual interest rate. While you may not be required to calculate a specific APR, as this is a more complex calculation using the ***loan amount***, the ***interest rate***, the borrower's ***closing costs***, and the amount of ***interest*** the borrower will pay over the ***term*** of the loan, it is important to understand how the APR is developed.

It's important to note the difference between the interest rate on the loan and the APR. The interest rate on the loan is used to determine the monthly payment. On a fixed rate mortgage, for example, the loan is amortized over the term (30 years, 20 years, 15 years, etc.), creating a monthly payment where the payment is broken down into principal and interest (not counting property taxes, insurance, etc.). The amount of interest paid each month as part of the monthly payment is based on this interest rate.

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Now, let us look at APR. Since APR is the **TOTAL COST** of the loan, we need to understand what the total cost of the loan is.

The total cost is:

All of the interest the borrower will pay over the term of the loan (30 years, 20 years, 15 years, etc.) as part of that monthly payment that we just mentioned, which can sometimes be hundreds of thousands of dollars over the entire term of that loan;

+

All the APR closing costs the borrower pays to obtain the loan.

APR is the **TOTAL COST** of the loan expressed as an annual interest rate. Again, the total cost being all of the interest over the loan term + all of the APR closing costs. ***APR = Total Interest (over the term) + APR Closing Costs.***

Now we need to understand what an APR closing cost is, which means there ARE fees and costs that are NOT APR closing costs. Understanding this is simple. Let's imagine someone is paying CASH for a home or property. Since they will not be obtaining a mortgage loan, they will not have any LENDER costs, such as a LENDER'S Credit Report, a LENDER'S Origination, Processing, Underwriting, Interest Rate dependent fees, or LENDER'S Title Insurance, because they simply DO NOT have a loan, so there is no LENDER. These LENDER and Rate Related Fees are APR Fees.

However, when someone purchases a home, they will still have other fees and costs, such as Property Tax and Homeowner's Insurance, and in many cases, it is the borrower's decision to purchase a Home Inspection (unless required by the loan), Home Warranty, Survey (unless required by the loan), and even Owner's Title Insurance, just to name a few. The Property Appraisal is generally only required for a loan, but it is considered a sound buying practice for a homebuyer to obtain an appraisal on the property, even if they're not obtaining a loan.

The following is not an inclusive list. Below are just some examples of typical **APR Fees**:

- Loan Origination Fee, Application, Underwriting, Processing, Admin
- Any Lender Fee or Charge
- Points (Discount Points), Interest Rate Dependent Fees
- Credit Report
- Flood Determination Certification
- Document Preparation Fee
- Prepaid Interest

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- Lender's Title Insurance Policy
- Escrow/Closing/Settlement Fee – Fees to Close the Mortgage Loan
 - Typically, under the supervision of a Title/Settlement Company/Agent
- Private mortgage-insurance (PMI), UFMIP, and Annual Premium (FHA)

The following is not an inclusive list. Below are just some examples of **NON-APR** Fees:

- Escrows / Impounds – Taxes, Insurance
- Appraisal
- Inspection, Home Warranty, Survey (unless required by lender or loan program)
- Owner's Title Insurance Policy
- Title/Abstract (Title Search Fees)
- Most Attorney's Fees (unless also originating the mortgage loan – see APR fees above)
- Most Notary fees (Some lenders include in APR if a separate notary fee is charged to close loan documents)
- Recording Fees
- Transfer Taxes/Tax Stamps

Note: Calculating monthly payment and interest paid on a fully amortized loan is a more complex calculation not within the scope of this course. The below example is for explanation purposes only, so we have provided actual figures from an amortization schedule.

For example, if a borrower has a \$200,000 loan amount and an interest rate of 4%, fixed for 30 years, the total interest paid over the 30 years is \$143,739. The payment is based on this rate, giving you a monthly payment of \$954.83.

Now assume the borrower has \$5,000 in APR Fees. The APR would be calculated based on \$148,739 (\$143,739 + \$5,000 Fees), NOT the \$143,739, thus making the APR higher than the interest rate (Note Rate) used to calculate the monthly payment above (\$954.83).

Since the APR calculation includes the closing costs, we can naturally assume the higher the closing costs, the higher the APR. While this holds true for all loans, smaller loan amounts can also increase the APR.

For example, if you were to have the same \$3,000 in APR closing costs on different loan amounts, these closing costs expressed as a percentage of the loan amount would naturally be higher on smaller loan amounts.

- \$3,000 Closing Cost / \$200,000 Loan Amount = 1.5%
- \$3,000 Closing Cost / \$100,000 Loan Amount = 3%
- \$3,000 Closing Cost / \$50,000 Loan Amount = 6%

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APR is used to identify whether loans have higher costs and fees. This allows the borrower to compare loan options using the APR as an indicator as to which lender may have higher fees. APR is also explained further in this textbook when reviewing advertising and TILA, which requires that, when quoting an interest rate to a consumer, you must also give an APR. It is also important to have an understanding of APR when reviewing Qualified Mortgages (QM), Higher-Priced Mortgage Loans (HMPL), and High-Cost Mortgage Loans, also explained elsewhere in this textbook.

The APR is disclosed to the borrower within the Loan Estimate (LE) given to the borrower 3 business days after application, as required by TRID. When you disclose to the borrower, it is important to know which fees go into which sections of your LE and CD (Closing Disclosure), because if you do not put your fees in the proper location or field on these disclosures, it may cause you to disclose an inaccurate APR to your borrower, thus putting you in violation of TILA.

The final point to remember is the APR is not the interest rate on the loan and is simply the Total Cost of the loan expressed as an annual interest rate.

The Total Interest Percentage (TIP) is the total amount of interest that the borrower will pay over the loan term as a percentage of your loan amount. In this scenario, 69.45% of what the borrower will pay on this loan is interest.

The “In 5 years” comparison shows how much in total interest, costs, and MI, if applicable, the borrower will have paid over that five years, minus the principal payment, as that is not a cost or expense. In this situation, over five years, the borrower will have paid \$56,582 in their monthly payments. Only \$15,773 of that will have gone to the principal.

These comparisons can be a good tool for the borrower to compare the loan products they are looking at or even to compare lenders.

Comparison: What is the difference between a mortgage interest rate and an APR?

The difference between a mortgage interest rate and an APR is that the interest rate is the cost that the borrower pays each year to borrow money for a mortgage. An APR reflects the mortgage interest and other charges over the life of the loan, including mortgage insurance. The APR is a broader measure of the cost to the borrower of borrowing that money.

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The APR reflects not only the interest rate, but also the points, fees, and other charges that the borrower must pay to get the loan. For that reason, the APR is usually higher than the interest rate.

 The Difference Between Mortgage Interest & an APR

Other Considerations

The first section indicates to the borrower that the lender may order an appraisal to determine a property's value and that the borrower could be charged for that appraisal. It also tells the borrower that the lender will give them a copy of the appraisal promptly, even if the loan does not close. The borrower is also entitled to pay for their appraisal at their own cost.

The second topic it covers is assumption. This indicates to the borrower whether this loan is assumable or not (See chapter 2 for an explanation of assumption).

The third topic it covers is the homeowner's (hazard or fire) insurance. This section indicates to the borrower that this loan requires homeowner's insurance on the property. It also tells the borrower that they can obtain insurance from a company of their choice. The amount of the homeowner's/hazard insurance policy cannot be less than the mortgage amount.

The fourth topic is late payments. This section will indicate when the lender can consider a payment late; in most situations, the payment is late if it's more than 15 days past due. It also indicates the amount of the late fee, which, in most situations, is 5% of the monthly principal and interest payment. The late payment fee is 4% for government (FHA, VA, USDA) and high cost loans.

The fifth topic covers refinance. This section indicates that refinancing this loan depends on the future financial situation of the borrower, the property value, and the market conditions. It says that the borrower may be able to refinance their loan if they meet the requirements.

The final topic is servicing. This line dissolves the need for another disclosure initially required by RESPA, because it informs the borrower whether the lender will service this loan or whether the loan will be transferred to another servicer. We will talk more about the transfer of service and RESPA later in this course. Just as a reminder, mortgage brokers cannot service loans.

Confirm Receipt

The final part of this page is the section where the borrower confirms that they have received the Loan Estimate. It also indicates to the borrower that by signing the document, it does not mean that they are required to accept the loan; it only means that they have received the LE.

The Home Loan Toolkit

The Home Loan Toolkit is another disclosure required by TRID. The lender must provide this document to the borrower within three business days of application for all purchases. This disclosure is a pamphlet created to help a borrower through the mortgage process. It helps the borrower determine what they need to do to get the best mortgage for their situation, explains closing costs and what it takes to purchase a home, and gives suggestions on how to be a successful homeowner.

Look at it in the index of this course as it could be equally helpful for you, as an MLO, to understand and see what the CFPB is recommending for consumers looking to obtain a mortgage.

 The Home Loan Toolkit

Housing Counseling

We talked about the Homeownership and Equity Protection Act (HOEPA) in Chapter 2. It generally governs High-Cost and Higher-Priced home loans, but there is a disclosure that is required by HOEPA that applies to all loans.

Per HOEPA, on all federally-related loan applications, the lender must provide a list of at least ten housing counselors. The list of housing counselors must be sent at application or within three business days after receiving the application.

 12 CFR 1026.32

Request for Transcript of Tax Return (4506-T)

The 4506-T is another initial disclosure that usually gets sent out at the same time as the 1003 and the Loan Estimate. The lender uses this form to obtain a copy of the borrower's tax transcripts from the Internal Revenue Service (IRS) to determine whether they can qualify for a mortgage. The underwriter uses tax transcripts to verify a borrower's income.

See the copy of the 4506-T provided to you in the index.

 [About the 4506T](#)

The CHARM Handbook

The Consumer Handbook on Adjustable-Rate Mortgages is a required disclosure on all adjustable-rate mortgages (regardless of whether they are a purchase or a refinance). This document is also required to be disclosed by the lender within three business days of application. The CHARM handbook is prepared and maintained by the CFPB. It is required under TILA.

 [The CHARM Handbook](#)

The Electronic Signatures in Global and National Commerce Act (E-Sign Act)

Federal Mortgage Law Quick Facts:	The Electronic Signatures in Global and National Commerce Act
Regulation:	N/A
Acronym or Nickname:	E-Sign Act
Year Created:	2000
Main Purpose:	Allows for electronic signatures on a mortgage loan documents
Disclosures/Notice Required:	Prior Consent, Notice of Availability of Paper Records and at the best of your ability

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	to determine if the borrower has the ability to do electronic delivery
Important Terms Related to this Law:	e-signatures
Regulation:	N/A
Acronym or Nickname:	E-Sign Act

In the past, all these disclosures would have had to be signed by a borrower using ink signatures. After the E-Sign Act of 2000, this began to change. The E-Sign Act allows lenders to use electronic signatures as a valid signature for financial transactions with the permission of the borrower. The E-Sign Act also allows for electronic records to satisfy any federal statute.

Before a financial institution can use e-signatures and electronic records, they are required to obtain permission from the borrower. The E-Sign Act requires lenders to provide a disclosure to the borrower explaining their rights to obtain any record in a non-electronic form and the right to withdraw consent to the use of electronic records. The financial institution is also required to provide a statement of software and hardware requirements for access to, and retention of, electronic records.

 The E-Sign Act

Chapter 3 Review

Now that you've completed Chapter 3, let's do a quick review of the topics that were covered including pre-approval, pre-qualification, advertising and initial disclosures.

Pre-Qualification v. Pre-Approval

- **Pre-Qual** is only a review of what the borrower says they make, their assets, and the estimated value of the property. You can give an estimate of qualifications.
- On a **Pre-Approval** you are verifying the information before you issue a final Pre-Approval. Having a pre-approval can be helpful for a realtor when a borrower puts in an offer on a home.

Truth in Lending Act (TILA, Regulation Z)

- There are many parts to TIL including but not limited to:
 - ❖ MDIA, Advertising, HOEPA, APR, LE, CHARM Booklet, Qualified Mortgage (QM), the HELOC booklet, ATR, the Right of Rescission and Loan Officer Compensation.
- The principal purpose of TILA is protecting the borrower from interest rate, disclosure abuse and predatory lending. As part of TRID, the purpose of the LE and CD is to disclose accurate Fees and APR”.
- Advertising has to match what you can offer, and you must include an APR anytime you have a number on your marketing piece. All advertising must be kept for two years from the last time you ran the marketing program.
- You must keep the CD for five years. The hard copy files can be destroyed once the files are digitized.
- Penalties of up to \$5,000 and one year in jail for violating TILA.

The Mortgage Acts and Practices Rule (MAP, Regulation N)

- Covers abuses in advertising.
- This includes advertising something you don't have, bait and switch, and using terms that mislead or tell the borrower they should not apply.

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Counseling and Suitability of Products and Programs

- As a professional MLO, it is your responsibility to counsel a borrower as to the products that you have available, so they can make an educated decision.
- Just because Grandpa says they should only get a 30- year fixed mortgage, their circumstances may lead to other options.
- Ask questions.

An Application & 1003

- Remember PENCIL. If you don't have all the items, you are not responsible for giving an LE:
 - ❖ Property address
 - ❖ Estimated property value
 - ❖ Name of the borrower
 - ❖ Social Security Number to pull a credit report
 - ❖ Borrower's income
 - ❖ Loan amount requested
- Fannie Mae 1003, or FHLMC 65, is the application needed to obtain all the information you will need to make a credit decision. It is also called URLA: Uniform Residential Loan Application.
- New 1003 – Fannie Mae and Freddie Mac have designed a new 1003, which has now been delayed until 2021.

Home Mortgage Disclosure Act (HMDA, Regulation C)

- Requires all lenders to collect data on all applications and report it annually or, starting in 2020, quarterly.
- Mortgage Brokers are exempt because they can't underwrite or fund loans.
- HMDA requires you to collect data, thus Reg C for collection of data means HMDA.

Equal Credit Opportunity Act (ECOA, Regulation B)

- Age: Borrowers must be 18 or older to obtain a mortgage.
- Discrimination: None of the discriminatory items can be used to make or decline the loan; they must be kept neutral.

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- Underwriting/Credit Decision: When a complete underwriting package is delivered to the underwriting department, a decision to decline or approve must be issued within 30 days, unless the file is suspended. It is then extended to 90 days.
- Appraisal: An appraisal is to be delivered to the borrower no less than three business days before closing. The exception would be if there was an AWI issued by Fannie Mae or Freddie Mac, or on an FHA Streamline refinance or an IRRRL streamline VA refinance.
- Adverse Action: If the loan is declined or cancelled, an adverse action must be issued within 30 days and should explain why the action was taken.

The Fair Housing Act (FHA)

- Remember that under Fair Lending, Fair Housing and ECOA, you are required to allow all consumers to apply for a loan. It doesn't mean the loan will be granted, but they must be allowed to apply.
- Fair Housing was amended by ECOA. Age is exempt because of Reverse Mortgages and 55 and over subdivisions.

TILA- RESPA Integrated Disclosure (TRID)

- Replaced the GFE and TIL.
- Page one gives all of the details of the loan program, the payments, including escrows and the total costs of the loan. If there is assistance in costs paid by the seller or lender, the credit will be shown on page two.
- Page two contains a detailed breakdown of costs and fees that will be charged to get the loan.
- Three (3) Fee tolerances:
 - ❖ Zero tolerance: When you provide a quote and it is incorrect, you will pay the difference. There may be exceptions but be very conscious of what you are quoting.
 - ❖ 10% tolerance is a cumulative total of the costs including title, recording fees and lender-required inspections. If the borrower selects their own company, you have no liability.
 - ❖ No Tolerance: You have no liability because the borrower selects the provider.

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- Any CHANGED CIRCUMSTANCE results in a new LE being issued within three business days. The Final LE must be received no later than four business days before closing.
- Business Day: The LE and Changed Circumstance is any day the company is open, but never Sunday or legal holidays.
- Page three of the LE: Shows three comparisons, including five-year cost, APR, and TIP (Total Interest Percentage). General information on appraisal, insurance, late pays, refinancing and servicing.
- The LE may be required to be signed by the lender, but it does not obligate the borrower; it only indicates they have received a copy.

Home Loan Tool Kit

- Required on all purchases within three business days of application.

Consumer Handbook on Adjustable Rate Mortgages (Charm's Booklet)

- Required for all ARM loans, whether purchases or refinances, within three business days of application.

Homeownership Counseling Disclosure:

- Optional counseling to all buyers at their own cost.
- Must provide the disclosure on all transactions.
- Mandatory for Reverse Mortgages or High Cost loans.

4506T

- Sent to IRS to confirm the numbers on the tax returns from the borrower are the same.
- Can help in determining whether fraud exists.

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Electronic Signatures in Global and National Commerce Act (E-Sign Act)

- E-mail and faxing are not considered electronic.
- The borrower must give written approval and they have to be allowed to go back to hard copy if they wish.
- You must determine, to the best of your ability, that the borrower is able to accept digital delivery.

Chapter 4

Processing & Underwriting

Learning Objectives for Chapter 4

- ☐ Describe the different types of income and how to calculate them
- ☐ Explain how to analyze a borrower's liabilities, qualifying ratios and credit reports
- ☐ Restate the requirements under FCRA and FACTA related to credit reports
- ☐ Outline the requirements under RESPA and the US Patriot Act
- ☐ Understand what constitutes net tangible benefit
- ☐ Describe how title, appraisals and insurance play a part in the origination process

Borrower Analysis

During the underwriting and processing portion of the loan process, the mortgage underwriter and the processor work together to get the borrower approved for their chosen mortgage. The underwriter analyzes the borrower's profile while the processor collects verifications and documentation to help the underwriter do a thorough analysis of the borrower. In this section, we are going to discuss assets, liabilities, income, credit reports, qualifying ratios, and determining the borrower's ability to repay the loan. We will also discuss what the processor does to help with some of these topics.

Assets

In some situations, for a borrower to obtain a mortgage, they need to provide **assets or liquid financial reserves** (reserves for short). Liquid financial reserves are those liquid or near liquid assets that are available to the borrower after the mortgage closes, including:

- Money in a checking or savings account.
- Investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts.
- Amounts vested in a retirement savings account.
- The cash value of a vested life insurance policy.

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Unacceptable sources of reserves are:

- Funds that are not vested.
- Funds that cannot be withdrawn under any circumstances, other than the account owner's retirement, employment termination, or death.
- Stock held in an unlisted corporation.
- Non-vested stock options and non-vested restricted stock.
- Personal unsecured loans.
- Interest party contributions.
- Cash proceeds from a cash-out refinance transaction on the subject property.

We measure reserves by the number of months of qualifying payment amount for the subject mortgage that the borrower could pay using his or her financial assets. For example, the borrower's new mortgage payment is \$750. If the borrower is required to have two months in reserves, they would need to have \$1500 available.

On a loan, the amount of reserves required depends upon the transaction, the occupancy status and amortization type of the subject property, the number of units in the subject property, and the number of other financed properties the borrower currently owns. In most situations, loans are underwritten by Fannie Mae or Freddie Mac's automated underwriting system (AUS). These AUSs let the underwriter know if reserves are required on a specific loan transaction. If the loan is being manually underwritten (meaning that the underwriter is not relying on an AUS to help with the analysis of the borrower), it will be laid out in the requirements for that specific loan product with the borrower's specific qualifications.

All the borrower's assets must be verified if they are required to close the loan transaction. The underwriter will likely require a **Request for a Verification of Deposit (VOD)**, which is a form filled out by the borrower's depository institution that will verify the borrower has those funds available to them. The underwriter might also require the borrower's bank statements; the statements must cover the most recent full two-month period of account activity (60 days). Also, if the borrower is using a retirement fund, the underwriter will require that account statement as well. For a reserve to be considered **seasoned** and acceptable, the funds must be on deposit in a financial institution in the borrower's name for at least 60 days.

 Verification of Deposit;  Fannie Mae Selling Guide

Down Payments – Acceptable Forms of Down Payments

In a purchase transaction, the borrower needs to provide a down payment. The amount varies depending on the program, but the borrower must source funds for that down payment. That down payment is going to come from the borrower's assets, and it must be seasoned in a financial institution for at least 60 days. The borrower can use their checking and savings accounts, stocks, bonds, mutual funds, 401k, and other retirement accounts as sources for that down payment.

The borrower also, in some situations, can use **gift funds** for a down payment. These are funds gifted to the borrower to buy a home. These funds must be what they say they are: a gift. No repayment of these funds can be expected by the person gifting the funds. Gift funds generally have to come from a blood relative, significant other or an employer. The underwriter will often require a letter from the person giving the gift, indicating that they will not require repayment. This letter is called a **gift letter**.

Borrowers can also get down payment assistance from the state, county or city program. These options are often only available to first-time homebuyers, but it depends upon the program.

Sourcing a Down payment

Income

There are many different types of income that a borrower can use to qualify for a mortgage. Income falls into two types: **stable income and variable income**. No matter what type of income a borrower has, the underwriter needs to determine the monthly income that the borrower receives, see a history of that income, verify the income, and see continuity in the income.

Examples of stable income:

- Base Salary
- Consistent hourly wages
- Social Security
- Payments for retirement or long-term disability

These types of income are stable; the income doesn't fluctuate, and it stays the same month after month.

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Examples of variable income:

- Commission
- Bonuses
- Overtime
- Self-Employed income
- Fluctuating hourly wages
- Second job income

Underwriters treat variable types of income more carefully because they can fluctuate from month to month, and the underwriter will need to make sure that the income is consistent, on average, over a two-year history. The underwriter will calculate the income. If it is stable or increasing year over year, the underwriter will average the income over the two years, and it will be a viable source of income to qualify for the loan. If the variable income is declining, but has stabilized, the underwriter will use the lower amount of variable income, to be safe.

Continuity and Verification of Most Types of Income

Most of the time, the borrower needs to show two years of income. Most underwriters want the income to be from the same employer, or at least in the same line of work. There can be exceptions to that rule (FHA loans, for one), but the general rule of thumb is two years of income.

The underwriter will verify the income by looking at a borrower's **W-2, paystubs, their tax returns**, or all three. These third-party documents are proof enough that the borrower's income is correct. Income not claimed on a tax return cannot be used.

The underwriter must obtain a completed **Request for Verification of Employment**, or the borrower's most recent pay stubs, and IRS W-2 Forms for stable income. The W-2 or tax returns must cover the most recent 2-year period to verify this income. The processor will complete the Request for Verification of Employment (VOE). A VOE is a form filled out by the borrower's employer, stating that they employ the borrower and confirming the borrower's income.

For bonus or overtime income, the underwriter must get a completed **Form 1005** or the borrower's most recent pay stub and IRS W-2 forms covering the most recent two-year period.

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If the borrower receives commission income, the underwriter needs to see a minimum of two years of commission. If the commission income represents less than 25% of the borrower's total annual employment income, the underwriter can use the VOE or the borrower's most recent pay stub and IRS W-2 form for the last two years. If the commission income represents more than 25% of the borrower's annual income, the underwriter needs to see copies of the borrower's signed federal tax returns for the past two years, as well as a VOE or paystub and W-2 combination.

The underwriter needs to prove the continuity of the income. The underwriter does so by determining that the income will continue for the foreseeable future. The underwriter can conclude that the income is stable, predictable, and likely to continue if the income does not have a defined expiration date, and there is an applicable history of receiving the income.

Certain types of income do have a defined expiration date and will require proof of at least a three-year continuance from the time the loan is originated. Examples of those types of income include:

- Alimony or child support
- Distributions from a retirement amount
- Mortgage differential payments
- Notes receivable
- Public assistance
- Royalty payment income
- Social Security (not including retirement or long-term disability)
- Trust income
- VA benefits (not including retirement or long-term disability)

An underwriter might ask for additional information from a borrower who receives child support because, most the time, child support ends when the child turns 18 years old. If the borrower's child is 16 years old right now, and the borrower wants to use that child support income to qualify for the loan, the underwriter needs to see the child support agreement to verify that the income will last until that child is at least 19. If the child support agreement does not support that, the income cannot be used, because it cannot be proven that it will be continued for at least three more years.

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Nontaxable Income

There are special considerations taken when a borrower receives **nontaxable income**. Examples of non-taxable income include:

- Child support payments
- Social Security benefits
- Workers' compensation benefits
- Certain types of public assistance

The underwriter is required to verify that the income is nontaxable. Examples of verification documents include awards letters, policy agreements, or account statements. Once the underwriter has determined that the income is nontaxable, the underwriter can **gross-up** the income by adding 25% of nontaxable income to the borrower's income. This can easily be calculated by multiplying the income by 125%.

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How to Calculate Income

These six income calculations are essential to know when calculating income. If the underwriter is trying to determine monthly income, they need to know how often that borrower is being paid, because that will change the calculation made.

- If the borrower is paid annually, the calculation is annual gross income/12 months.
- If the borrower is paid monthly, and they know the monthly amount, there is no calculation. Otherwise, use the annual gross payment amount divided by 12 months.
- If the borrower is paid twice monthly, (for example, they are paid on the 5th and the 20th of the month), the calculation is the amount of each paycheck x two pay periods.
- If the borrower is paid bi-weekly, the calculation is biweekly gross pay x 26 pay periods/12 months.
- If the borrower is paid weekly, the calculation is weekly gross pay x 52 pay periods/12 months.
- If the borrower is paid hourly, the calculation is hourly gross pay x average # of hours worked per week x 52 weeks/12 months.

Second Jobs and Seasonal Income

If a borrower has a second job, that income can be used to qualify for a mortgage, but again, there must be at least two years' history of that income. A borrower can have a history that includes different employers if the income has been consistently received. To verify this income, the underwriter must have a completed VOE, or the borrower's most recent pay stubs and W-2s, for the past two years.

An underwriter can use seasonal employment income to qualify a borrower. The underwriter must verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two years and confirm with the borrower's employer that there is a reasonable expectation that they will rehire the borrower for the next season.

For seasonal unemployment compensation (for example, the borrower receives unemployment on the off-season), the underwriter must verify this income by viewing the borrower's federal tax returns, documenting a pattern, and showing that the income will continue.

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Rental Income

If a borrower has rental properties, the income from those properties is an acceptable source of stable income, as long as it is likely to continue. If a rental income is derived from the subject property, the property must be one of the following:

- A 2-4-unit principal residence in which the borrower occupies one of the units
- A 1-4-unit investment property

If the income is derived from another property, there is no restriction on the property type. If the borrower owns commercial property, it is considered acceptable income if it meets all other requirements. The rental income can be verified in two ways: through the borrower's tax returns, as it should appear as income there, or by using a fully-executed current lease agreement.

If the subject property is the income property, the underwriter will require an additional addendum to the appraisal. The addendum is called the **Single-Family Comparable Rent Schedule**. The addendum compares the rent generated by the subject property in comparison to other rental properties in the area.

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Self-Employment Income

Analyzing self-employment income can be tricky; underwriters need to note that business income reported on the borrower's tax returns may not necessarily represent income that has been distributed to the borrower. Any individual who has a 25% or greater ownership interest in a business is **self-employed**.

The underwriter must analyze the following factors before approving a mortgage for a self-employed borrower:

- The stability of the borrower's income
- The location and nature of the borrower's business
- The demand for the product or service offered by the business
- The financial strength of the business
- The ability of the borrower to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage

The borrower will need to have at least two years of self-employment history. The underwriter will verify the self-employed borrower's employment and income by obtaining federal tax returns (both individual and, in some cases, business returns) for the past two years.

The underwriter must prepare a written evaluation of its analysis of a self-employed borrower's income, including the business income or loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. The forms that underwriters use most commonly are either the Fannie Mae 1084 or FHLMC 91.

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Calculating Income, Part 2

Now that we've discussed the multiple ways to calculate income, let's go over a few examples.

Scenario 1: Azad & Jasmine

Azad and Jasmine want to purchase their first home. Azad makes \$20.50 an hour and works, on average, 40 hours per week. Jasmine makes \$18.00 an hour and works 40 hours of regular time and 15 hours of overtime each week. How much income do each of them make? (Hint: to calculate income for overtime, multiply the hourly rate by 1.5 for time and a half).

Step 1: Determine Azad's Income

$\$20.50 \times 40 \text{ hours per week} \times 52 \text{ weeks per year} / 12 = \$3,553.33 \text{ per month}$

Step 2: Determine Jasmine's Income

Regular Income: $\$18.00 \times 40 \text{ hours per week} \times 52 \text{ weeks per year} / 12 = \$3,120 \text{ per month}$

Overtime Income: $(\$18.00 \times 1.5) = \$27.00 \times 15 \text{ hours per week} \times 52 \text{ weeks per year} / 12 = \$1,755 \text{ per month}$

Step 3: Combine Their Income

$\$3,553.33 + \$3,120 + \$1,755$

Answer

\$8,428 per month

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Scenario 2: Donovan & Kim

Donovan and Kim are going to purchase their new home together. Donovan makes \$40,000 per year on salary. Kim has a part time job and makes \$16.50 an hour at 20 hours a week. What is their monthly income?

Step 1: Determine Donovan's Income

Donovan's Income: $\$40,000/12 = \$3,333.33$ per month

Step 2: Determine Kim's Income

Kim's Income: $\$16.50 \times 20 = \$330 \times 52 \text{ weeks} = \$17,160/12 = \$1,430$ per month

Step 3: Combine Their Income

$\$3,333.33 + \$1,430$

Answer

\$4,763.33 is their monthly income

Scenario 3: Savannah & Julio

Savannah and Julio want to refinance their home. Savannah makes \$35,000 a year on salary, plus she works a second job, which she has been doing for 2 years, and makes \$12.00 an hour for 15 hours per week. Julio is on Social Security and makes a nontaxable \$1500 a month. What is their monthly income? (Hint: Remember to gross-up the non-taxable income by 25%).

Step 1: Determine: Savannah's Income

Regular Job: $\$35,000/12 = \$2,916.67$

Second Job: $\$12.00 \times 15 = \$180 \text{ a week} \times 52 \text{ weeks} = \$9,360 \text{ per year}/12 \text{ months} = \$780 \text{ per month}$

Step 2: Determine Julio's Income

$\$1,500 \times 125\% (1.25) = \$1,875 \text{ per month}$

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Step 3: Combine Their Income

$\$2,916.67 + \$780 + \$1,875$

Answer

\$5,571.67 is their monthly income

Liabilities

During the underwriting process, the underwriter will look at all the borrower's **liabilities** to analyze the risks associated with the borrower. A borrower's liabilities include:

- The housing expense on the borrower's principal residence (mortgage payment, taxes, and insurance on their home)
- All revolving charge accounts (credit cards)
- Installment loan debts with a remaining payment term greater than 10 months (For example, if the borrower has 10 months or less left on a car loan the underwriter does not have to consider it in their debt-to-income ratio)
- Lease payments (must be counted no matter the number of payments left)
- Real estate loans (other properties mortgages)
- HELOCs
- Alimony and child support payments
- Maintenance payments
- All other debts of a recurring nature

Liabilities do not include:

- Utilities
- Cell phone payments
- Insurance payments (except homeowners' insurance)
- Tax payments
- Union dues
- Voluntary deductions on the paystub (like 401K contributions)

As part of the analysis, the underwriter will need to determine the unpaid balance, the terms of repayment and the borrower's payment history, and verify any other liability that is not shown on a credit report, by obtaining documentation from the borrower or the creditor. The borrower must disclose all debts, even if they do not appear on the borrower's credit report. If the borrower opens any new accounts during the origination

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process, the borrower must disclose that information, and their debt-to-income ratio must be re-calculated (Please note, credit reports are often pulled again, prior to closing to ensure there are no new debts).

It is always a good idea to tell your borrowers upfront not to open any new accounts during the loan process, as it could be detrimental to their ability to qualify. If a borrower's debt-to-income ratio barely qualifies them for their loan and then they buy a new car, that new car payment could possibly push them over the debt-to-income ratio limit and disqualify them for the loan.

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Qualifying Ratios

In Chapter 2 we discussed the qualifying ratios for the different types of programs available to the borrower. These ratios are important because, if the borrower exceeds them, it is unlikely that they can obtain a mortgage through that program. Let's do a quick refresher of what the debt-to-income qualifying ratios are for the main programs we have discussed:

- Conventional- 28%/36%
- FHA- 31%/43%
- VA- Back-end DTI of 41% with residual income calculation
- USDA - 29%/41%

Remember that there are two debt-to-income calculations: **the front-end or housing expense DTI and the back-end or Total DTI**. The front-end is only the borrower's housing expense compared to their income. The back-end is all the borrower's liabilities compared to their income.

Also while not generally referred to as a 'qualifying ratio,' borrowers still have to meet **loan-to-value** requirements, remember that the loan-to-value, or LTV, is taking the loan amount and dividing it by the borrower's purchase price or the property's appraised value (whichever is lower).

The maximum LTV on the programs we discussed are:

- Conventional – 97% (3% down payment)
- FHA- 96.5% (3.5% down payment)
- VA- 100% (0 down payment required)
- USDA- 100% (0 down payment required)

Credit Report

The credit report and credit scores are essential pieces of the underwriting puzzle, where the underwriter can gather a lot of information. There are three credit bureaus:

- Experian
- Equifax
- Transunion

When a borrower is qualifying for a mortgage, the lender will pull a tri-merge, which is a merged credit report from all three credit bureaus. Generally, the underwriter will take the middle score of the borrower, or in the case of two (or more) borrowers, they will take the lowest middle score to make up the qualifying score. The borrower must meet that minimum score threshold to qualify for that program. The minimum score requirement varies by program.

The credit score itself is determined based upon the pieces of information on the credit report. Each bureau uses its own secret algorithm to determine a person's credit score. Those scores can range from 300-850 (300 being the worst and 850 being the best).

Credit scores calculations consider:

- Payment history
- Amounts owed/credit utilization (the amount owed on a credit card versus the credit available).
- Credit mix (the different types of accounts they have)
- New credit (the age of their credit, and any recently opened new credit, etc.)
- Credit inquiries
- Derogatory marks (Bankruptcy, foreclosures, repossessions, collections, and judgments)

Payment History

Payment history is a big factor that has a lot of bearing on a borrower's credit report. As you can imagine, the underwriter wants to see that the borrower has been paying all their bills on time. If they have a history of paying their bills on time, it stands to reason that they will continue to do so in the future, which makes them an acceptable risk.

The effect of payment history on the borrower's score will vary, based upon how late they were. A 30 day late has less effect than a 90 day late. The credit algorithm also considers

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how much was owed, how recently the late payment occurred (the farther in the past less it affects the score), and how many there were (one or two will not be an automatic score killer for most people).

The most important aspect of payment history for mortgage qualification is mortgage late payments. Late payments on a mortgage in the last 12 months on a borrower's credit can kill a deal. For a conventional loan, if a borrower's credit report shows that they have been 60 or more days late within the past 12 months, the underwriter will deny the loan, unless there are extenuating circumstances.

Any past-due, collections, or charge-offs, while they will affect the score of the borrower, they may not have any effect on whether the borrower can obtain a mortgage. Sometimes, an underwriter might require a borrower to pay off any derogatory accounts on their credit report to approve the loan. A borrower with a less-than-ideal credit score should be advised to pay off derogatory accounts. MLOs are not necessarily allowed to pull credit reports, but they can advise a borrower on what to ask and how to repair their credit.

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Bankruptcies

Deciding to go through bankruptcy can be a tough decision, but it happens, and it will affect the borrower's score and ability to obtain a mortgage. For conventional loans, a borrower cannot have had a Chapter 13 bankruptcy discharged within the past two years, dismissed within the last four years, or filed, but neither dismissed nor discharged, within the last four years. The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period. For Chapter 7 bankruptcies, the borrower cannot have filed, discharged, or dismissed a bankruptcy within the last four years to be eligible for a mortgage loan.

In some situations, with extenuating circumstances, a borrower with a Chapter 7 filing in the past two years can obtain a conventional mortgage. This is often incredibly hard to prove and frequently unsuccessful. FHA, VA, and USDA loans allow for shorter seasoning periods on bankruptcy.

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Bankruptcy Seasoning per Program	Seasoning Time
Conventional	2 years from Chapter 13 discharge or 4 years from dismissal (2 years with extenuating circumstances, 4 years from Chapter 7 filing (or 2 years with extenuating circumstances) *
FHA	2 years after Chapter 7 discharged, 1 year after Chapter 13 filing
VA	2 years after Chapter 7 discharge, 1 year after Chapter 13 filing
USDA	3 years after Chapter 7 discharge, 1 year after Chapter 13 filing

* We get questions often about what the difference is between dismissal and discharge related to Chapter 13 bankruptcies. The difference is basically if it's dismissed the borrower was unable to complete the Chapter 13 payback plan while discharged means they were able to complete it. It's fair that this should be included in the textbook and it has already been added. The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.

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Foreclosures

We will discuss foreclosures in the next chapter. For now, remember that an underwriter will look for it on a borrower's credit report. For a conventional loan, a borrower is prohibited from obtaining a loan if they have had a foreclosure reported on their credit within the previous seven years. If the borrower had a short sale, the borrower must wait four years from the short sale to obtain a new mortgage.

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Foreclosure & Short Sale Seasoning per Program	Seasoning Time
Conventional	7 years from foreclosure, 4 years from short sale
FHA	3 years from foreclosure or short sale
VA	2 years from foreclosure or short sale
USDA	3 years from foreclosure or short sale

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Amount Owed/Credit Utilization

The amount that a borrower owes on their credit cards versus what credit they have available is an essential factor. It is called **credit utilization**. The less credit utilization the borrower has, the less risky they look. A borrower with a lot of credit cards that are all almost maxed out is probably overextended and might be more likely to make late payments or miss payments altogether.

Credit utilization can also affect the borrower's score. The underwriter will look at this and determine whether the borrower seems to be a higher or lower risk, based upon their current overall credit situation.

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Credit Inquiries

Credit inquiries can harm a borrower's credit score. Inquiries remain on a borrower's credit for two years, but most of the time, the score only takes it into account for 12 months. Some inquiries are not even included in the scoring, and it is important to let your borrowers know that the bureaus allow them to shop around for the best deal without it damaging their credit.

For example, when someone is shopping for a new car, they will go to different dealerships, look at different cars, and see if they can even qualify to obtain that new car. Every time those dealers look at the borrower's credit, that's a new inquiry. Still, because the bureaus

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understand that the borrower needs to shop if they see that the borrower is getting multiple inquiries from different car financing companies, the inquiries will have less of an impact.

For a mortgage, the underwriter could see multiple recent inquiries (they'll only consider the last 90 days) can indicate that a borrower is a higher credit risk (even if they did not obtain new accounts).

 [Fannie Mae Selling Guide](#);  [Credit Education](#)

The Fair Credit Reporting Act and The Fair and Accurate Credit Transaction Act

Federal Mortgage Law Quick Facts:	Fair Credit Reporting Act
Regulation:	Regulation V
Acronym:	FCRA
Year Created:	1970
Main Purpose:	Restricts use of credit reports and requires accuracy on credit reports
Other Laws that are Complimentary:	FACTA
Disclosures	Risk-Based Pricing Disclosure
Entity Responsible for Enforcement:	CFPB & The Federal Trade Commission (FTC) both enforce the law

The Fair Credit Reporting Act, or Regulation V, is a federal law that regulates how consumer credit reporting agencies (CRAs) use consumers' information. Credit reports are a cornerstone of determining a borrower's creditworthiness when obtaining a loan. FCRA regulates access to credit reports and the information contained on them, and to make sure that the information on credit reports is used for permissible purposes.

FCRA allows a consumer credit reporting agency to furnish consumer credit reports for certain acceptable circumstances, and with written permission from the consumer, or within the government agency's statutory authority.

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The following are considered acceptable circumstances:

- In response to a court order or Federal Grand Jury subpoena
- Per written instructions of the consumer

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- To a person, including a mortgage loan originator, when it has reason to believe any of the following:
 - Intends to use the information for a credit transaction involving the consumer's request for extension of credit, or review or collection of an account
 - Intends to use the information for employment purposes
 - Intends to use the information for the underwriting of insurance for the consumer
 - Intends to use the information in connection with a determination of the consumer's eligibility for a license or other benefit granted by a governmental agency that is required by law to consider an applicant's financial responsibility.
 - Intends to use the information as a potential investor or servicer, or current insurer, regarding the valuation of, or an assessment of the credit prepayment risks associated with an existing credit obligation
 - Intends to use as a legitimate business need for the information related to a business transaction that is initiated by the consumer or to review an account to determine whether the consumer continues to meet the terms of an existing account
 - In response to a request by the head of a State or local child support enforcement agency (or otherwise appointee) if the person certifies various information to the consumer reporting agency regarding the need to obtain the report (generally this purpose does not impact a financial institution that is not a consumer reporting agency)
 - To an agency administering a State plan under Section 454 of the Social Security Act (42 U.S.C. § 654) for use to set an initial or modified child support award
 - To the Federal Deposit Insurance Corporation or National Credit Union Administration as part of its exercise of powers, as applicable.

MLOs must take reasonable care when obtaining a borrower's credit report. Safeguards should be in place to protect the consumer report so that all concerns about potential identity theft have been considered and that the report is only used for allowable purposes.

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MLOs must realize that just because they have access to pull credit reports, it doesn't mean that it is legal under FCRA to pull someone's credit report. For example, an MLO cannot pull a credit report for a friend or just to see what's on a neighbor's credit report. There is no permissible purpose in this case. It is also not recommended that an MLO pull their own credit report unless they intend to apply for a loan, and even then, MLOs are not permitted to do their own loans.

Along with the definition of permissible use, FCRA requires credit-reporting agencies to delete obsolete information and make sure that the information that they have is reported accurately. FCRA requires that most negative information is removed within seven years, 10 years for bankruptcies. FCRA also allows consumers to dispute incorrect items on their credit report.

FCRA requires the provision of **risk-based pricing** notices and credit scores to consumers whose applications are denied or who receive less favorable offers of credit.

Adverse Action Disclosure

FCRA requires an **adverse action disclosure** be provided to the borrower if their credit is the reasoning for all or part of the decision to deny the loan application. The disclosure must:

- Disclose which credit reporting agency provided the credit information.
- Disclose that the credit reporting agency is not responsible for the denial of the loan.
- Disclose that the credit reporting agency will provide a free copy of the exact report used (MLOs cannot provide the credit report, as they are not a credit reporting agency, but MLOs can tell their borrowers their scores.
- Be given within 30 days of a credit decision (remember, according to ECOA, a decision must be made on an application within 30 days of application).



FCRA

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Fair and Accurate Credit Transaction Act (FACTA)

Federal Mortgage Law Quick Facts:	Fair and Accurate Credit Transaction Act
Year Created:	2003
Main Purpose:	Improves consumer access to credit information; Provides avenues for the resolution of consumer disputes; Helps to prevent and detect identity theft
Disclosures/Notice Required:	Notice to Home Loan Applicant
Important Terms Related to this Law:	Identity theft, consumer disputes
Entity Responsible for Enforcement:	CFPB & The Federal Trade Commission (FTC) both enforce the law
Other Laws that are Complimentary:	FACTA

The Fair and Accurate Credit Transaction Act, or FACTA, is an amendment to FCRA and adds provisions to improve the accuracy of consumers' credit-related records. It gives consumers the right to one free credit report each year from each credit reporting agency. It also allows consumers to purchase, for a reasonable fee, a credit score, along with the information about how the credit score was calculated.

FACTA states that "any person who makes or arranges loans" and uses consumer credit scores must follow specific disclosure guidelines. FCRA applies to loan applications completed by a consumer for a closed-end or an open-end loan that is secured by a 1-4 family unit dwelling.

MLOs must disclose the following information to the consumer as soon as is reasonably practicable:

- The consumer's credit score or the most recent credit score that was provided by the credit reporting agency.
- The range of possible credit scores under the model used.
- Any factors that adversely affect the score; up to four key factors, including excessive inquiries.
- The date the credit score was created.
- The name of the company that provided the credit report.

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This disclosure requirement can be met by simply providing the consumer with the **Notice to Home Loan Applicant Disclosure**.

When a creditor discloses negative information to a consumer credit reporting agency, the creditor must also disclose that information to the consumer. The disclosure must be made to the consumer no later than 30 days after the negative information was provided to the credit bureau(s).

If the borrower disputes the negative information, they can send a notice to the creditor that contains the identification of the specific information being disputed, explanation of the reason for the dispute, and all supporting documentation required as evidence of the dispute. The dispute must be resolved within 30 days after the dispute was received.

A consumer may obtain his or her free credit report, permitted by FACTA, by going to www.annual-creditreport.com or to the credit bureau websites directly.



Economic Growth, Regulatory Relief and Consumer Protection Act

In May of 2018, Congress passed the **Economic Growth, Regulatory Relief and Consumer Protection Act** to amend FCRA and requires nationwide consumer reporting agencies to provide national security freezes free to consumers.

The National Security Freeze restricts prospective lenders from obtaining access to credit reports, thus making it harder for identity thieves to open accounts in a consumer's name. This amendment to FCRA requires that **whenever the Summary of Consumer of Consumer Rights or the Summary of Consumer Identity Theft Rights** is required to be sent, that a new disclosure must be sent related to the national security freeze.

The Summary of Consumer Rights is a summary of rights to obtain and dispute information in consumer reports and to obtain credit scores. The Summary of Consumer Identity Theft Rights is a summary of the rights of identity theft victims.



Credit Freezes

Under the new FCRA requirements, consumers can place a free credit freeze on their credit report through all three credit bureaus for free. The new requirement started on September 21st, 2018. Credit freezes are helpful in protecting a borrower's identity from being stolen.

A credit freeze, also known as a security freeze, restricts access to a borrower's credit file, which makes it harder for identity thefts to open new accounts with a borrower's information. The new law also allows parents to freeze, for free, the credit of their children who are under 16, while guardians, conservators, and those with a valid power of attorney can get a free freeze for their dependents. If a borrower requests a credit freeze, the bureaus must comply within one business day of the request.

In the past, a credit freeze had to be paid for, based upon each state's laws, but now it's free to everyone, no matter where they live. The borrower must contact all three credit bureaus: Experian, TransUnion, and Equifax directly, online or by phone to place the credit freeze.

It might be a good idea to ask every potential borrower whether they have a credit freeze on any of the credit bureaus. If a borrower has a credit freeze on their credit file for any or all bureaus, they'll need to lift the freeze to allow credit to be pulled for a transaction.

The borrower must reach out to the bureaus to clear a credit freeze, either by phone or online. The credit bureaus are required to lift the credit freeze within one hour of the request. If the request is by mail, the credit bureau has three business days from receiving the request to lift the freeze. An MLO should always remind their borrower not to re-freeze their credit until the loan has closed, as re-freezing too early could delay the loan closing.

Credit Freezes

Fraud Alerts

This amendment also extended the time that a borrower can have a **fraud alert** on their credit report from 90 days to one year. Fraud alerts are notes on a credit report that require a creditor to check the borrower's credit to confirm their identity before opening a new account.

Fraud alerts are not just for people who have already been or suspect they are victims of identity theft, though it can be a good idea for someone who has lost their wallet, misplaced their social security card, or been exposed to a security breach. Fraud alerts are free

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through all three credit bureaus. If a borrower requests a fraud alert through one bureau, that bureau will notify the other two who will follow suit (it's always a good idea to follow up though!). The fraud alert is only good for one year, but a consumer can request a new one after it expires.

 Fraud Alerts

Red Flags Rule

As a part of FACTA, **the Red Flags Rule** was established to help prevent identity theft. The Red Flags Rule applies to financial institutions and creditors. The Rule also requires those organizations to conduct risk assessments to determine if it has “covered accounts” and are safeguarding those accounts properly.

A **financial institution** is defined as a state or national bank, a mutual savings bank, credit union, or any other person that, directly or indirectly holds a "transaction account" belonging to a consumer. A **transaction account** is a deposit account or loan account where the owner may make payments or deposits or transfers to third parties. It includes checking, savings and share draft accounts.

Creditor is defined broadly as a business or organization that defers payments for goods or services, or provides goods or services, and bills consumers later. Examples include utility companies, health care providers, or telecommunication companies. Creditor also includes an entity that regularly approves or arranges loans or the extension of credit or makes credit decisions (mortgage brokers and lenders would fall under the term).

Covered accounts come in two categories:

- A consumer account for the customer's personal, family or household purposes that involves or allows multiple payments or transactions (credit card accounts, mortgage loans, auto loans, checking accounts and savings accounts).
- Any other account that a financial institution or creditor offers or maintains for which there is a reasonably foreseeable risk to customers or to the safety and soundness of the financial institution or creditor from identity theft, including financial, operational, compliance, reputation or litigation risks. These include small business accounts, sole proprietorship accounts, or single transaction consumer accounts.

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Now that we understand who and what the Rule applies to, let's talk about what these financial institutions and creditors are required to do. The Red Flags Rule gives the required entities a roadmap to developing, implementing, and administering an identity theft program. The program is required to have four basic elements:

- The program must include reasonable policies and procedures to identify the red flags of identity theft that may occur in day-to-day operations.
- The program must be designed to detect the red flags that have been identified (For example, if fake IDs have been identified as a red flag, the program must have procedures to detect possible fake, forged or altered identification).
- The program must spell out appropriate actions that need to be taken when a red flag is detected.
- The program must detail how to keep the program current for new threats.

MLOs serve as the front-line defense to spot red flags, so it is important to remain vigilant and follow their companies' policies.

What is a red flag?

A red flag includes patterns, practices, or specific activities that indicate the possibility of identity theft. These red flags may vary depending on the type of account or the specific situation. Some common red flags are:

- Files stolen, computers stolen, or a company server being hacked
- Alerts, notifications, and warnings from a credit reporting company
- Suspicious documents
- Personal Identifying Information that is inconsistent
- Suspicious account activity

Red Flags Rule

The Disposal Rule

The Disposal Rule is part of FACTA and dictates how institutions should dispose of consumer information. It was designed to reduce the risk of consumer fraud and related harm, including identity theft, created by the disposal of consumer information.

Any person who maintains or otherwise possesses consumer information for a business purpose must properly dispose of such information by taking reasonable measures to protect against unauthorized access to, or use of, the information.

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Reasonable measures to protect against unauthorized access to, or use of, consumer information upon disposal include, but are not limited to, the following examples:

- Implementing and monitoring compliance with policies and procedures that require the burning; pulverizing or shredding of papers containing consumer information so that the information cannot practicably be read or reconstructed.
- Implementing and monitoring compliance with policies and procedures that require the destruction or erasure of electronic media containing consumer information so that the information cannot practicably be read or reconstructed.

All files can be destroyed after three years; five years for the CD. Hard copies can be destroyed if the files are digitized.

 The Disposal Rule

Analyzing the Mortgage

In addition to analyzing the borrower, the underwriter will analyze the mortgage, which includes determining whether the loan has tangible net benefit to the borrower, and if the appraisal supports the loan amount. The underwriter will also look at title reports and insurance requirements and analyze the costs of the loan. In this process, the underwriter might also discover that the loan is high-cost or higher-priced, which would trigger additional disclosures and requirements like we discussed in Chapter 2.

Tangible Net Benefit

During the underwriting process, the underwriter needs to determine whether the loan has any **tangible net benefit** to the borrower, which means that the benefit to the borrower outweighs any possible negatives or costs associated with the loan. Tangible net benefit generally comes into play with refinance transactions.

Things that are considered tangible net benefit to the borrower include:

- Lower interest rates
- A reduction of monthly principal and interest payments
- Shortening of the loan term
- Converting an adjustable-rate-mortgage to a fixed-rate-mortgage
- Removing mortgage insurance by lowering the loan-to-value of the loan

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- Consolidating a first and second mortgage
- Eliminating any negative amortization feature
- Avoiding short sale or foreclosure
- Debt consolidation (within reason)
- Home improvement (within reason)
- Cash out (within reason)

There must be some benefit to the borrower for the underwriter to be able to approve the loan. Most lenders use a worksheet to show net tangible benefit and it is part of the loan file.

Tangible net benefit has become an important part of the underwriting process because, in the past, some MLOs and lenders have simply churned loans **churning** a loan means that it is refinanced repeatedly, simply to exact more fees from the borrower. For example, an MLO calls their client up every year and sells them on a refinance that has no benefit to them. It doesn't lower their payment. It might lower their interest rate, but that one benefit does not outweigh the amount the borrower would have to pay to close the loan.

Real Estate Settlement Procedures Act

Federal Mortgage Law Quick Facts:	Real Estate Settlement Procedures Act
Regulation:	Regulation X
Acronym:	RESPA
Year Created:	1974
Main Purpose:	Educate borrowers on the cost of their loans
Disclosures/Notice Required:	Escrow notices, notice of transfer of loan servicing, ABA
Important Terms Related to this Law:	Kickbacks, referral fees, escrow requirements, transfer of

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The Real Estate Settlement Procedures Act, Regulation X, was implemented in 1974. RESPA is the counterpart to TILA. RESPA was enacted to protect borrowers in purchases, refinances, home improvement and home equity lines of credit, and any other federally related mortgage loans. RESPA covers properties that are 1-4 family dwellings, condominiums, or manufactured house.

RESPA does not cover:

- Vacant Land
- Large Tracts of Land (25 acres or more – even if there is a dwelling on it)
- Commercial or business loans
- The government, its agencies, or instrumentalities
- Temporary financing (bridge loans or swing loans)

RESPA was created to help educate borrowers about the costs associated with the loan, which would lead borrowers to understanding what questions they need to ask when shopping for a mortgage loan. RESPA was also meant to eliminate **kickbacks and referral fees** that tend to inflate the cost of loans and limit deposits in escrow accounts to ensure the payment of taxes and insurance.

Over the years, RESPA and its disclosure requirements have changed. **The Good Faith Estimate (GFE)** used to be a disclosure required under RESPA. The GFE outlined the costs associated with each loan and was required to be disclosed to the borrower three business days after receiving the application.

RESPA also required the **HUD-1 Settlement statement** at closing that further detailed and broke down the costs of the loan. In 2015, the **TILA-RESPA Integrated Disclosure Rule (TRID)** was created that rendered the Good Faith Estimate and HUD-1 obsolete on most transactions and created the Loan Estimate and the Closing Disclosure.

RESPA includes a lot of different pieces outside of TRID, such as regulations on referrals and kickback fees, transfer of servicing and escrow accounts. We will talk about a few of these in this chapter.

Section 8 of RESPA

Section 8 of RESPA was created to eliminate the payment of referral fees and kickbacks between parties in a real estate transaction. RESPA reconsidered legitimate business relationships and established the term and documentation required for **Affiliated Business Arrangements (AfBA)**.

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An AfBA is:

- A person who may refer business to a settlement service for a federally related mortgage loan, or an associate of such person, and has either an affiliate relationship with or a direct beneficial ownership interest of more than 1% in the provider of the settlement service.
- Either person directly or indirectly refers business to that provider or influences the selection of that provider.

The AfBA disclosure must be delivered to the borrower at the time of the referral. For example, a mortgage lender's CEO has an ownership interest in a title insurance company. If the mortgage lender's MLOs want to refer their borrowers to use that title insurance company, the relationship must be disclosed between the CEO of the mortgage lender and the title insurance company at the time the MLO refers them.

Section 8 also states that no person may give or receive a fee, kickback, or any other form of **valuable compensation (a thing of value)** or arrange to do so for referring a potential borrower to a certain lender or service provider for a federally-related mortgage loan.

No one can either give or receive any portion, split, or percentage of any charge made for settlement service that is not actually performed. RESPA covers the costs associated with a loan and it states that fees must be reasonable but does not regulate the amount of fees.

If someone violates Section 8 of RESPA, they are looking at a fine of up to \$10,000, up to one year in prison, or both. They also may be required to make payment to damaged parties up to three times the original fee that violated the section. If more than one individual is involved, all parties are liable to the damaged borrower, both jointly and separately.

 12 CFR 1024.8

What Constitutes a Thing of Value?

RESPA broadly defines a "thing of value" to include:

- Monies
- Things
- Discounts
- Salaries
- Commissions
- Fees

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- Duplicate payments of a charge
- Stock
- Dividends
- Distributions of partnership profits
- Franchise royalties
- Credits representing monies that may be paid at a future date
- The opportunity to participate in a money-making program
- Retained or increased earnings
- Increased equity in a parent or subsidiary entity
- Special bank deposits or accounts
- Special or unusual banking terms
- Services of all types at special or free rates
- Sales or rentals at special prices or rates
- Lease or rental payments based in whole or in part on the amount of business referred
- Trips and payment of another person's expenses
- Reduction in credit against an existing obligation

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 pay a charge attributable in whole or in part to such settlement service. A referral also occurs whenever a person paying for a settlement service is required to use a particular provider of a settlement service.

Section 8 of RESPA permits:

- A payment to an attorney at law for services actually rendered.
- A payment by a title company to its duly appointed agent for services actually performed in the issuance of a policy of title insurance.
- A payment by a lender to its duly appointed agent or contractor for services actually performed in the origination, processing, or funding of a loan.
- A payment to any person of a bona fide salary or compensation or other payment for goods or facilities actually furnished or for services actually performed.

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- A payment pursuant to cooperative brokerage and referral arrangements or agreements between real estate agents and real estate brokers. (The statutory exemption restated in this paragraph refers only to fee divisions within real estate brokerage arrangements when all parties are acting in a real estate brokerage capacity and has no applicability to any fee arrangements between real estate brokers and mortgage brokers or between mortgage brokers).
- Normal promotional and educational activities that are not conditioned on the referral of business and that do not involve the defraying of expenses that otherwise would be incurred by persons in a position to refer settlement services or business incident thereto.
- An employer's payment to its own employees for any referral activities.

Not all referrals arrangements fall under RESPA's referral restriction as outlined above. To simplify, there are three exceptions:

- **Educational activities:** These activities must not defray the expenses that the real estate broker/agent otherwise would have had to pay. In other words, an MLO can't pay for the real estate agent's CE or renewal fees and it cannot be in exchange for, or tied in any way, to referrals.
- **Payments for Goods or Services Actually Provided:** The fee has to be equal to market value for the service provided. If it's in excess of that market value, it would be a violation of RESPA Section 8.
- **Affiliated Business Arrangements**, as long as certain conditions are met.

Based on these definitions, there are gray areas to what is and isn't allowed under Section 8 of RESPA. Each situation needs to be analyzed to determine whether or not it is a violation of Section 8. Here are a few examples:

- An MLO takes a real estate agent to lunch to introduce themselves and services. This is okay, but it is not appropriate for the MLO to send the agent a gift card to a restaurant as a thank you for referring a borrower to them.
- An MLO can provide content, coffee, and doughnuts for training real estate agents on new mortgage products, but it would not be acceptable for the MLO to pay for the real estate agent's CE classes and filing fees for renewal.
- An MLO can lease space from a real estate agent and pay fair market rent, but it becomes an issue if the MLO rents conference rooms in the agent's office for their closings at a high fair market value.

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- A lender can sponsor a real estate agent's holiday party and receive recognition on invitations, programs, and signage, attend the party, set up a table to display marketing materials, and address all the attendees. But it would be unacceptable for the lender to pay for the party because of how many referrals they received from the real estate agent.
- An MLO can send real estate agents seasonal candy bearing their logo or information, but it becomes an issue when the MLO only sends boxes of expensive candy to referring agents as a holiday gift.
- An MLO attends and caters an agent's caravan with signage touting promotional consideration beside displayed business cards. This is okay, but it's not appropriate for the MLO to pay for the caterer for an agent's open house.
- An MLO can create a flyer featuring themselves and an agent and have the agent print and distribute, but the MLO cannot create, print, mail and pay for postcards featuring the loan originator, lender, and agent.
- An MLO can't purchase tickets to a sporting event or pay for the real estate agents' round of golf. This would also be a violation of RESPA section 8.

 12 CFR 1024.14

USA Patriot Act

Federal Mortgage Law Quick Facts:		The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism" Act
Regulation:		N/A
Acronym or Nickname:		USA Patriot Act
Year Created:		2001
Main Purpose:		Requires identification to be provided for mortgage loans with the purpose of identifying terrorists
Important Terms Related to this Law:		Terrorism, terrorist, money laundering, financial crimes

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Entity Responsible for Enforcement:	Financial Crimes Enforcement Network (FinCEN) under the United States Department of the Treasury

The USA Patriot Act was created in response to the attacks of September 11th, 2001. The Treasury Department, through its **Financial Crimes Enforcement Network (FinCEN)**, became responsible for implementing the Patriot Act.

The purpose of the Patriot Act is to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and other purposes, including:

- To strengthen U.S. measures to prove, detect and prosecute international money laundering and the financing of terrorism.
- To subject to special scrutiny foreign jurisdictions, foreign financial institutions, and classes of international transactions or types of accounts that are susceptible to criminal abuse.
- To require all appropriate elements of the financial services industry to report potential money laundering.
- To strengthen measures to prevent use of the U.S. financial system for personal gain by corrupt foreign officials and facilitate repatriation of stolen assets to citizens to the citizens of countries to whom such assets belong.

 The Patriot Act

Customer Identification Programs

As part of the U.S. Patriot Act, financial institutions are required to ask for borrower's identification to verify their identity. Regulation requires that all Customer Identification Programs developed by financial institutions are reasonable in obtaining the information to:

- Verify the information of the individual(s) applying for a loan program.
- Maintain records to show what methods were used in identifying the individual.
- Determine if the individual(s) applying for a loan appears on any list of known or suspected terrorist or terrorist organizations.

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Every financial institution should develop a program to show:

- Identification procedures required to collect the information required.
- Verification procedures using the documents obtained.
- Recordkeeping system procedures required by law.
- Government list review procedures for checking against terrorist lists (OFAC list – Office of Foreign Asset Control).
- Adequate notice procedures which give the customer a statement regarding the importance of the Customer Identification Program.

The information that must be obtained to comply with the Customer Identification is:

- Name
- Date of Birth
- Identification number (US citizen – Social Security Number or taxpayer identification number; for non-US citizens, one of more of the following is required:
 - Taxpayer identification number
 - Passport #
 - Country of issuance
 - Alien ID # or
 - Any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard

Patriot Act Disclosure Form

As part of compliance with the Patriot Act, financial institutions are required to check two forms of identification for each borrower. The financial institutions usually then use those two pieces of identification to fill out a Patriot Act Disclosure. Keeping this disclosure form in the loan file shows that the financial institutions adequately complied with the Patriot Act and identified the borrower.

 The Patriot Act

Appraisals

An appraisal is an evaluation of the borrower's home (or soon-to-be home). The appraiser determines the value of the property and provides an appraisal that substantiates that value. The document itself is the appraisal. Almost all loan products require the use of an appraisal, as it is the basis for the amount the borrower can borrow under the program they are using. The appraised value of the property is used in most situations to determine the borrower's loan-to-value. The appraisal assists the underwriter in establishing a value of security for a mortgage loan.

The standards for appraisals are developed and outlined in the **Uniform Standards of Professional Appraisal Practice (USPAP)**, and each appraiser must be licensed in their states to perform appraisals. In some situations, the appraiser must also be certified to do a specific appraisal for a specific product. For example, they must be certified to be able to do an FHA appraisal or a VA appraisal.

It's important to remember that MLOs cannot have any contact directly with the appraiser. They are required to use an **Appraisal Management Company (AMC)** to order appraisals. The AMC (a neutral third party) will then communicate with the appraiser about the appraisal request. The AMC will receive the appraisal from the appraiser and then send it to the MLO. If there are any questions about the appraisal, any errors on the appraisal, or any additional information that is needed, the MLO must relay that information to the AMC. The AMC will then confer with the appraiser to solve the problem.

Understanding Appraisals

Types of Appraisals

There are three types of appraisals, and it is crucial to know the three types and how they are different.

- Sales Comparison Approach
- Cost Approach
- Income Approach

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The sales comparison approach is the most common type of appraisal and is used most frequently. The appraiser will determine the value in a sales comparison approach by comparing the subject property (the borrower's house) to similar properties (known as comparable sales, comps, or comparables). Comparable must be within one mile of the subject property and should have been sold in the last six months.

The sales price of those properties is judged to be the most comparable and tends to indicate a range in which the value indication for the subject property will fall. Through this process, the appraiser will compare the borrower's property with these comparable properties. The appraiser will add and subtract value (called adjustments) based upon the differences between the two properties to come up with the ultimate value of the property.

For example, five similar properties in the same geographical area sold for between \$550,000 and \$600,000 in the last six months. The borrower could likely sell their home for somewhere between \$550,000 and \$600,000 based on those comparable sales. The appraiser will pinpoint on a number in that range based on the similarities and differences of the properties.

 Understanding Appraisals

Adjustments

No two homes are ever the same, if for no other reason than no two houses sit on the same lot. There will always be differences between comparable sales and the subject property. Appraisers adjust the sales price of the comparable to give them a better-indicated value of the subject property.

Appraisers can use to adjust the value of a property using many different factors. A few examples are:

- Lot size (bigger lot, smaller lot, or same size)
- Views which add to or detract from the value
- Basement v. no basement
- Condition of the property (Great shape, terrible shape, okay shape)
- Room counts (number of bedrooms, bathrooms, and total rooms)
- Square footage of living space
- Heating and cooling systems (whether there is air conditioning or what type of heating)

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The appraiser can add or subtract value to a comparable based upon the features of that comparable. If the comparable has better features than the subject property, there is a positive adjustment and an increase in the sales price of that comparable. If the comparable has worse features than the subject property, the appraiser will adjust the sales price of that comparable negatively. These adjustments will allow the appraiser to have a better understanding of the potential sales price of the subject property.

For example, an appraiser is appraising a subject property with four bedrooms. There are three comparable properties in the same area. One of those comparable properties only has three bedrooms. The appraiser knows that other four-bedroom homes in the area sell for at least \$5,000 more than the three-bedroom homes in the area. The appraiser will add that \$5,000 from the \$200,000 sales price of the comparable property to arrive at an indicated value of the subject property of \$205,000.

Another example is if a comparable has a pool and the subject property doesn't. The appraiser knows that homes in this area with pools tend to sell for \$7,500 more than homes without pools. That will increase the value of that comparable by \$7,500.

There are no longer hard and fast rules about adjustments, but the general rule of thumb is that gross adjustments cannot exceed 25% of the comparable value or 15% net. The maximum line item adjustment is 10%.

 Understanding Appraisals

Gross Living Space

When we are talking about appraisals, all living space is above grade, so basements are not included in the square footage on an appraisal; but there could be added value in having that basement. It also must be finished space. If there is a finished attic, that could be included in the living space, but an unfinished attic would not be included. A garage, though above grade, is not considered gross living space, as it is not a finished living space.

 Fannie Mae Selling Guide

Guidelines

Fannie Mae and Freddie Mac have established guidelines for acceptable appraisals of homes. These guidelines include:

- Appraisals should include at least three comparable sales.
- Appraisers must report and consider any prior sales of the subject property for the three years preceding the date of the appraisal.
- Appraisers must report and consider any prior sales of the comparable properties for at least one year preceding the date of the appraisal.

Sometimes an appraiser cannot meet these guidelines; like when there is an unusual property without any comparable properties in the same area. A few examples of unusual properties include a-frame homes, some custom-built properties, or houses that are built in out of the ordinary ways. The appraiser must indicate why they are unable to meet the guideline. If an MLO comes across a property like this and the homeowner indicates that there are not many similar homes in the area, this will be a tough loan to close.

 [Fannie Mae Selling Guide](#)

Cost Approach

When using **the cost approach**, the appraiser determines the value of the property by adding the estimated value of the land to the current cost of constructing a reproduction or replacement and then subtracting any amount of depreciation.

 [Understanding Appraisals](#)

Income Approach

The income approach would be used to appraise an investment or a multi-unit property. This approach uses the earning potential of the property to determine its value. The appraiser will determine the value of a property from the potential income that the property could bring the borrower over time.

For example, if someone wants to buy a 4-unit property that they could rent out for \$1,000 per unit, over five years, they would make \$240,000 on that property. The appraiser will also take into consideration maintenance costs and specifics regarding keeping the rental units rented. The appraiser also might compare it to other rental units nearby to determine a fair rental value for each unit in that property.

 [Understanding Appraisals](#)

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Title

Title is a collective term for all a borrower's legal rights to own, use, and dispose of land. Title includes all previous ownership, uses, and transfers. A title company must complete a title search to transfer real estate legally. In most cases, the title must be found free of any circumstances that could endanger the borrower's right to own the property.

The Title Report: What does it Tell Us?

The title report is a generated report that shows the chain of title. **The chain of title** is the chain of the sales and transfers of ownership of the title. The report includes the current owner of the property and shows every transaction that has occurred. It also shows the exact location and plat information (lot number when applicable) of the property. The title report might also indicate whether there are **any easements or restrictive covenants** on the property.

The title report will give information on the county and city taxes on the property; it will show what the current tax assessment is and whether there are any outstanding tax liens on the property.

The title report shows whether there any problems with the title. If there is not a clear chain of title, there could be a problem, and the borrower might not have the right to own the property. The title report is a vital piece of information that verifies whether there is any legal obstruction to the borrower obtaining the mortgage. In order to protect the lender and, in some cases, the owner, the lender will require **title insurance** on the loan.

Other Important Term

An easement is a legal right to use another's land for a specific limited purpose. In some subdivisions, the developer has a landscape easement which allows them to use a specific portion of the borrower's land for landscaping. That area of land cannot be built on or used by the borrower in any way. Another good example of an easement would be a utility easement.

The city or the county can also put an easement on the property. They can exist for many reasons, including in the event the city or county needs to widen the street or build a sidewalk. This type of easement grants the city or county the ability to restrict the borrower's use of that land.

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A restrictive covenant is a clause in a deed or a lease to real property that limits what the owner of the land or lease can do with the property. Restrictive covenants allow surrounding property owners, who have similar covenants in their deeds, to enforce the terms of the covenants in a court of law. They are intended to enhance property values by controlling development.

An encroachment is an intrusion on someone else's land or property. A property owner violates the property rights of his neighbor by building something on the neighbor's land or by allowing something to hang over on the neighbor's property. Encroachment can be inadvertent or deliberate.

Title Insurance

Title insurance protects against the possibility of future loss, should the borrower's legal rights to their property be challenged. There are two different types of title insurance: **owner's title insurance policy and lender's title insurance**. The owner's title insurance policy protects the owner's legal rights to the property. The lender's title insurance policy protects the lender from any possible loss should, the borrower's legal right to own the property be challenged.

The policy protects against things like:

- Mistakes in the recording of legal documents
- Forged deeds, releases, or wills
- Undisclosed or missing heirs, including spouses
- Deeds by persons of unsound mind
- Deeds by minors
- Deeds executed under an invalid or expired power of attorney
- Liens for unpaid taxes
- Fraud

For this premium paid (usually financed or paid with the closing costs), if the borrower's title is challenged, the title insurer assumes the responsibility for all legal expenses. The borrower is reimbursed for any reduction in the value of the land if the defense is unsuccessful.

The lender's title insurance policy generally lasts until the mortgage is paid in full. An owner's policy remains in force for as long as the borrower or their heirs have an interest in the property. If challenges arise after the property has passed to the borrower's heirs,

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the title insurance company will defend the title for them, just as it would for the original borrower. The lender's title insurance policy must be at least equal to the loan amount on the home while the owner's title insurance policy must be at least equal to the amount of the purchase price on the home.

 Fannie Mae Selling Guide

Title and Deeds – Ownership of Real Property

The **deed** goes hand in hand with title. A deed is an instrument that conveys a grantor's interest, if any, in real property. It is a document that is used by the owner of a real property to transfer all or part of his interest in the property to another person. The deed serves as evidence of title.

Deeds transfer ownership and ownership are divided into two primary forms:

1. Ownership in severalty
2. Co-ownership

Ownership in severalty is the simplest form of ownership. It is ownership in a sole form, meaning only one person owns it. Co-ownership is also known as **concurrent ownership** and is the ownership of a property by two or more persons who share title to real property. Undivided interest gives each co-owner the right to possession of the whole property, not just part of it.

There are three forms of ownership:

3. Tenancy in common
4. Joint tenancy
5. Tenancy by the entirety

Tenancy in common is a form of co-ownership with two or more persons having an undivided interest in the entire line, but no right to survivorship. **Right to survivorship** means that the property passes automatically to other co-owners when one co-owner dies.

Tenancy in common is the most common type of ownership. When a tenant in common dies, his interest in the property passes to his heirs. Note that with tenancy in common, all co-owners hold the same undivided right to possess the whole property, though there isn't necessarily equal ownership interest.

Joint Tenancy exists when each co-owner has an equal undivided interest in the land with

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the right of survivorship. In joint tenancy, all co-owners have the same undivided right to possess the whole property. All co-owners hold equal ownership interest, all co-owners acquired their interests at the same time, and all co-owners acquired their interest by the same deed or will. Joint tenancy allows for the right of survivorship.

An example of joint tenancy is that Andrew, Oliver, and Tom own 1/3 of the property. When Andrew dies, Oliver and Tom each inherit part of Andrew's interest, and now they each own 1/2 of the property.

Tenancy by the Entirety is a form of co-ownership that involves only owners who are husband and wife, with each having an equal and undivided share of the property. This form of ownership includes the right to survivorship with the property automatically going to the surviving spouse.

Financial Encumbrances: Liens

A lien is not only a financial interest in the property; it is also a financial encumbrance. Liens are typically security for a debt that gives the creditor, or lienholder, the right to foreclose on the debtor's property if the debt is not paid. In foreclosure, the property is sold. The lienholder collects the amount of the debt from the proceeds of the foreclosure sale.

Liens against property don't prevent its transfer, but the lien still exists regardless. Liens can be general (meaning it attaches to all property, personal and real, owned by the debtor) or specific (attaches only to specific property). A lien can also be **voluntary or involuntary**.

An example of a **voluntary lien** is a mortgage. Voluntary liens are placed against property with the consent of the owner. A mortgage is a written instrument that uses a specific real property to secure payment of a debt.

A note, or promissory note, is a written, legally binding promise to repay a debt. The note creates the debt, and the mortgage secures the payment. When the property is foreclosed on, the lender is foreclosing on the note. An owner should pay their **mortgage** because it represents a potential transfer of title to the mortgage holder in case of default.

Default is the failure to fulfill an obligation, duty, or promise, as when a borrower fails to make payments on a mortgage. Depending on the state in which the borrower lives, the mortgage lender can pursue **judicial or non-judicial foreclosure**.

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An involuntary lien is a lien placed without the consent of the property owner. Liens are created to protect the landowner's creditors. The liens can be general or specific. A couple examples of involuntary liens are:

6. **Mechanics liens:** claimed by someone who performed work on real property and was not paid
7. **Tax liens:** liens on the property to secure the payment of taxes
8. **Judgment liens:** liens against a real person's property through court action (payment on lawsuits)
9. **Attachment liens:** liens intended to prevent the transfer of property pending the outcome of litigation

Lien Priority

It is not uncommon for properties to have multiple liens against them at the same time. Sometimes the total owed for the liens is more than the land will bring at a sale, so there is an order of property for paying off liens after a foreclosure or a sale of the property.

Generally, liens are paid in the order they were attached to the land. The important exception is property tax liens; these types of liens are superior to all other liens.

If the sale of the property does not produce enough money to pay off all the lienholders, later lien holders may get nothing. This can happen, not only in foreclosure but also if the borrower is simply selling their home. If the borrower does not get enough money to cover all the liens, they still owe the money and must pay the lienholder.

If a borrower has a first mortgage and a second mortgage, the first mortgage is the first lien and takes priority. The first mortgage will be paid off first in the event of a foreclosure. The second mortgage (lien) agrees to take second place and takes the risk of not being paid off in the event of a foreclosure.

MLOs might be faced with a situation where they are refinancing a property with multiple liens, but the borrower might not want to pay off the second lien in the refinancing. The MLO will have to submit a request to that second lien holder to **subordinate**, which means that second lien holder must stay second and cannot move up, even though that first lien is being paid off and a new lien (newer than that second lien) will be taking its place.

Lien Priority

Insurance

Many types of insurances are associated with mortgage loans: title insurance and private mortgage insurance, monthly and upfront mortgage insurance. There are two that we have yet to discuss in detail: hazard insurance and flood insurance.

Hazard Insurance

In almost all situations, a borrower cannot obtain a mortgage without showing proof that they have **hazard insurance** (better known as homeowner's insurance). This type of insurance protects the lender and the borrower from losses incurred by fire or other destruction of the property.

Most lenders require that the hazard insurance policy be effective at the time of closing with a renewal of one year from the start date. The minimum coverage of the hazard insurance must be equal to the replacement cost of the improvements on the property ("improvement" is synonymous with the home on the property). Lenders and servicers cannot require hazard insurance in any amount greater than the insurable value of the home on the property.

An MLO is not an insurance agent and should always refer a borrower to discuss insurance needs with a licensed and qualified insurance agent to determine the proper coverage amounts and terms needed on the borrower's home.

Most underwriters will require that the processor or the MLO obtain documentation from the borrower's insurance agent showing the borrower's name and their loan number, the street address of the subject property, the mortgage lender (listed as "loss payee" or "mortgagee's clause"), and the amount of coverage. The underwriter will need this to approve the loan for the borrower.

The lender must be identified as "loss payee" in order to protect that mortgagee's interest in case of a catastrophic loss. In this case, the insurance claim payment is made payable jointly to both the lender and the borrower. The lender and servicer may hold the funds until the borrower replaces the home (using the proceeds) or apply them to pay the loan in full, with any balance remaining remitted to the borrower.



Flood Insurance

When a property is in a **flood zone**, most lenders will require the borrower to obtain **flood insurance**. Every loan application is required to have a flood hazard determination form, which will indicate whether the property is in a flood zone. If it is, the form will indicate that flood insurance is required.

The National Flood Insurance Act led to the **National Flood Insurance Program**. This act was developed after significant losses in the areas surrounding the Gulf of Mexico from hurricanes. This act was passed to address the fact that regular homeowner's insurance did not cover losses caused by flooding. When flooding happened, most of the burden for clean-up was left to the taxpayers throughout the area affected.

The act provided relief to individuals for losses through a flood, and it reduced costs to government entities for flood control and disaster relief. The program's responsibility is to identify and map floodplains. The flood maps help to educate people about risks and provide the information required for floodplain management and flood insurance programs. **The Federal Emergency Management Agency (FEMA)** is responsible for creating 100-year flood plain maps and providing flood insurance to homeowners in identified flood zones. Maximum flood insurance is \$250,000 for the property and \$100,000 for personal property.

The 1973 Flood Disaster Protection Act regulated and required insured lenders and federal agencies to require flood insurance for loans for properties in **Special Flood Hazard Areas (SFHA)**. An SFHA is defined as land within the floodplain that has at least a 1% chance of flooding in any year. This type of flood is commonly referred to as a 100-year flood. Regulated lenders are still required to have flood insurance in place on the properties that lay in these identified areas.

 **National Flood Insurance Program**

Chapter 4 Review

This chapter covers the process of analyzing the borrower to see if they qualify for the loan they are requesting.

Assets

- Assets are divided into two types: liquid assets used for down payment and closing costs, and long-term assets that can be used to cover the two months of payments required for reserves.
- To verify the borrower's assets, you can use bank statements, investment statements, Verification of Deposits.
- Cash cannot be used unless it is deposited into an account and has at least 60-days of seasoning.
- An additional down payment option is a Gift letter from a blood relative or significant other that has no requirement for repayment.
- There is also a down payment assistance program that assists first time homebuyers. The assistance can come from city, county or state programs.

Income

- Two types of income:
 - ❖ Stable income
 - ❖ Variable income
- The income is verified with 1099s, W-2s, Paystubs, tax returns with a 4506T and a Verification of Employment
- A two-year history is required to provide continuity of income
- Nontaxable income, like social security benefits, can be grossed up 25%
- Six income calculations that are essential to know when we are talking about calculating income.
 - ❖ If the borrower is paid annually, the calculation is annual gross income/12 months.
 - ❖ If the borrower is paid monthly and they know the monthly amount, there is no calculation. Otherwise, use the annual gross payment amount/12 months.
 - ❖ If the borrower is paid twice monthly, the calculation is the amount of each paycheck x 2 pay periods.

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- ❖ If the borrower is paid bi-weekly, the calculation is biweekly gross pay x 26 pay periods/12 months.
- ❖ If the borrower is paid weekly, the calculation is weekly gross pay x 52 pay periods/12 months.
- ❖ If the borrower is paid hourly, the calculation is hourly gross pay x average # of hours worked per week x 52 weeks/12 months.
- A borrower is considered self-employed if they own 25% or more of a company. There is a lot of additional analysis for self-employed borrowers to ensure continuity of income.

Liabilities

- All liabilities must be disclosed by the borrower if they are not on the credit report.
- Any payment on liabilities that has less than 10 payments left do not have to be included in the ratios. The exception is a leased vehicle.
- Utilities and cell phone payments are not considered liabilities
- The front-end or housing ratio, and the back-end or overall ratio are used when calculating ratios. Each of the agency products all have different ratios to qualify for loans:
 - ❖ Conventional- 28%/36%
 - ❖ FHA-31%/43%
 - ❖ VA- Back end DTI of 41% with residual income calculation
 - ❖ USDA - 29%/41%
- Another qualifying ratio is loan-to-value. The maximum LTV on the programs we discussed are:
 - ❖ Conventional – 97% (3% down payment)
 - ❖ FHA- 96.5% (3.5% down payment)
 - ❖ VA- 100% (0 down payment required)
 - ❖ USDA-100% (0 down payment required)

Credit Report

- Tri-Merge is the credit report that is pulled for underwriting a loan, which merges the three credit agencies: Experian, TransUnion, and Equifax.
- The underwriter will use the middle credit score when underwriting.
- Scores range from 300-850

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- Bankruptcies show on the credit report for seven years for Chapter 11 or 13, and 10 years for a Chapter 7.
- For a conventional loan, if a borrower's credit report shows that they have been 60 or more days late within the past 12 months, the underwriter will deny the loan, unless there are extenuating circumstances.
- For a conventional loan, a borrower is prohibited from obtaining a loan if they have had a foreclosure reported on their credit within the previous seven years
- For a short sale, the borrower must wait four years to obtain a new mortgage.
- Inquiries remain on a borrower's credit for two years, but most of the time, the score only takes it into account for 12 months.

FCRA & FACTA

- FCRA (Regulation V) is a federal law that regulates how consumer credit reporting agencies (CRAs) use consumers' information.
- All consumers have the right to have one free credit report each year (they can get more if they pay).
- All credit pulls must have a permissible purpose. Just because an MLO can pull a credit report doesn't mean it's legal under FCRA.
- FCRA requires that most negative information be removed within seven years, 10 years on bankruptcies.
- FCRA requires an adverse action disclosure. This disclosure must be given within 30 days of a credit decision.
- FACTA (amendment to FCRA) adds provisions to improve the accuracy of consumers' credit-related records.
- FACTA requires the provision of risk-based pricing notices and credit scores to consumers whose applications are denied or who receive less favorable offers of credit.
- Notice to Home Loan Applicant required under FACTA.
- Safeguard Rules requires all files to be kept confidential and stored in a locked cabinet or draw, when not in use. All files have to be kept for a period of at least three years before being destroyed. The CD must be kept for at least five years.
- Economic Growth, Regulatory Relief and Consumer Protection Act requires nationwide consumer reporting agencies to provide national security freezes free to consumers.
- As well as security/credit freezes, the amendment extended the time that a borrower can have a fraud alert on their credit report from 90 days to one year.

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- The Red Flags rule was established to prevent identity theft. The Red Flags Rule applies to financial institutions and creditors
- The Disposal Rule is part of FACTA and dictates how institutions should dispose of consumer information.

Tangible Net Benefit

- When analyzing a borrower to decide if they should get the loan, the MLO determines their Ability to Repay and whether there is a Tangible Net Benefit.
- As a professional, it is an MLO's responsibility to discuss options and determine if it is the best decision to complete a loan transaction.

RESPA

- Real Estate Settlement Procedures Act (RESPA, Regulation X)
- Covers: kickbacks, referral fees, escrow requirements, transfer of servicing, also TRID
- RESPA does not cover:
 - ❖ Vacant Land
 - ❖ Large Tracts of Land (25 acres or more, even if there is a dwelling on it)
 - ❖ Commercial or business loans
 - ❖ The government, its agencies, or instrumentalities
 - ❖ Temporary financing (bridge loans or swing loans)
- Section 8 prevents anything of value being exchanged for referrals or kickbacks.
- Also, an Affiliated Business Arrangement (AfBA) Disclosure is required if the MLO or their company has an interest in third party companies or if the borrower is required to use any of your referral companies.

USA Patriot Act

- The USA Patriot Act was created in response to the attacks of September 11th, 2001.
- The Treasury Department, through its Financial Crimes Enforcement Network (FinCEN), became responsible for implementing the Patriot Act.

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- As part of compliance with the Patriot Act, financial institutions are required to check two forms of identification for each borrower.
- The USA Patriot Acts requires MLOs to obtain their borrowers' identification with a Social Security Card, Passport or Drivers License and then run the borrower through the OFAC database, to see if they are on the Government's watch list.

Appraisals

- An appraisal is an evaluation of the borrower's home determined by the appraiser and substantiated by an appraisal report
- All appraisers must conform with USPAP and be licensed in their states to perform appraisals
- The use of Appraisal Management Companies (AMCs) is required by Fannie Mae and Freddie Mac. They are a neutral third party.
- There are three types of appraisals:
 - ❖ Sales Comparison
 - ❖ Cost Approach
 - ❖ Income Approach
- The Sales Comparison approach is the most common and uses comparable properties to determine a value of the subject property.
 - ❖ Comparables must be within one mile of the subject property and should have been sold in the past six months
 - ❖ Gross adjustments cannot exceed 25% of the comparable value or a 15% net of the comparable.
- Cost Approach appraisals are determined by how much it would cost to reproduce the improvement (home) on the property
- The Income Approach is used mostly for investment or multi-unit properties. The amount of income the property can produce through renting it is used to determine the value.

Title

- Title is a collective term for all a borrower's legal rights to own, use, and dispose of land.
- The title report is a generated report that shows the chain of title.
- The chain of title is the chain of the sales and transfers of ownership of the title.

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- Title Insurance protects the borrower and the lender from any flaws in the title from the date of the closing and before. There are two types:
 - ❖ Owner's title insurance protects the owners. It's usually not a requirement but it is recommended).
 - ❖ Lender's title insurance is always required on a transaction. It protects the lender.
- An easement is a legal right to use another's land for a specific limited purpose.
- A restrictive covenant is a clause in a deed or a lease to real property that limits what the owner of the land or lease can do with the property.
- An encroachment is when a property owner violates the property rights of his neighbor by building something on the neighbor's land or by allowing something to hang over on the neighbor's property.
- A deed is an instrument that conveys a grantor's interest, if any, in real property
- Ownership in severalty is the simplest form of ownership. It is ownership in a sole form; only one person owns it.
- Co-ownership is also known as concurrent ownership. It is the ownership of a property by two or more persons who share title to real property.
- Tenancy in common is a form of co-ownership with two or more persons having an undivided interest in the entire line, but no right to survivorship.
- Right to survivorship means that the property passes automatically to other co-owners when one co-owner dies.
- Joint Tenancy exists when each co-owner has an equal undivided interest in the land with the right of survivorship
- Tenancy by the Entirety is a form of co-ownership that involves only owners who are husband and wife, with each having an equal and undivided share of the property.
- A lien is not only a financial interest in the property, it is also a financial encumbrance.
- A lien can also be voluntary or involuntary.
- A note, or promissory note, is a written, legally binding promise to repay a debt.
- Default is the failure to fulfill an obligation, duty, or promise, as when a borrower fails to make payments on a mortgage.
- Generally, liens are paid in the order they were attached to the land. The important exception is property tax liens; these types of liens are superior to all other liens.

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Insurance

- There are insurance requirements for Homeowners insurance/Hazard Insurance and Flood insurance.
- Borrowers must have both if required at closing and they must be paid up for the next 12 months.
- When a property is in a flood zone, most lenders require that the borrower obtain flood insurance.
- The Federal Emergency Management Agency (FEMA) is responsible for creating 100-year flood plain maps and providing flood insurance to homeowners in identified flood zones.
- Maximum flood insurance is \$250,000 for the property and \$100,000 for personal property.
- The 1973 Flood Disaster Protection Act regulated and required insured lenders and federal agencies to require flood insurance for loans for properties in Special Flood Hazard Areas (SFHA).

Chapter 5

Funding & Closing

Learning Objectives for Chapter 5

- ☐ Describe what is required on each page of the Closing Disclosure
- ☐ Explain how the Right of Rescission works and when it applies
- ☐ Restate the requirements under GLBA and BSA/AML
- ☐ Outline how settlement and closing agents participate in the closing and how the documents are explained at closing
- ☐ Understand the difference between judicial and non-judicial foreclosure
- ☐ Describe the different math equations and how they are used in the mortgage process

The Closing Disclosure

Creditors are required to provide a **Closing Disclosure (CD)** at least three business days before consummation.

All calendar days except Sundays and legal public holidays are Business Days in the case of the Closing Disclosure. The Closing Disclosure must disclose all the final terms and costs of the loan.

The lender is required to keep a copy of the Closing Disclosure for every transaction **for five years**.

What is consummation?

Consummation occurs when the consumer becomes contractually obligated and the loan is funded to the creditor on the loan; not when the consumer becomes contractually obligated to a seller on a real estate transaction.

Corrections to Closing Disclosures

A lender can make corrections to the CD in certain situations. There are three categories of changes that require a corrected CD containing all changed terms:

- Changes that occur before consummation that require a new three-business-day waiting period.
- Changes that occur before consummation and do not require a new three-business-day waiting period.
- Changes that occur after consummation.

Changes that happen before consummation that require a new three-day waiting period include:

- The disclosed APR becomes inaccurate (increases by $1/8^{\text{th}}$ or more)
- The loan product changes
- The lender adds a prepayment penalty

The lender is still required to provide a corrected CD with any terms or costs that have changed and ensure that the consumer receives it, even if the change does not trigger a new waiting period. The lender is not required to wait another three business days to consummate the loan.

Sometimes things change even after consummation. If so, the lender is required to provide a corrected CD within 30 days. Lenders are required to provide a corrected CD to correct non-numerical clerical errors and document refunds for tolerance violations within 60 calendar days of consummation.

 The Consumer Financial Protection Bureau's Small Entity Compliance Guide on the TILA-RESPA Integrated Disclosure Rule

Page One of the Closing Disclosure

The next few sections will go page by page through the CD. Page one of the CD is almost a mirror image to its counterpart, the Loan Estimate.

The top header of the CD includes additional information than the LE including:

- The date the CD was issued
- The date the loan will close (to show that the CD was provided three days before consummation)

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- The disbursement date (when the loan funds will be disbursed)
- The settlement agent
- The file numbers
- The property's address
- The sales price (or appraised value depending on the type of transaction)
- The borrower's information
- The seller's information, when applicable
- The lender's name
- The loan term, purpose, product, loan type, loan ID, and MIC

The first box on the page of the CD is **Loan Terms**. This section lists:

- The final loan amount, including whether this amount can increase after closing.
- The interest rate, including whether this can increase after closing or not.
- The monthly principal and interest payment, including whether this amount can go up after closing.
- Prepayment penalty, if one exists, the highest it can be and when can the prepayment penalty be enacted.
- Balloon payment, if one exists, how high it can go, and under what circumstances the lender requires it.

The second box on the first page is **Projected Payments**. This section includes the payment calculations throughout the loan. For fixed-rate mortgages, this section is typically two columns. An event determines these columns. In most situations, the event is a change in the payment because of the loss of mortgage insurance on the loan.

If the CD is for an ARM, there will be several columns based upon the structure of the adjustments and the maximum amount the interest rate can adjust (the worst-case scenario) throughout the loan amortization. The projected payments section includes whether the borrower has any mortgage insurance and their estimated escrow payment. This box also includes a detailed breakdown of the borrower's escrow payments.

The final box on the first page is **Costs at Closing**. This box will give the amount of closing costs the borrower will be paying. Please note the amount on page one is a quick breakdown of the costs, but page two shows closing costs in detail.

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The second line is the Cash to Close box; it will indicate how much the borrower will need to bring to closing. In some situations, cash to close will be a negative number, indicating that the borrower is receiving money from the proceeds of the loan, as opposed to bringing money to closing. The number stated is the gross needed at closing; it does not take into consideration any lender credits or seller assistance. These are broken down on page two.

Periodic Interest

A **periodic interest rate** is the interest rate charged on a loan over a specific period. Lenders quote interest rates on an annual basis, but in most cases, the interest compounds more frequently than annually. As a result, the periodic interest rate is the annual interest rate divided by the number of compounding periods.

The interest on a mortgage is compounded or applied monthly. If the annual interest rate on a mortgage is 8%, the periodic interest rate used to calculate the interest assessed in any single month is $0.08/12 = 0.0067$ or 0.67%. The remaining principal balance of the mortgage loan has a 0.67% interest rate applied to it.

For test purposes, it is essential to know about calculating interest-only payments. An interest-only loan requires that the borrower only pay the amount of interest accrued on the loan for a specific period. It is more difficult than the formula above to determine the payment on a regular amortizing loan that pays principal and interest, so students are not tested on those calculations. Below is an example of calculating the payment on an interest-only loan:

Periodic Interest: Regan

Regan has finally decided to purchase a new home. Regan works closely with a financial planner. After speaking with her financial planner, she decides that the best product for her would be a 5/1 I/O ARM. Regan's new loan amount will be \$445,000 and her interest rate is 3.75%.

What will her interest-only payment be without taxes and insurance?

Step 1

For interest only, the formula is $\text{Loan amount} \times \text{Rate} = \text{Payment}/12 \text{ months}$.

$$\$445,000 \times 3.75\% = \$16,687.50$$

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Step 2

We then divide $\$16,687.50 / 12 \text{ months} = \$1,390.63$

Answer

\$1,390.63

 Periodic Interest Rates

Page Two of the Closing Disclosure

The second page of the CD delves deeper into the costs associated with the loan. It begins with the Loan Costs:

- The Origination Charges.
- The Services the Borrower Did Not Shop For
- The Services the Borrower Did Shop For

The first section, Origination Charges includes charges like:

- Discount points (a type of buydown)
- Application fees
- Underwriting fees
- Other types of compensation that the lender will receive

The figures on these lines should look identical to what was disclosed on the LE, because these fees have zero tolerance, meaning they cannot change from the LE to the final disclosure on the CD.

The second section, Services the Borrower Did Not Shop For, include services rendered by third parties required by the lender. These fees cannot change cumulatively by more than 10% from the original disclosure on the LE and their final disclosure on the CD. There are some exceptions in this section, a few fees included in this section are considered zero tolerance fees. This section generally includes:

- Appraisal fees (zero tolerance)
- Credit report fees (zero tolerance)

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- Flood determination fees (10% cumulative tolerance)
- Tax monitoring fees (10% cumulative tolerance)

The third section, **Services the Borrower Did Shop For**, includes services provided by a third party that were selected by the borrower. These fees can change by any amount from the original disclosure on the LE, as the borrower chose them, not the lender. This bucket typically includes:

- Pest inspection fees
- Survey fees
- Title fees (in some situations)

The sum of the fees is listed at the end. Included in this section of CD is whether these fees are to be paid at closing or were paid before closing. It also indicates whether the borrower, seller or another individual or institution (like the lender) is paying these fees

Other Costs, which are no tolerance, are similar to the LE as it shows the same taxes and other government fees, the prepaids, the initial escrow payment at closing, and other fees for a **Total of Other Costs**. It again denotes who is paying and if the fees have already been paid or will it be paid at closing.

The final box on the second page is **Total Closing Costs** (Borrower-Paid), which shows the total amount the borrower needs to pay at closing and the fees they have already paid, as well as how much was paid by another party.

Temporary and Fixed Interest Rate Buydowns

Up until this point we've discussed origination charges and processing fees, but we have not talked in depth about discount points. **A discount point** is a type of buydown. **A buydown** gives borrowers the opportunity to decrease their interest rate. Discount points appears on both the Loan Estimate and the Closing Disclosure. Discount points appear on Page 2, Box A of the Closing Disclosure.

The first and most common type of buydown is a **Permanent Discount Buydown**, which is also referred to as a Discount Point (or points). The borrower pays discount points based on a percentage of the loan amount to “prepay” interest to obtain a lower note rate for the duration of the loan.

For example, a \$100,000.00 loan with one discount point is equivalent to a \$1,000 fee, which will reduce the actual interest rate from the quoted 6% to approximately 5.75% for

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the life of the loan. Not all lenders will offer a 0.25% reduction for one discount point, check with your lender to determine the actual reduction amount given. A discount point generally costs 1% of the loan amount.

The second is a temporary 2-1 buydown, which means that during the first year of the loan, the borrower will make payments based on an amortization schedule computed using a rate which is 2% less than the rate stated in the note. The second year, the borrower will make payments based on an amortization schedule computed using a rate which is 1% less than the rate stated in the note. In the third year, the borrower makes the payments on the full note rate. These are similar to graduated payment mortgages where the payment is lower and then gradually increases; in this case, because the interest rate is going up 1% per year.

During these two years, the enticing party (usually a builder) will contribute the 2-1 buy down fee that funds a buydown account with the lender at the time of closing that will supplement the lower payment the borrower is making. Each month, the borrower pays 2% less than the note rate. That difference is taken from the buydown account and applied to the loan (so full payment is made every month on the loan). When the borrower is making his payment based on a rate that is 1% less than the note rate, the difference is taken from the buydown account and applied to the loan. At the end of the two years, the buydown account is depleted, and the borrower makes the full payment.

Example of a 2-1 Buydown

Benjamin has an FHA 2/1 buydown. His note rate is 3.5%. What will Benjamin's rate be in year 3?

Step 1

A 2/1 Buydown only lasts for 2 years and then reverts to the note rate. So in year three, the note rate is the rate in year three.

Answer

3.5%

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Example of Discount Points

Lila is purchasing a home for \$150,000. If she purchases two discount points, how much will Lila be paying for those discount points?

Step 1

1% of \$150,000 is \$1,500 per discount point

Step 2

\$1,500 x 2 = \$3,000

Answer

\$3,000

Page Three of the Closing Disclosure

Page three of the CD includes how the lender calculated the amount of cash to close. It lists:

- Total Closing Costs
- Closing Costs Paid Before Closing.
- Closing Costs Financed into the loan
- Down Payment/Funds from Borrower
- Deposit already being held by the lender
- Funds for Borrower
- Seller Credits (from the seller or the lender)
- Any Adjustments and Other Credits.

Please note: Not all sections are applicable to every loan. If an amount does not apply, it is left blank. This section also indicates if any of these amounts changed from what was disclosed on the LE.

Page three of the CD also includes Summaries of Transactions, including more detail on how the cash to close was calculated. It is separated into two columns: Borrower's Transaction and Seller's Transaction.

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The borrower's transaction column includes what the borrower needs to bring to closing, any adjustments made, and any adjustments made specifically because of items paid by the seller in advance. It shows what has already been paid by or on behalf of the borrower at closing, and any other credits or adjustments unpaid by the seller for a total. It also includes the cash to close from or to the borrower.

The seller's transaction is similar; it will show what is due to the seller at closing, and what adjustments were made from items paid by the seller before closing. It also includes amounts due from the seller at closing and the adjustments for items unpaid by the seller. There is a total calculation for a total due to the seller at closing and total due from the seller to closing. It totals the amount of cash from or to the seller.

Page Four of the Closing Disclosure

The fourth page of the CD includes **Loan Disclosures**; similar to the last page of the LE, but with more detail.

- The first disclosure is whether the loan will be assumable. Conventional loans are not, but some, like FHA or VA, can be assumable, which means that someone else can take the loan over without refinancing as long as they meet certain criteria.
- The second disclosure indicates whether the loan has a demand feature. A demand feature allows the lender to require early repayment of the loan (at any time, for any reason).
- The third disclosure relates to late payments, including when a payment is considered late and the amount of the late fee.
- The fourth disclosure addresses negative amortization and whether it is a possibility on the loan. When the total interest on the payment is not paid, it is added to the principal. This creates negative amortization.
- The fifth disclosure covers whether the lender will accept partial payments and how those partial payments may be handled.
- The sixth disclosure defines the security interest, including the fact that the lender is being granted a security interest in the property. (**Hypothecation**).

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- The seventh disclosure identifies whether the loan will have an escrow account and a breakdown of the amount that will be collected over the first year. If the borrower is not receiving an escrow account, it will indicate whether it is because the borrower chose not to have one or if the lender does not offer escrow accounts.
- The last part of the escrow disclosure indicates that the escrow amount can change based upon a change in taxes or the insurance premium charged by the homeowner's insurer. It also warns that if the borrower fails to pay property taxes, it may result in fines, penalties, and tax liens. It also states that the lender has the right to add these things to the loan balance and add an escrow account to their loan.

Also, the lender can require the borrower to pay for property insurance the lender buys on their behalf if they fail to keep property insurance on their home. This is known as forced placed insurance and is always more expensive than what the borrower can obtain on their own.

Page Five of the Closing Disclosure

The final page of the CD includes:

- Total of payments
- Finance charge
- Amount Financed
- APR
- Total Interest Percentage (TIP)

It should look similar to what was disclosed on the LE, but can change, based on any changes to the closing costs. It also includes contact information for all parties involved in the transaction, including the lender, the real estate broker for the borrower and the seller, and the settlement agent.

This page also lets the borrower know that the lender is required to give the borrower a copy at no additional cost at least three (3) days before closing. The borrower should contact the lender if they have not received that appraisal at the time, they receive the CD. If an **appraisal waiver** was issued by Fannie Mae, Freddie Mac, FHA or VA then there is no appraisal to provide. There is also a disclosure for contract details encouraging the borrower to review their note and security instrument. It also outlines the borrower's liability after foreclosure.

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This page also lets the borrower know that their ability to refinance this loan depends on their future financial situation and is not guaranteed. The final disclosure regarding tax deductions indicates that if the borrower is borrowing more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from their federal tax returns and encourages the borrower to consult a tax professional.

The final piece of the CD is the borrower's signature(s). If the borrower signs the CD, they are only confirming they have received the document; their signature does not mean that they accept the loan.

Right of Rescission

The right of rescission is a special protection provided by TILA on owner-occupied refinance transactions (this does not apply to purchases or refinance transactions on second or investment properties). The right of rescission allows anyone with an ownership interest to rescind (cancel) the loan. The borrower must notify the creditor of their wish to rescind the loan before midnight on the third business day after one of the following, whichever comes last:

- The signing of the loan documents
- The delivery of the right to rescind notice
- The delivery of all disclosure

The two copies of the right to rescind notice must be provided to the borrower along with one copy of the disclosure statement. The notice must:

- Be on a separate document
- Identify the rescission period on that specific loan
- Disclose the retention of a security interest in the principal dwelling
- Outline the borrower's right to rescind
- Instruct the borrower on how to exercise their right to rescind.
- Include the creditor's place of business
- Include a fax number where the borrower can send the right to rescind notice if they choose to rescind the loan

A loan can be rescinded by just one person on the title of the property, regardless of whether that person is on the loan or not. If a person rescinds the loan, the transaction is void for everyone. The creditor is required to return any money or property or take any

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action that shows the transaction was canceled **within 20 calendar days** after the borrower remits a rescission notice.

If the required rescission notice is not provided to the borrower, or if there are errors on the disclosures, the borrower's right to rescind expires three years after the closing, transfer of the interest in the property, or sale of the property, whichever occurs first.

A borrower can waive the right of rescission only in the event of a bona fide personal financial emergency. The borrower must provide the creditor with a dated handwritten statement that describes the emergency, request the right to rescind can be waived or shortened, and contains the signatures of all individuals listed on the title.

 [12 CFR 1026.15](#)

Settlement and Closing Agents

The closing is the final step in the mortgage process; it is also referred to as **settlement**. A representative of the closing company oversees and coordinates the closing with the lender, records the closing documents, and disperses money to the appropriate individuals and organizations. At closing, borrowers sign a lot of different documents, including the mortgage note and mortgage or deed of trust.

The settlement agent and closing agent are responsible for going over all documents before the borrower signs them. The settlement agent will guide borrowers through the last part of the origination process. They are employees of the closing agency; in some states, the closing agent is an attorney, or the settlement is performed at an attorney's office. Settlement agents are responsible for preparing all the documents and making sure all of them are appropriately signed.

An MLO can be present at the closing, but they are not required to be present. It is a good business practice to be available to the borrower at the time of closing in case they have questions or need additional clarification that the settlement agent cannot answer. The MLO typically knows the details of the loan better than the settlement agent and may be more qualified to answer borrower questions. Borrowers should be encouraged to reach out to the MLO at closing if they have specific questions about the loan.

 [Freddie Mac: Your Step-by-Step Mortgage Guide](#)

Transfer of Servicing

RESPA requires that if mortgage lender anticipates that they may sell the servicing rights of a loan, they are required to let the borrower know. *The lender must notify the borrower that this may occur within three days after the receipt of the application.* The disclosure statement must advise that the servicing of the loan may be assigned, sold, or transferred to any other person at any time.

When a mortgage loan is assigned, sold, or transferred, the former servicer must provide a disclosure **at least 15 days before** the effective date of the transfer. This letter is referred to as the Goodbye Letter. A letter from the new servicer must also be sent **within 15 days** after the effective date of the transfer. This letter is generally known as the Hello Letter. The letters must include:

- The effective date of the transfer.
- The name, address and toll-free or collect call telephone number for an employee or department of the first servicer that can be contacted by the borrower to obtain answers to servicing transfer inquiries.
- The name, address and toll-free or collect call telephone number for an employee or department of the new servicer that can be contacted by the borrower to obtain answers to servicing transfer inquiries.
- The date on which the old servicer will cease accepting payments related to the loan and the date the new service will begin to accept the payments (Must be the same or consecutive dates).
- Whether the transfer will affect the terms or the availability of optional insurance and any action the borrower must take to maintain the coverage.
- A statement that the transfer does not affect the terms or conditions of the mortgage.

During the 60 days, beginning on the date of the transfer, no late fee or another penalty can be imposed on a borrower who has made a timely payment to the former servicer. Additionally, if the former servicer receives an incorrect payment on or after the effective date of the transfer, the former servicer must either transfer the payment to the new servicer or return the payment and inform the borrower of the proper recipient of the payment.

 12 CFR 1024.33

Escrow Accounts

RESPA regulates escrow accounts, specifically the amount of money that is in an escrow account at any given time. The amount of escrow funds that can be collected at settlement or upon creation of an escrow account is restricted to the amount sufficient to pay charges for taxes and insurance that are attributable to the period from the date the payments were last paid until the initial payment date. The maximum a lender can collect at closing is 14 months of escrow payments. For example, if the borrower's insurance was just paid then the lender could collect an entire year at closing plus 1/6th (or 2 months) cushion for a total of 14 months.

Throughout the life of the escrow account, the servicer may charge the borrower a monthly sum equal to 1/12 of the total annual escrow payments for taxes and insurance that the servicer reasonably anticipates paying from the account. Also, the servicer can add an amount to maintain a cushion of no greater than 1/6 of the estimated total annual payment from the account.

Before establishing an escrow account, according to RESPA, a servicer is required to analyze to determine the periodic payment and the amount to be deposited into the account. The servicer must use an escrow disbursement date that is on or before the deadline to avoid a penalty and may make annual lump sum payments to take advantage of a discount.

According to RESPA, a servicer is required to disclose an initial escrow account statement **within 45 calendar days of settlement** for escrow accounts that are established as a condition of the loan. The initial escrow account statement is required to include:

- The monthly mortgage payment
- The portion going to escrow
- An itemization of estimated taxes, insurance premiums
- Other charges along with the anticipated disbursement dates of the charges
- The amount of any cushion and a trial running balance

The servicer is required to submit to the borrower an annual statement for each escrow account **within 30 days of completion of the computation year**. The servicer is required to conduct an escrow account analysis before submitting an annual statement to the borrower.

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The annual escrow statement must include:

- Account history
- Projections for the current year
- Current mortgage payment
- Portion going to escrow
- Amount of the past year's monthly mortgage payment portion that went into the escrow account
- Total amount paid into the escrow account during the past year
- Amount paid from the account for taxes
- Insurance premiums and other charges
- The balance at the end of the period
- An explanation of how the surplus, shortage or deficiency is being handled, if applicable, and the borrower can pay the shortage within 30 days of the analysis or pay the shortage over the next 12 months
- The reasons why the estimated low monthly balance was not reached

 12 CFR 1024.17

Explanation of Documents

The borrower may receive the following at closing:

- A promissory note indicating that the borrower accepts the mortgage loan from the lender and agrees to repay the amount borrowed plus any interest. They will sign a security instrument that pledges their home as collateral for the loan. In some states, this document is a mortgage, and in other states, this document is a deed of trust.
- After the lender transfers the money to the seller on the borrower's behalf (in a purchase transaction), the seller will sign the deed and transfer ownership to the borrower.

The **mortgage note** is a legal document that provides evidence of the borrower's indebtedness and their formal promise to repay the mortgage loan, according to the terms agreed upon. These terms can include:

- The amount owed
- The interest rate on the mortgage

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- The dates when payments are to be made
- The length of time for repayment
- The place where the payments should be sent
- An explanation of any consequences for failing to make a monthly payment

The mortgage, or deed of trust, is the **security instrument** that the borrower gives to the lender, which protects the lender's interest in the property. When the borrower signs the **mortgage, or deed of trust**, they are giving the lender the right to take the property by foreclosure if they fail to pay their mortgage properly. The mortgage, or deed of trust, will provide the same information that appears in the note and states that it is the borrower's responsibility to keep the house in good repair, insure it, pay property taxes and make payments on time.

A deed is a document that transfers ownership of the property from one party to another. It contains the names of the previous and new owners and a legal description of the property. The person transferring the property signs it. The deed gives the borrower title to the property, but the title is conveyed to a neutral third party (called a trustee) until the borrower pays their mortgage in full.

The closing agent or settlement agent will record these documents in the county's public records. The borrower will receive a copy at closing and another copy of these documents once they have been recorded.

The borrower may be asked to sign **affidavits and declarations** at closing. These statements declare something to be true. For example, they may affirm that the house will be their principal place of residence, or that all the repairs needed on the property were completed prior to closing. In most cases, the borrower signs more than one of these affidavits or declarations at closing.

 **Freddie Mac: Your Step-by-Step Mortgage Guide**

Funding

Funding is the process at closing by which the funds are dispersed to their proper owners. In the situation of a purchase transaction, funds are transferred to the seller from the buyer, and the buyer also transfers funds to the lender. At closing, the buyer will bring their down payment and closing cost funds with them and transfer them to the lender at that time. The lender will then transfer the funds to the seller on behalf of the buyer. This

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happens immediately at the time of closing.

For a refinance transaction on an owner-occupied property, funding is a slower process because of the borrower's right to rescind. The lender will not fund an owner-occupied refinance transaction until the borrower's period of rescission has ended. This process happens because the lender does not want to provide the funds to the borrower, whether it is in the form of paying off their current mortgage, providing the borrower cash funds, or paying off any of the borrower's creditors until the borrower has entirely accepted the terms of the loan.

For refinance transactions on non-owner-occupied properties, funding occurs the same day, just like on a purchase transaction. Funding occurs this way because there is no right of rescission, just like on a purchase transaction.

Bank Secrecy Act/Anti-Money Laundering (BSA/AML)

Federal Mortgage Law Quick Facts:	The Bank Secrecy Act/Anti-Money Laundering
Regulation:	N/A
Acronym or Nickname:	BSA/AML
Year Created:	1970
Main Purpose:	To prevent money laundering
Disclosures/Notice Required:	N/A but yearly education required
Important Terms Related to this Law:	Money laundering, Fraud, Suspicious Activity Report (SARs)

The Bank Secrecy Act/Anti-Money Laundering, or BSA/AML, specifically requires financial institutions to institute a compliance program and annual training to detect money laundering and suspicious activity. There are multiple pieces to this compliance program:

- Risk Assessment
- A system of internal controls to ensure ongoing compliance
- Independent testing of BSA/AML compliance

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- The designation of an individual or individuals responsible for managing BSA compliance
- Training for appropriate personnel

What is **money laundering**?

Money laundering is a term used to describe a scheme in which criminals try to disguise the identity, original ownership, and destination of money that they have obtained through criminal conduct. The laundering is done with the intention of making it seem that the proceeds have come from a legitimate source.

Every institution needs to create a compliance program based on the risks that exist in their business. Once their business risks are identified, they need to create internal controls and review all existing policies and procedures to make sure that they can achieve AML compliance.

In addition to the internal review and creation of controls to detect money laundering, there must be independent testing by a third party every 12-18 months to determine that AML compliance is in place and that those internal controls are doing what they're supposed to.

As part of this process, a BSA/AML compliance officer must be assigned. This individual should be an expert in BSA/AML regulations and have the ability and resources to design and implement the plan. They are also responsible for filing **Suspicious Activity Reports (SARs)**, which we will discuss later in this section.

The last leg of the compliance plan is annual compliance training. This training is required for personnel that deal with situations where the risk of money laundering exists; this includes MLOs.



Suspicious Activity Reports (SARs)

A large part of BSA/AML is the requirement of suspicious activity reports, or SARs. These reports must be filed with FinCEN when one of the following circumstances occurs:

- Insider abuse involving any amount
- Transactions aggregating \$5,000 or more where a suspect can be identified
- Transactions aggregating \$25,000 or more, regardless of potential suspects
- Transactions aggregating \$5,000 or more that involve potential money laundering

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or violations of the Bank Secrecy Act

Lenders are required to file SARs no later than 30 calendar days after the date of the initial detection of the issue. Lenders must maintain a copy of any SAR filed and all supporting documentation for five years from the date of the filing.

 12 C.F.R Section 353.2

Foreclosure: Judicial vs. Non-Judicial Foreclosure

Foreclosure is what happens when a borrower falls behind on their mortgage, and the lender uses legal procedures to sell their home. Foreclosure procedures vary by state. In some states, the lender must file a lawsuit to foreclose (**judicial foreclosure**), while in others, it can foreclose without going to court (**non-judicial foreclosure**).

The lender is required to go to court to get the foreclosure started in judicial foreclosure states. A judicial foreclosure typically takes several months or more, giving the borrower time to look for another place to live and to save money for the future. Another advantage is that the borrower can raise in court any legal defenses they may have to the foreclosure.

The states that use judicial foreclosure are as follows:

- Connecticut
- Delaware
- Florida
- Hawaii
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- New Jersey
- New Mexico (sometimes)
- New York
- North Dakota
- Ohio

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- Oklahoma (the homeowner may request it)
- Pennsylvania
- South Carolina
- South Dakota (if the homeowner requests it)
- Vermont
- Wisconsin

In these states, at closing, the borrowers will sign a mortgage as their security instrument. The following is the typical process of a judicial foreclosure:

- The borrower gets behind on their payments. The mortgage holder begins the foreclosure procedures. Lenders can start after one missed payment but usually wait much longer before starting the foreclosure process.
- The lender sends a notice of intent to begin the foreclosure process. Most states require this to be sent before they even start proceedings. The notice informs the borrower that they can avoid proceedings if they make up the missed payments, plus the cost and interest. The lender will file a lawsuit; if they don't make up the payments, the lender will go to the court and file a lawsuit.
- The lender gives the borrower notice of the lawsuit by delivering the summons and complaint to the borrower.
- The borrower has between 15-30 days to respond. The lender bears the burden of proving that the foreclosure is justified under the terms of the mortgage.
 - If the borrower fails to respond, it is almost certain the foreclosure will go through. In this situation, the court issues a default judgment that authorizes the lender to sell the borrower's home.
 - If the borrower responds, the borrower can explain why they think they have a legal right to keep their house and that foreclosure is not warranted. The better the defense is, the longer the process. Even if the borrower wins, it may be a temporary victory if the lender can fix whatever problem caused it to lose.
- After the court rules in favor of the lender, the lender sends the borrower and occupants a notice of intent to sell. At this point, in many states, the borrower can avoid the foreclosure sale if they can "redeem" the mortgage (pay it off in full, as well as the foreclosure costs and attorney's fees). The lender holds an auction. If no one buys the home at the auction, ownership goes to the lender. Up to this point, the entire process, from the first notice to the auction, typically takes three and a half months-- more if the borrower files a response to the summons and complaint.

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- The borrower can stay or get evicted. Even when they lose ownership of their home, most state laws don't require them to move out right away. Typically, the lender will then have to go through the eviction process. The lender may just let the house sit, waiting for the market to improve. The borrower can remain in the home payment-free until they receive an official, written eviction notice.

If a borrower's property is in a non-judicial foreclosure state, the borrower signed two core documents at the time of closing: a promissory note and a deed of trust. The deed of trust turns the promissory note into a debt secured by a lien on their home. The deed of trust authorizes the lender to foreclose on the property if the borrower defaults. The deed of trust typically allows the foreclosure to proceed outside of court, under state law. Non-judicial foreclosure typically is much faster than judicial foreclosure because the lender does not have to prove that the foreclosure is warranted. The following states are non-judicial foreclosure states:

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- District of Columbia
- Georgia
- Idaho
- Maryland
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Mexico (sometimes)
- North Carolina
- Oklahoma (unless the homeowner requests judicial foreclosure)
- Oregon
- Rhode Island

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- South Dakota (unless the homeowner requests judicial foreclosure)
- Tennessee
- Texas
- Utah
- Virginia
- Washington
- West Virginia
- Wyoming

Each state has a specific process for a nonjudicial foreclosure. The process should dictate how much notice the borrower is given, how the property will be sold (typically at public auction), and what rights the borrower has to reinstate the loan or rights to recover title to the property after it is sold.

With nonjudicial foreclosures, there may be very little notice to the borrower, and once it happens, the borrower can permanently be out of luck. In some states, the borrower's first notice will be the **notice of sale**. Some states also require the provision that the borrower receives two notices: a formal written notice that they are in default, and another formal notice that their house will be sold at auction (usually within about a month).

Between the **notice of default** and the notice of sale, the borrower typically can reinstate the mortgage by paying off whatever they owe, plus fees and costs (which can be very high). With a couple exceptions, once the sale occurs, the borrower's house is gone.

If the borrower doesn't reinstate their mortgage, the home will be sold at auction. As with judicial foreclosures, if no one meets the minimum bid, the property goes to the lender. A few states allow the borrower the right to redeem their property after the foreclosure action (to recover ownership of the property by paying off the successful bidder).

 How Foreclosure Works

Gramm-Leach-Bliley Act or Financial Modernization Act of 1999

Federal Mortgage Law Quick Facts:	The Gramm-Leach-Bliley Act
Regulation:	Regulation P
Acronym:	GLBA
Year Created:	1999
Main Purpose:	Protect the confidentiality of nonpublic personal information
Disclosures/Notice Required:	Privacy Notice
Important Terms Related to this Law:	Non-public personal information, pretexting

The Gramm-Leach-Bliley Act (GLBA) is a law that influences a variety of different areas in the financial industry, but for this course, we are concerned most with the privacy section of GLBA. The privacy sections restrict the disclosure **of nonpublic personal information (NPI)**.

The act established minimum federal privacy standards with the caveat that states could adopt stricter standards not inconsistent with federal laws. GLBA also imposes criminal penalties for anyone who obtains customer information from a financial institution under false pretenses.

There are three arms to GLBA:

- The Safeguard Rule
- The Financial Privacy Rule (also known as the Opt-Out Rule)
- The Pretexting Rule

According to GLBA, a **financial institution** is any entity of any size that is significantly engaged in providing financial products or services. Financial institutions can include check-cashing businesses, payday lenders, mortgage brokers, nonbank lenders, or other similar entities.

The Safeguard Rule

The Safeguard Rule, under GLBA, requires companies to establish a written information security plan that describes its program to protect information. The plan must be appropriate to the company's size and complexity, the nature and scope of its activities, and the sensitivity of the customer information that it handles. As part of the plan, each company must:

- Designate one or more employees to coordinate its information security program.
- 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.
- Design and implement a safeguards program and regularly monitor and test it.
- Select service providers that can maintain appropriate safeguards. Make sure your contract requires them to maintain safeguards and oversee its handling of customer information.
- Evaluate and adjust the program considering relevant circumstances, including changes in the firm's business or operations, or the results of security testing and monitoring.

The policy requirements are designed to be flexible. Companies are encouraged to implement safeguards appropriate for their individual circumstances. Financial institutions protect a customer's personal information by requiring the use of a strong password for computer access (or requiring employees to change their passwords for computer access regularly). Financial institutions also watch for fraudulent attempts to obtain customer information, require customer information be only for those that need to know and require employee training on how to respond to requests for customer information.

Financial Privacy Rule or Opt-Out Rule

In conjunction with the Safeguard Rule, financial institutions are required to protect nonpublic personal information, including the use of **privacy notices**. First, financial institutions collect information through various means, including loan applications, credit reports, and other financial documentation. Most of the information obtained on those documents are considered nonpublic personal information, or NPI.

GLBA protects NPI, and if a financial institution shares (or sells) the above types of information with a third party for uses other than the original intention, the financial

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institution is required to provide a detailed privacy policy disclosure to the application with the option to opt-out. This rule does allow for lenders to share information with those necessary to complete the loan request.

Nonpublic personal information is information that is not easily obtained publicly. A few examples of public information are name, address, and telephone number, as those things can be obtained through public records.

Examples of nonpublic personal information are things like:

- Bank account information
- Credit card account information
- Social security numbers
- Loan account information

These items are not obtainable through a public record, and this information can be used for identity theft.

As part of the privacy notice requirements, different privacy notices are required, depending upon the consumer's relationship with the financial institution. There are different requirements for someone who is just a consumer. A consumer is someone who obtains, or has obtained, a financial product or service from a financial institution that is to be used primarily for personal, family, or household purposes. Examples of a consumer relationship are when someone:

- Applies for a loan.
- Obtains cash from a foreign ATM.
- Cashes a check with a check-cashing company.
- Arranges a wire transfer.

A customer, though, has a customer relationship with a financial institution. A customer relationship is a continuing relationship with a consumer. The distinction is important because, depending on whether a person is a consumer or a customer, there are different requirements for the financial institution.

Under GLBA, the obligation to a customer is high and requires the financial institution to:

- Provide an initial privacy notice at the time the customer relationship is established.
- Provide, with the initial privacy notice or separately, an opt-out notice before sharing nonpublic personal information with non-affiliated third parties outside of specific exemptions.

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- Provide an annual privacy notice for the life of the customer relationship.
- Provide customers with a “reasonable amount of time” to opt-out before disclosing nonpublic personal information to non-affiliated third parties.
- Provide customers with a new revised privacy and opt-out instructions if they change their privacy policy.

Please note that many companies chose not to participate in the sharing or selling of information to non-affiliated third parties.

Types of Privacy Notices

There are four types of privacy notices:

- **Initial:** This is sent to customers no later than when the relationship is established and includes an opt-out notice.
- **Opt-Out:** This is sent to consumers or customers before sharing nonpublic personal information. The opt-out is provided with every other notice.
- **Annual:** This is sent yearly to customers throughout the term of the relationship.
- **Revised:** This is sent if the institution changes its privacy policy or opt-out terms. These notices can be delivered by hand, by mail, or electronically.

The Pretexting Rule

When customer information is obtained under false pretenses, including impersonating someone to use their personal information fraudulently is considered pretexting. A **pretexter** may call someone acting as if he is from a research company and ask a few questions to try to obtain personal information and then will call a financial institution pretending to get more information to defraud the innocent victim. Pretexting is prohibited by GLBA. The pretexting rule also prohibits the use of forged, counterfeit, lost, or stolen documents to obtain customer information from a financial institution. It is also illegal to ask another person to obtain someone else’s information using false, fictitious, or fraudulent statements to obtain the information from a financial institution.

Gramm-Leach-Bliley Act

Mortgage Math Review

We have done a lot of math through this course; let's bring it all together and review those calculations again.

Debt-to-Income Ratios

Mortgage loan program guidelines include debt-to-income calculations. A loan program and the Truth-in-Lending Act (TILA) have maximum DTI ratios allowed for the loan program and mortgage rules. When determining a loan program the borrower qualifies for, one of the first steps is to determine if the borrower has sufficient income to support the DTI requirements for the loan amount requested. If the loan program has only one DTI requirement, the ratio expected is the Back-End Ratio or Total Debt Ratio.

Front-End (Housing Expense Ratio)

The front-end ratio is calculated by taking the total housing expense (PITI) and dividing it by gross income of the borrower. The answer is a percentage with two decimal places. Note that most automated underwriting systems do not use a front-end debt ratio, only total debt ratio for most loan programs.

A borrower's monthly qualifying income is \$3000. The proposed loan PITI payment is \$900. What is the borrower's front-end DTI?

Step 1

$$\$900/\$3000 = .30 \times 100$$

Answer

30.00% Housing expense ratio

Try this example on your own

The borrower's monthly qualifying income is \$5200. The proposed loan PITI payment is \$1400. What is the borrower's front-end DTI?

$$\$1400/\$5200 = .2692 \times 100$$

Answer: 26.92%

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Back End (Total Debt to Income Ratio) DTI

The back end is calculated by taking the total amount of monthly debts that the borrower has, including the housing expense and dividing it by their gross income. It is sometimes called the total-debt ratio. Only monthly debts from the credit report, and obligations such as alimony and child support are included in this ratio. No utilities, cell phone, or other living expenses are included.

Example

A borrower's monthly qualifying income is \$3000. The current proposed loan PITI is \$900. They have a car payment of \$300, a credit card payment of \$45, and a cell phone bill of \$100. Their back-end DTI will include the car payment, mortgage payment, and credit card payment, but will not include the cell phone bill. Debts that are included in the total-debt ratio are debts that are shown on the credit report: alimony, child support, judgment payments, IRS payments, or other non-utility debt obligations. Expenses for daily living, utilities, insurance, and other household or personal expenses are not a factor.

What is the borrower's back-end DTI?

Step 1: Add All Debts

$\$900 + \$300 + \$45 = \$1245$ total obligations after the loan closes.

Step 2: Divide Debt by Income

$\$1245 / \$3000 = .42 \times 100 = 42\%$ DTI

Answer

42% DTI

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Try this example on your own

The borrower's monthly qualifying income is \$6200. The proposed loan PITI payment is \$1800. He has a car payment of \$400 and total credit card payments of \$500. What is the borrower's front-end DTI and back-end DTI?

$$\$1800 / \$6200 = .2903 \times 100 = 29.03\% \text{ front-end DTI}$$

$$\$1800 + \$400 + \$500 = \$2700 \text{ total debts}$$

$$\$2700 / \$6200 = .4354 \times 100 = 43.54\% \text{ back-end DTI}$$

Qualifying Monthly Payment

Use the following equation to determine how much of a mortgage payment someone can afford. Remember your acceptable DTI ratios for the loan program requested.

Monthly income x housing expense ratio = X, if applicable.

Monthly income x total debt-to-income-ratio – consumer monthly debt = Y. Maximum housing payment is the lesser of X or Y.

For manually underwritten loans, the conforming maximum total DTI ratio is 36% of the borrower's stable monthly income. There is no required front-end debt ratio. For conforming, an underwriter may exceed 36%, up to 45% if the borrower meets the credit score and reserve requirements for manually underwritten loans. For automated underwriting system (AUS) - DU or LP that receive an approved/eligible or approved/accept, the maximum allowable DTI ratio is 50%. Loans that exceed 43% may be considered non-qualifying mortgage (non-QM) loans requiring a particular non-prime loan program. The allowable DTI will be based on the loan program requested.

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Qualifying Monthly Income

Conventional Loan: A borrower's monthly qualifying income is \$6000. The borrower has a car payment of \$300 a month, and two credit cards with payments of \$55 and \$100. **Keep in mind, we don't know if this borrower meets the credit and reserve requirements for a high-DTI manually underwritten loan.**

What is the maximum monthly payment this borrower can afford on a conventional loan with manual underwriting?

Step 1

Manual UW: \$6000 x 36%

Answer

\$2160 - \$455 in debt = \$1,705

Part 2

If he has a high credit score and sufficient reserves, what is the maximum monthly payment this borrower can afford with manual underwriting?

Step 1

High DTI Manual UW: \$6000 x 45% = \$2700 - (\$300 - \$100 - \$55)

Answer

\$2245 PITI

It is recommended that the MLO submit the file through AUS to determine which would be the appropriate answer. When unable to submit to AUS, the MLO should use the expanded calculation if the borrower meets the program eligibility for DTI and reserves; otherwise, use manual underwriting limits. (Unless the question states that the borrower meets the specific requirements for higher-DTI, use 36%).

As shown in this example, when borrowers can achieve an AUS approval, they will have more home buying power. It's essential to verify whether the buyer qualifies for the loan program and meets the requirements before an MLO provides a borrower and their realtor with a prequalification. This example shows the range a borrower may qualify for, and the expertise of an MLO to make the determination.

Advanced Calculation to Identify the Sales Price from P&I

Once you identify the maximum housing payment, you can subtract an estimate of the hazard insurance, mortgage insurance, property taxes, homeowner association fee, assessment fee, or any other housing expense for the property. The remainder is the maximum P&I payment for which the borrower may qualify.

Example of High DTI Manual UW P&I Determination

For a property in Maricopa County, Phoenix AZ. \$2245 PITI – Hazard insurance (factor .32% of property value) – property taxes (factor .87% on sales price) = \$P&I. We will use a 5% interest rate for this example. Also, the property will have no other housing expenses, such as the HOA fee.

If you do not know the sales price at this point, just use an estimated sales price. For this payment range, we start at a \$350,000 sales price. The borrower is putting down \$50,000, which will require the borrower to most likely have mortgage insurance.

Step 1

$\$350,000 \times .32\% = \$1120/12 = \$93$ monthly hazard insurance

Step 2

$\$350,000 \times .87\% = \$3045/12 = \$254$ monthly property taxes

Step 3

$\$350,000 \times .65\% = \$2275/12 = \$190$ monthly mortgage insurance-estimate
680 FICO

Step 4

$\$2245 - 93 - 254 - 190$

Answer

\$1708.00 P&I

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Note: For your lending area, you will need to identify your insurance and property tax factors to use for this step. Use the sales price or appraisal value with the factors. The amount will adjust when actual expenses are known. By using the slightly higher amount, it leaves a small amount for adjustments that is often needed in the transaction.

If you do not have the borrower in the LOS (loan operating system), you may need to try and translate this P&I into a sales price. You can do this with a financial calculator or online software. With a financial calculator, you can enter the payment of \$1708, hit the button marked “PMT,” enter the interest rate of 5%, then hit button “1/I”, and enter the term of the loan in months, which is 360. Next, hit button “N”. Then hit the “CPT,” then, “PV” (present value) = the answer: \$318,169. The present value will be the loan amount for that payment at the rate and term you entered. Loan amount \$318,000 (round down) + down payment \$50,000 = \$368,000 sales price.

Because the sales price is close to what we entered, we do not need to have a second calculation. However, if the answer is more than \$50,000 off, we suggest recalculating the figures for a more accurate estimate. Just repeat this exercise until you get the taxes and insurance adjusted from the estimate used to start this backward calculation.

From the loan amount calculated, you will need to add the down payment to get the sale price for which the borrower qualifies. This calculation will take practice but is a useful tool when working with new homebuyers or when your LOS is down.

LTV Formulas

Loan to Value is the Loan amount divided by the lessor of the appraised value or purchase price = LTV

Loan to Value

In this refinance transaction, the borrower’s property appraised for \$250,000. The payoff for their refinance is \$110,000. What is the LTV?

Step 1

$$\$110,000 / \$250,000 = .44 \times 100$$

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Answer

44% LTV

Alternatively, you could determine the percent of equity (for refinance) or down payment (for purchase) to determine the loan amount LTV.

Step 1

$$\$140,000/\$250,000 = .56 \times 100 = 56\% \text{ equity}$$

Step 2

$$100\% - 56\% = 44\% \text{ LTV}$$

Try this example on your own

The purchase price is \$325,000. The borrower is putting \$65,000 down. What is the LTV? First, you need to determine the loan amount OR the down payment percentage.

Step 1

$$\text{Sales price} = \$325,000 - \$65,000 = \text{loan amount } \$\underline{\hspace{2cm}}$$

LTV of loan = Loan amount/Purchase price (use the lessor of purchase price or appraisal)

Step 2

$$\$260,000/\$325,000 = .80 \times 100$$

Answer

80% LTV

Alternatively, you could determine the percent of equity (for refinance) or down payment (for purchase) to determine the loan amount LTV.

Step 1

$$\$65,000/\$325,000 = .20 \times 100 = 20\% \text{ down payment}$$

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Step 2

100% - 20%

Answer

80% LTV for loan amount needed

CLTV & TLTV

When borrowers have a second or subordinate mortgage in addition to their first mortgage, loan programs may limit the combined loan-to-value (CLTV). The CLTV is the total of the first mortgage and the amount drawn from the HELOC or the total second mortgage by the lessor of the appraisal value or the purchase price. Fannie Mae and most government loan programs will use the term CLTV. The TLTV ratio is obtained by dividing the sum of the First Lien Mortgage amount and the disbursed amount of the HELOC and any other secondary financing by value. TLTV is used by Freddie Mac. **They are the same ratio and calculated the same way.**

The second mortgage may be a fixed-term mortgage, commonly 10 to 15 years, or a home equity line of credit (HELOC). HELOCs offer a line of credit that is available for a period of time, commonly eight to 10 years, and then the loan amortizes to pay off by the end of the term of the loan.

CLTV & TLTV

In this refinance transaction, the borrower has a first lien loan of \$165,000; they also have a HELOC with a total line of \$30,000 available. They only drew \$20,000 on the line. Their property appraised for \$220,000. What are the CLTV and LTV?

Step 1

$\$165,000 + \$20,000 = \$185,000$: total of 1st mortgage and the draw from the HELOC on the property

Step 2

$\$185,000 / \$220,000 = .840 \times 100 = 84.0\%$ CLTV

Step 3

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$\$165,000/\$220,000 = .75 \times 100 = 75\%$ LTV for first mortgage only

Answer

The borrower's requested loan amounts are 75%/84% (LTV/CLTV) of the property's value.

Borrowers may use this type of first and second mortgage scenario to purchase a property, as it allows them to avoid paying mortgage insurance and to have the flexibility of the line of credit.

Try this example on your own

The borrower wants to refinance his 6% first mortgage and pay off the balance of his HELOC mortgage. The first-lien loan is \$200,000, and he owes \$15,000 on a line of credit of \$25,000 that he wants to roll into the new loan. The property value is estimated at \$360,000. The borrower wants to roll the \$5,000 closing costs into the loan and pull out \$10,000 cash.

What would the LTV be on this loan?

What would the TLTV be if he decides to keep the HELOC open after paying off the balance?

The borrower may leave the HELOC open or close the HELOC from future use depending on the loan request and loan program guidelines. It will be the mortgage loan originator's responsibility to ensure what the borrower's goals are for the refinance loan request, and to match them to a loan program to meet the loan request.

Answer

Step 1:

$\$200,000 + \$5,000 + \$10,000 = \$215,000$ total debts, closing costs and withdrawal of cash.

Step 2:

$\$215,000/\$360,000 = .597 \times 100 = 59.7\%$ LTV

Step 3:

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$\$200,000 + \$15,000 + \$5,000 + \$10,000 = \$230,000$ total debts, closing costs and withdrawal of cash.

Step 4:

$\$230,000 / \$360,000 = .638 \times 100 = 63.8\%$ TLTV

Try this example on your own

The borrower has a first lien loan of \$150,000. They have a total line of \$50,000 on their HELOC but have only drawn \$25,000. Their house appraised for \$200,000. What is their TLTV?

Step 1

$\$150,000 + \$25,000 = \$175,000$

Step 2

$\$175,000 / \$200,000$

Answer

87.5% TLTV

You might also see the terms HTLTV and HCLTV. HTLTV (Freddie) and HCLTV (Fannie) are referring to the same ratio. To calculate both HTLTV or HCLTV use the following equation:

(First lien amount + the Full/Total amount of a HELOC + amount of any secondary financing) / lesser of the sales price or appraised value of the property.

Cash Available at Closing

To determine the LTV when the property value is known, multiply the property's value by the LTV requested, then subtract the payoff of the existing 1st mortgage and the closing costs, if financed. If the amount that remains is a positive number, it is what the borrower needs to pay to close the loan. If it is a negative number, it is the amount the borrower will receive as cash-out at closing.

Cash Available At Closing

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This refinance transaction is for a borrower who qualifies at 80% LTV and has an existing mortgage payoff of \$100,000. How much cash out is available if the appraisal value comes in at \$150,000 and the closing costs are \$4,500?

Step 1

$$\$150,000 \times 80\% = \$120,000 \text{ loan amount}$$

Step 2

$$\$120,000 - \$100,000 = \$20,000 \text{ total available to the borrower}$$

Step 3

$$\$20,000 - \$4,500$$

Answer

\$15,500 available for cash out to the borrower

The mortgage loan originator will now need to identify if the borrower's refinance meets the loan program's net tangible benefit to the borrower.

Try this example on your own

This refinance transaction is for a borrower who wants the maximum cash out. The loan program allows for 80% LTV. He has an existing mortgage payoff of \$180,000. How much cash out is available if the appraised value comes in at \$300,000 and the closing costs are \$5,500?

Answer

Step 1

$$\$300,000 \times 80\% = \$240,000 \text{ loan amount}$$

Step 2

$$\$240,000 - \$180,000 = \$60,000$$

Step 3

$$\$60,000 - \$5,500 = \textbf{\$54,500 available for cash out to the borrower}$$

Interest Only

Interest-only (I/O) payments allow a borrower to pay the monthly interest on the loan, with no principal reduction. Interest-only payments are calculated by multiplying the loan amount by the interest rate and then dividing by 12. Interest-only periods are generally for five to ten years; the term of the loan is usually 30 years. If the interest-only period is for five years, the loan will recast for 25 years, and the borrower will need to make the fully-amortized payment to ensure the loan is paid off by the end of the loan term.

Interest-Only

The borrower's loan amount is \$200,000. Their interest rate is 4% for a 30-year term. What would be an interest-only payment on their loan?

Step 1

$\$200,000 \times 4\% = \$8000$ annual interest

Step 2

$\$8000 / 12$

Answer

\$666.67 monthly interest

The payment fully amortized would have been \$955 P&I - \$288 more than I/O payment. After 10 years of interest-only payments, the balance would remain \$200,000. The payment amortized for 20 years will be \$1212 P&I.

Try this example on your own

The borrower has requested a \$320,000 purchase money loan for 30-year term with a 3.5% interest only feature for the first five years. What would his monthly interest only (I/O) payment be?

Step 1:

$\$320,000 \times 3.5\% = \$11,200$ annual interest

Step 2:

$\$11,200 / 12 = \$933.34$ monthly interest

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Balloon Payments on Interest Only Loans

Some loans will not recast into an amortization of the payment but instead will require the loan be paid in full; called a balloon, or lump sum payment due. The balloon payment on the loan is the original principal amount, as no principal has been paid on the loan. In the above example, the balloon payment is \$200,000; although most balloon loan programs have a reset feature that will amortize the loan for repayment if the borrower is unable to pay off the loan.

Discount Points

Discount points allow the borrower to obtain a lower than the market rate, therefore discounting the interest rate. Generally, a 1% discount point will buy the interest rate down .25-.50%, depending on the investor.

Discount points are calculated by multiplying the loan amount by the number of points the borrower is paying. If a borrower is paying 1 point to get a lower rate, multiply the loan amount by 1% to determine the cost of buying the rate down. The cost of the discount is paid at the loan closing.

Discount Points

A borrower is buying a house that is \$175,000. She provides a down-payment of \$5,000. She wants a lower rate than the 4.5% quoted, so she decides to pay for 2 discount points to get a 3.75% interest rate.

The rate sheet reads:

Rate	Basis Points
4.75	100.50
4.50	100.00 (par rate)
4.25	100.75
4.00	101.50
3.75	102.00

What is the total cost of the discount points?

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Step 1

$\$175,000 - \$5,000 = \$170,000$ loan amount

Step 2

$\$170,000 \times 2\%$

Answer

\$3400 cost for discount

Breakeven Analysis

When mortgage loan originators are discussing discount points with a borrower, they need to explain discount points and how they work. One of the best ways to identify if the borrower will benefit from paying discount points is a breakeven formula. The breakeven formula determines if the borrower will benefit from paying the discount points.

To determine the breakeven for the above example, follow the formula below:

Loan payment at 4.5% is \$861 P&I

Loan payment at 3.75% = \$787 P&I. The monthly savings is \$74

Cost/savings = months to realize savings/12 = number of years to breakeven on cost

The cost of the discount points is $\$3400 / \$74$ (payment savings) = $45.95 / 12 = 3.83$ years before the borrower will receive the benefit of buying the interest rate down.

The borrower will not breakeven on the payment savings until after 3.83 years of monthly payments. Some loan programs have requirements for the breakeven to be a specific number of years, often two years or less. For this scenario, if the borrower sells the property or refinances before the 3.83 years, she will not have received any benefit of buying her rate down. It is the mortgage loan originator's responsibility to understand if the request to pay discount points benefits their borrowers.

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Breakeven Analysis

Your borrower is getting a \$250,000 loan amount and decides she has extra seller contributions, so she would like to buy her interest rate down with a 1% discount point. What is the cost of the discount point, and what is the breakeven point if she saves \$55 in the payment?

Step 1

$\$250,000 \times 1\% = \$2,500$ cost of discount point

Step 2

$\$2,500 / \$55 = 45.45 / 12$

Answer

3.78 years to breakeven

Although this seem like a long time to breakeven, if you have covered all allowable costs for the borrower with the seller contributions, this would be an excellent option to ensure all available seller contributions are used. If the borrower were paying for this out of pocket, the mortgage loan originator would need to see if this breakeven meets the borrower's homeownership goals.

HOEPA Triggers

The Home Ownership Equity Protection Act (HOEPA), as part of TILA Section 32, requires owner-occupied HOEPA loans to provide borrowers with special disclosures and puts limits on special loan features. A HOEPA, or High-Cost, loan happens when one or more of the three triggers are met.

Current triggers as of January 1st, 2020, are as follows:

1. The adjusted points and fees dollar trigger for high-cost mortgages in 2020 will be \$1,099 (5% of \$21,980). The trigger happens when the points and fees exceed 5% for loan amounts over \$21,980, which is the adjusted total loan amount threshold for high-cost mortgages.
2. The rate trigger is based on the loan's APR that exceeds the average prime offer rate (APOR) by 6.5% for first mortgages and 8.5% for subordinate liens. For variable rate loans, the APR is based on the fully-indexed rate.

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3. If the lender requires a pre-payment penalty that exceeds more than 2% of the loan amount, or if the lender can charge a pre-payment penalty for longer than 36 months after consummation, it is considered a High-Cost home loan.

The new Triggers for 2021. The second test is the point and fees test. If a transaction exceeds the following thresholds, the loan is considered a high-cost mortgage, as of **January 2021**:

- 5% of the loan amount for loans greater than \$22,052 (OR)
- For loans less than \$22,052 the lesser of 8% of the loan amount or \$1,103

HOEPA Triggers Tests:

Trigger Test 1:

The loan amount is \$300,000 on a first-lien loan. The points and fees on the loan are \$6,000.

Take $\$300,000 \times 5\%$ (the current rate) = \$15,000. Since the points and fees of \$6,000 are below the trigger percentage of the loan amount, this is not a High-Cost home loan.

Trigger Test 2:

Take the APOR provided and add the HOEPA APR trigger for a 1st or a subordinate lien. If the APR on the loan is higher than the APOR + the HOEPA trigger, it is a High-Cost home loan.

Let's do an example

The rate on a loan is 6.5%. The loan amount is \$373,000 and the APR is 10.5%. Let's say for this example, the current APOR is 3.87% and assume this loan is in a first lien position.

Step 1

Take the current APOR (3.87%) + the percentage trigger on a first lien loan (6.5%) = 10.37%

This loan would be a High-Cost home loan because the APR of 10.5% is more than the APOR plus the current trigger percentage of 10.37%.

Trigger Test 3: Pre-Payment Penalty Trigger

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A borrower receives a home loan of \$400,000. The pre-payment penalty imposed by the lender is \$4,000. Would this be a High-Cost home loan.

First, we take \$4,000 (the pre-payment penalty) and divide it by \$400,000 (loan amount).

$$\$4,000 / \$400,000 = 1\%$$

Since the pre-payment penalty is only 1% of the loan amount, this would not be considered a High-Cost home loan.

Higher-Priced Mortgage Loan

Higher-priced mortgage loans (HPML) are part of Section 35 of TILA, which has additional requirements for lenders. The loan is HPML if the owner-occupied borrower's loan APR exceeds the APOR for comparable transactions.

The triggers are:

- 1.5% or more for 1st lien mortgages that are set for Freddie Mac loan limits
- 2.5% or more for 1st lien mortgages that exceed the Freddie Mac loan limits
- 3.5% or more for subordinate liens

HPML Example

The borrower requests an owner-occupied loan amount of \$250,000 with an interest rate of 5.5% and APR 6.475%. This is within the Freddie Mac loan limit, so the trigger is 1.5%.

Step 1

3.68% APOR + 1.5% = 5.18% As stated above, the APOR is 3.68%.

Answer

With the APR at 6.475%, this is a HPML Loan.

APOR + HPML factor = loan threshold, which must be below the APR. If it is not above the APR, it is not high-priced mortgage loan

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Higher-priced mortgage loans require disclosure to warn the borrower they are receiving a higher-priced loan. It requires the lender to provide a full appraisal, which would be the second appraisal if the property meets property flipping thresholds, and to maintain an escrow account for at least the first five years. Loans that hit the threshold are generally nonprime loans that require a higher than the market interest rate for accepting higher risk from the borrower's credit file.

Whereas HOEPA looks at the rate and costs, HMPL looks at the cost of the funds charged by the lender in relation to current market rates being offered for the same or similar loan term. HOEPA lending is often termed as predatory and will have scrutiny by mortgage regulators. HPML does not have as many restrictions and is not considered predatory.

Adjustable-Rate Mortgages

Most ARMS have caps. An example is a 2/3/6 cap structure. The first cap is the maximum the interest rate can adjust the first time. The second number is the maximum the interest rate can adjust on all subsequent adjustments. The third cap is the maximum interest rate the loan can adjust to over the life of the loan.

ARM Example

The borrower's initial interest rate is 3.5% on a 5/1 ARM loan program. The caps on the ARM are 2/3/6. The program is a 5/1 ARM, which means that the loan will not adjust until the end of the 5th year, and then annually until the loan is paid off.

What is the potential maximum interest rate for the initial adjustment at the end of the 5th year?

Step 1

1st Adjustment - 3.5% (start rate) + 2% (1st adjustment cap on 5th year)

Answer

5.5% is the maximum the interest rate may raise for the initial adjustment

Part 2

What is the maximum interest rate for the life of the loan?

Step 1

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3.5% (start rate) + 6% (lifetime cap) = 9.50% maximum rate for the loan

Answer

This loan subsequent adjustments may never cause the interest rate to exceed 9.50%.

Try this example on your own

The borrower's interest rate is 3.25% on a 1-year ARM with 1/2/5 caps. The margin on the loan is 2.5%. The current LIBOR index is 1.95%. What will the loan interest rate adjust to?

How the adjusted rate is determined:

When an ARM loan comes up for its adjustment period, the index and margin are added together to determine the new rate. The caps keep the rate from adjusting too much to cause payment shock for the borrower.

The current ARM index (such as the LIBOR) + Margin (set when the interest rate is locked and cannot change for the life of the loan) = Adjusted rate for next period, provided it does not exceed the ARM caps.

Answer

Step 1:

3.25% (initial interest rate) + 1% (adjustment cap) = 4.25% max rate

Step 2:

1.95% (index) + 2.5% (margin) = 4.45% Fully-Indexed Rate.

The interest rate for year two is capped at 4.25% for the next year, because the fully-indexed rate exceeds the cap of 4.25%.

Chapter 5 Review

This chapter covers the process of funding and closing, including conversation on the Closing Disclosure, settlement, foreclosure and a mortgage math review.

The Closing Disclosure

- The initial CD must be delivered to the borrower no less than three business days before closing.
- **Consummation** is described as when the borrower is obligated on the loan; in other words, when the loan is funded.
- **Business day** is described as any day except Sunday or Federal Holidays.
- All errors are to be corrected within 30 days from when the error was found, but no more than 60 days from the funding.
- If the program changes, a prepayment penalty is added, or there is a change in APR tolerances of an 1/8% on a fixed rate or 1/4% on an ARM loan, a new CD must be issued and a three (3) business day delay is required.

Buydowns

- Buydowns are Permanent or Temporary. Permanent means that there is a payment of discount points to reduce the interest rate on a fixed rate loan, or the margin on an ARM for the life of the loan.
- Temporary buydown is also called a 2-1 buydown, which means the payment rate will be 2% below the interest rate on the loan for the first year, 1% below the interest rate for the 2nd year, and then the full interest rate for the remaining term of the loan.
- The buydown funds are put in a buydown account by the borrower, the seller or employer. The borrower must be qualified at the full interest rate and not on the payment rate.

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Right of Rescission

- Right of rescission is allowed on all primary residence refinance loans, but not on 2nd homes, non-owner properties, or purchases.
- All owners of the property, whether they are on the loan or not, have the right to rescind within three business days after the closing.
- The loan cannot fund until after the three business days.
- If any of the owners rescind, the loan is null and void and a full refund of all the costs paid by the borrower must be refunded within 20 calendar days.
- If an error is made on the right of rescission, the rescission period extends to three years.

Settlement and Closing Agents

- The Settlement or Closing Agents are responsible for coordinating all the closing documents and numbers for the Closing Disclosure with the lender, and then explaining the documents and the CD to the borrower and having them sign and acknowledge the debt.
- The funding of loans is completed by the Closing Agent.
- This includes paying off existing mortgage loans and any debts as required by the underwriter. In addition, the lender is paid, as well as the seller.

Transfer of Servicing

- Many of the loans originated today are sold to investors, so the sale will include the transfer of servicing. When the servicing is transferred, the P&I and escrow payments are made to a new company.
- The company selling the servicing must issue a Goodbye Letter 15 days before the transfer is completed, and the new company must issue a Hello Letter 15 days from the transfer date, explaining the transfer and all the new company contact information.
- No delinquencies can be assessed for 60 days from transfer date.

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Escrow Accounts

- Escrows are collected by the lender for taxes, insurances, HOA dues, etc. These funds are held in an escrow account.
- The lender will pay the amounts as they come due and are required to pay so the borrower obtains the greatest discount.
- Each year the lender must send an Escrow Analysis to the borrower showing all monies paid by the borrower and the amounts paid by the lender. If there is an overage of greater than \$50.00, it must be refunded to the borrower within 30 days.
- Any shortage can be paid within 30 days or spread out over the next 12 months.

BSA/AML

- Bank Secrecy Act requires lenders to establish a policy manual and annual training for all employees regarding how to detect fraud or money laundering. If found, it is turned over to the Compliance Officer to determine if the loan should have a SARs reported to FinCEN.
- All files must be kept confidential and secured for five years.

Foreclosure

- Foreclosure is the option of the lender if the borrower stops making payments.
- Two types:
 - Non-judicial
 - Judicial
- Judicial takes the route of going through the court system; non-judicial foreclosure bypasses the courts.
- The type of foreclosure being used depends upon the state.

Gramm-Leach-Bliley Act (Regulation P)

- GLBA is about privacy and protecting the borrowers.
- **Non-public Personal Information** (NPI)

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- Three arms:
 - Safeguard Rule
 - Opt-Out Rule
 - Pretexting Rule
- **Pretexting** is the obtaining of confidential information through illegal processes.
- **Safeguard Rule** directs how a lender is required to keep loan files and customers information confidential.
- **Opt-Out Rule** requires the use of privacy notices.

Chapter 6

Mortgage Ethics

Learning Objectives for Chapter 6

- ☐ Redefine ethics and morals
- ☐ Explain the different types of mortgage fraud that exist
- ☐ Restate the different types of UDAAPs that exist
- ☐ Relate what is considered predatory lending and steering
- ☐ Understand the requirements under the Telemarketing and Consumer Fraud and Abusive Prevention Act
- ☐ Describe the key terms related to fair lending

What is Ethics?

The history of the mortgage industry is speckled with unethical behavior, which led to the taking advantage of unsuspecting consumers. Many federal laws have been put into place to prevent or identify possible threats to the consumer and to help them avoid unethical practices in the mortgage industry. Up to this point, we have covered the consumer's education process, mainly through disclosure and an honest MLO helping to guide them. As an MLO, it is equally essential for you to understand what is expected of you, and what is considered acceptable practices.

Ethics are moral principles that govern a person's behavior or conduct.

Morality is principles concerning the distinction between right and wrong or good and bad behavior.

The difference between Ethics and Morality is that morality is an idea or goal, and ethics are actions taken to work towards that goal.

Unethical behavior can create a bad reputation in any industry. The temptation of cash can lead an MLO to commit an unlawful act before he or she thinks of long-term repercussions. Some unethical MLOs do not believe they will ever be caught when they compromise their ethics. They are blinded by the initial thoughts of what is in it for them, or they think they

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are above being caught. As a consumer, the best MLO to work with is someone who has been referred. To earn referrals, the MLO needs to have high integrity and good standing in the community. A bad reputation can ruin an MLO's livelihood.

Types of Mortgage Fraud

There are three types or motivations for mortgage fraud:

- 10. Fraud for Housing/Property
- 11. Fraud for Profit
- 12. Fraud for Criminal Enterprise

Fraud for Housing / Property

Fraud for housing is committed when a borrower materially misrepresents information on a mortgage loan application, such as employment, income, or assets to obtain a mortgage. The borrower is motivated to acquire ownership of a house.

Fraud for Profit

Fraud for profit may involve a group of industry insiders attempting to defraud lenders for profit. Those who commit this type of mortgage fraud use their specialized knowledge or authority to commit or facilitate the fraud. This collusion by industry insiders may include mortgage loan originators, appraisers, mortgage brokers, attorneys, or other professionals engaged in the industry. Fraud for profit aims not to secure housing, but to misuse the mortgage lending process to steal cash and equity from lenders or homeowners. Fraud for profit is the type of fraud federal agencies target as it does the most damage to consumers and the mortgage industry.

Fraud for Criminal Enterprise

Fraud for criminal enterprise is fraud committed by organized crime organizations or money laundering. We talked about the Bank Secrecy Act earlier on in this course, as well as the Patriot Act, both of which look to stem money laundering and fraud for criminal enterprise.

Common Fraud Schemes

There are many ways to commit fraud in the mortgage industry. This section will cover the different types of fraud schemes and their characteristics.

Straw Buyers

Straw buyers are individuals used by fraudsters to obtain mortgages. The straw buyer's personal information is used to obtain a mortgage loan fraudulently. The fraudster compensates the straw buyer for the use of their information.

Signs that a straw buyer may be in play:

- Mortgage payments are made by an entity other than the borrower.
- The loan is usually an early payment default.
- First-time home buyer, with a substantial increase in housing expense.
- The buyer does not intend to occupy – unrealistic commute, size, or condition of the property, etc.
- No real estate agent is employed (non-arms-length transaction).
- Power of Attorney may be used.
- "Boilerplate" contract with limited insertions, not reflective of an actual negotiation.
- Income, savings, or credit patterns are inconsistent with the applicant's overall profile.
- High LTV, limited reserves, or seller-paid concessions.
- Inconsistent signatures throughout the file.
- Use of gift funds for down payments or closing costs, minimum borrower contribution.
- The title to the property is transferred after the sale closes.

Air Loans

An air loan is a loan that has a straw or non-existent buyer, or a non-existent property. Air loans are based on something entirely made up or "pulled out of thin air." Signs that an air loan is in play:

- Air loans typically involve straw buyers, so any signs of a straw buyer could be a sign of an air loan.
- No real estate agent is employed.

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- Common payer among loans in the scheme.
- Common mailing address among loans in the scheme.
- Unable to independently validate a chain of title.
- The lender is experiencing financial distress.

Property Flip Characteristics

Property flips in themselves are not fraudulent, but fraud can sometimes be a part of a property flip. Illegal property flipping occurs when the property is purchased and resold quickly at an artificially inflated price by utilizing fraudulently inflated appraisals. Illegal property flips typically have not been improved or renovated since the purchase and are quickly resold at a much higher price. Sometimes the property is only owned for 24 hours before it is resold. Other characteristics may include:

- Typically involve straw buyers, so refer to straw buyer red flags.
- Sometimes involve naïve purchasers.
- Seller very recently acquired or is acquiring a title concurrent with the subject transaction.
- No real estate agent is employed.
- The property was recently in foreclosure or acquired at REO sale at a much lower sale price.
- The appraised value is fraudulently inflated.
- The appraiser frequently uses other property flips as comparable properties.
- The owner listed on the appraisal or title may not match the seller on the sales contract.
- Refinance transactions utilized to payoff private short-term financing.

Chunking

Chunking is the sale of properties at artificially inflated prices, pitched as investment opportunities to naïve real estate investors who are promised improbably high returns and loan risks. The third-party helping the investor may use the investor's information to apply for loans at multiple institutions and then retains the proceeds, leaving the borrower with multiple loans that cannot be repaid. A few characteristics of chunking are:

- No real estate agent is employed.
- Property was recently in foreclosure or acquired at REO sale at a much lower sale price.

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- Borrower may have paid a membership fee to participate in the “club”.
- A first-time landlord, non-savvy investors.
- The seller offers to manage these rental properties.
- A borrower may have been told that the seller or the “club” would make mortgage payments.
- Borrower purchased multiple properties simultaneously but did not disclose other loans in process to their lender; watch for credit inquiries.
- The appraised value is fraudulently inflated.
- Renovations performed by firms owned by members of the investment club.

Builder Bailout/Excessive Sales Incentives

In this situation, a builder with several unsold units in a subdivision, condominium complex, or other development utilizes various fraudulent schemes to sell the remaining properties. They may pay substantial incentives to buyers and facilitate an inflated loan amount by increasing the sale price, concealing the incentive, and utilizing a fraudulently inflated appraisal. This fraud scheme typically involves new construction or condo conversions.

Buy and Bail

A buy and bail occurs when a homeowner is current on their mortgage, but the value of their home has fallen below the amount owed (also known as being underwater) so they apply for a purchase money mortgage on another home. After the new property has been secured, the borrower will allow the first home to go into foreclosure (i.e., bail on that previous property). A couple of things to look for:

- The borrower defaults on the original mortgage shortly after purchasing a second property.
- The borrower will be a first-time landlord (renting out the original property).
- The borrower has minimal or no equity in the original property.
- Inability to validate lease terms with the purported tenant.
- The purported tenant has a pre-existing relationship with the homeowner (a friend or family member).

Foreclosure Rescue Characteristics

Foreclosure rescue schemes take advantage of borrowers who are in the process of foreclosure or about to go into foreclosure. The fraudster promises to help the borrower avoid foreclosure, and the borrower often pays for the services that he or she never receives and ultimately loses their home. These are some of the characteristics of a foreclosure rescue scheme:

- The borrower was advised by foreclosure specialists to avoid contact with their servicer.
- The borrower has paid someone to negotiate with the servicer on their behalf.
- The borrower stated that they are sending their mortgage payments to a third party.
- The borrower receives a purchase offer that is greater than the listing price.

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- The borrower stated that they will be renting back from the new owner.
- The borrower quit claimed title to a third party at the advice of a foreclosure specialist.
- The borrower has recently updated their contact information.
- Borrower signature variations between the short sale contract and the loan origination documents.
- The borrower claims they do not have to pay because the mortgage is invalid.

The Mortgage Assistance Relief Rule (MARS)

The Mortgage Assistance Relief Services Rule, or the MARS Rule (Regulation O), made it illegal to charge upfront fees and requires specific disclosures in ads for **mortgage assistance relief providers**. These rules protect distressed borrowers from foreclosure rescue schemes.

The Highlights:

The MARS Rule makes it illegal for a mortgage assistance relief provider to collect money from a consumer unless they deliver, and the customer agrees to a written offer of mortgage relief from the customer's lender or servicer.

The mortgage assistance relief provider must clearly and prominently disclose certain information before they sign people up for their services, like:

- The total cost
- That they can stop using their services at any time
- That they are not associated with the government or the distressed borrower's lender or servicer
- That the distressed borrower's lender may not agree to change the terms of their mortgage

The MARS rule requires that if they advise someone not to pay his or her mortgage, they must prominently disclose the negative consequences that could result from not paying their mortgage. Further, it is prohibited for a mortgage service relief provider to advise the distressed borrower to stop communicating with their lender or servicer. The MARS rule also prohibits a mortgage servicer relief provider from misrepresenting their services.

The MARS Rule

Short Sale Fraud Characteristics

A short sale is a means of selling a house for less than the outstanding mortgage on it. Short sales and foreclosures are both options for distressed borrowers who are behind on their mortgage payments or are underwater on their homes (or both). The homeowner usually initiates the short sale, but it must be signed off on by the lender that holds the mortgage.

Additionally, the lender needs documentation that explains why a short sale makes sense; after all, the lending institution could lose a lot of money in the process. Someone might choose a short sale over a foreclosure because it is less detrimental to the homeowner's credit rating, and it shows that the homeowner acted before the lender repossessed the home.

Short sale fraud is when perpetrators profit by concealing parties to the transaction or contingent transactions or falsifying material information, including the actual value of the property, so the servicer cannot make an informed short sale decision. Other indications include:

- Sudden default, no workout discussions, an immediate offer at short sale price.
- Ambiguous or conflicting reasons for default.
- The mortgage delinquency is inconsistent with the borrower's spending, savings, and other credit patterns.
- The short sale offer is from a related party.
- Short sale offering price is less than the current market value of the property.
- Cash-back at closing to the delinquent borrower or other disbursements that have not been expressly approved by the servicer.
- The buyer and real estate agent may be the same person or related parties.

Unauthorized Fees and Payouts Characteristics

Unauthorized Fees and Payout Characteristics is a type of foreclosure rescue scheme where an **advance fee** scheme is perpetrated by a foreclosure rescue specialist where fees or payouts that were not approved by the servicer agreeing to the short sale are reflected on the HUD-1 or Closing Disclosure.

Non-Arm's Length Short Sale Transaction

A **non-arm's length short sale transaction** occurs when the borrower has a direct relationship or business affiliation with the seller. In short sell transactions, the buyer and seller are required to sign an arm's length affidavit to protect against a family member buying the home at a reduced cost while allowing the borrower to remain living there.

Short Sale Flip Characteristics

The perpetrator of a **short sale flip** manipulates the short sale lender into approving a short payoff and conceals an immediate contingent sale to a pre-arranged end-buyer at a significantly higher sales price.

Reverse Mortgage Fraud

In **reverse mortgage fraud**, the perpetrator manipulates the senior citizen into obtaining a reverse mortgage loan and then pockets the senior victim's reverse mortgage loan proceeds.

Affinity Fraud

Affinity fraud occurs when perpetrators rely on a common bond and exploit the trust and friendship that typically exists in the group of individuals to support the scheme. Common ethnic, religious, professional, or age-related groups are typical targets.

Equity Skimming

In an **equity-skimming scheme**, an investor buys a property from a homeowner facing foreclosure and agrees to lease the home to the homeowner who may remain in the house as a tenant. The fraudster then pays off the amount owed in the foreclosure to acquire the deed and receives any remaining portion of the homeowner's equity. The fraudster will re-convey the property back to the homeowner in the form of a lease or a contract for deed.

Loan Modification Schemes

A loan modification is a permanent restructuring of a mortgage. A loan modification typically allows the borrower to have a more affordable payment. A loan modification can sometimes be an option for someone who can show that they cannot make their current mortgage payment, due to financial hardship.

A loan modification scheme typically involves a company that claims they can assist homeowners facing delinquency or foreclosure with options that allow them to keep their property, refinance or modify their existing mortgage, repair credit or help them stay in the home longer. Typically, these companies charge excessive upfront fees for their work, fail to execute any of their promises, and put the homeowners at a much higher risk of losing their home.

 [Fannie Mae: Fraud Schemes and Their Characteristics](#);  [CoreLogic: Mortgage Fraud Prevention and Detection Resource Guide](#)

Roseville Woman Sentenced to 14.5 Years in Prison for Mortgage Fraud and Identity Theft

SACRAMENTO, Calif. — U.S. District Judge John A. Mendez sentenced Rachel Siders, 41, of Roseville, to 14 and a half years in prison for her involvement in mortgage fraud schemes that cost financial institutions over \$17 million, Acting U.S. Attorney Phillip A. Talbert announced.

Federal juries returned verdicts in two trials, in March 2015 and December 2015, finding her guilty of multiple counts of bank fraud, wire fraud, mail fraud, making a false loan application, and committing aggravated identity theft.

According to evidence presented at the first trial, in 2008 Siders and co-defendant Theo Adams, 50, of Roseville, applied for a home equity line of credit using his relative's name on an underwater Roseville property owned by Adams. They submitted false tax returns in the relative's name with significantly inflated income, along with mortgage application documents with forged signatures. Siders, a notary public, falsely notarized the loan application documents, which were sent to Washington Mutual Bank. The bank relied upon the false documents to provide a \$250,000 line of credit. Siders received \$170,000 of the proceeds. After making minimum payments, the defendants defaulted on the loan.

According to evidence presented at the second trial, from mid-2006 through early 2008, Siders and Vera Kuzmenko, 46, of Loomis, and other defendants engaged in a mortgage

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fraud scheme involving over 30 properties in the Sacramento area. They secured more than \$30 million in residential mortgage loans on more than 30 homes purchased through straw buyers. The loan applications contained materially false information as to the straw buyers' income, employment, assets, and intent to occupy the residences. Records introduced at trial showed that Vera Kuzmenko received millions of dollars, and that Rachel Siders received hundreds of thousands of dollars.

Vera Kuzmenko was a licensed real estate agent for part of the scheme, and Rachel Siders ran the Rocklin office of the escrow company used on the majority of the transactions. She helped funnel millions of dollars to her co-defendants, which was not disclosed to the lenders.

"The sentence today reflects the seriousness of Siders' crimes, which included participation in two separate mortgage fraud schemes. Over the course of two years, Siders oversaw and participated in numerous fraudulent loans and diverted money into shell accounts for her own benefit. She abused her position as an escrow officer and as a notary public to make this criminal enterprise succeed," said Acting

U.S. Attorney Talbert said, "The sentence imposed is a significant reminder that those who engage in such conduct will be held accountable."

"Today's sentence sends a clear message; anyone who profits from fraudulent mortgage transactions— whether by creating the scheme or facilitating it—will not escape justice," said Supervisory Special Agent Dan Bryant at the FBI Sacramento field office. "The FBI aggressively pursues those involved in such large-scale, complex financial fraud matters to seek justice for the victims and protect the regional economy."

"Rachel Siders was driven by greed in her participation in this mortgage fraud which targeted the Sacramento area," said Michael T. Batdorf, Special Agent in Charge, IRS-Criminal Investigation. "Today's sentencing is a reminder how serious our courts consider this criminal activity and our commitment in providing financial expertise to our federal partners in these types of crimes."

This case was the product of an investigation by the Federal Bureau of Investigation and the Internal Revenue Service-Criminal Investigation. Assistant U.S. Attorneys Lee S. Bickley, Michael D. Anderson, and Matthew D. Segal prosecuted the case.

On March 15th, 2016, Judge Mendez sentenced Vera Kuzmenko to 14 years in prison. She was found guilty of multiple counts of mail and wire fraud, money laundering and witness tampering. On April 19th, 2016, Theo Adams, 50, of Roseville, was sentenced to two years in

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prison. Previously, Judge Mendez sentenced co-defendants Peter Kuzmenko, 38, of West Sacramento, to 19 years in prison; Aaron New, 42, of Sacramento, to 11 years and three months in prison; Nadia Kuzmenko, 37, formerly of Loomis, to eight years in prison; and Edward Shevtsov, 52, of North Highlands, to eight years in prison. They were found guilty on February 13th, 2015, after a 21-day trial, of multiple counts of mail and wire fraud associated with the mortgage fraud scheme. In addition, Peter Kuzmenko, Edward Shevtsov, and Aaron New were found guilty of money laundering associated with the scheme, and Nadia Kuzmenko was found guilty of witness tampering.

 [Press release 2:12-cr-226 JAM, 2:11-cr-210 JAM](#)

Unfair, Deceptive, or Abusive Acts or Practices (UDAAPs)

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) prohibited all covered persons and service providers from committing **unfair, deceptive, or abusive acts or practices (UDAAPs)**. The CFPB has issued bulletins and documents that clarify the scope and provide context for what a UDAAP is as it relates to consumers. UDAAPs may cause significant financial injury to consumers, erode consumer confidence, and undermine fair competition in the financial marketplace.

Unfair Acts or Practices

Dodd-Frank defines an **unfair act or practice** as:

- Something that causes or is likely to cause substantial injury to consumers.
- An injury which is not reasonably avoidable by consumers.
- An injury which is not outweighed by countervailing benefits to the consumers or competition.

A substantial injury typically takes the form of monetary harm, like fees or costs paid by the borrowers because of the unfair act or practice. In the case of Dodd-Frank, a substantial injury does not just have to be monetary damage; it can also take other forms. If a significant risk of concrete harm is present, that can be considered a substantial injury. In other words, if the intent to harm is there or the potential for substantial injury exists, that is still considered substantial harm and an unfair act.

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Example One

Refusing to release lien after the consumer makes the final payment on a mortgage.

The FTC brought an enforcement action against a mortgage company based on allegations, described below, that repeatedly failed to release liens after consumers fully paid the amount due on their mortgages.

Substantial injury. Consumers sustained economic injury when the mortgage servicer did not release the liens on their properties after the consumers had repaid the total amount due on the mortgages.

Not outweighed by benefits. Countervailing benefits to competition or consumers did not result from the servicer's alleged failure to appropriately service the mortgage loan and release the lien promptly.

Not reasonably avoidable. Consumers had no way to know in advance of obtaining the loan that the mortgage servicer would not release the lien after full payment. Moreover, consumers generally cannot avoid the harm caused by an improper practice of a mortgage servicer because the servicer is chosen by the owner of the loan, not the borrower. Thus, consumers cannot choose their loan servicer and cannot change loan servicers when they are dissatisfied with the quality of loan servicing.

Example Two

Dishonoring credit card convenience checks without notice.

The OTS and FDIC brought enforcement actions against a credit card issuer that sent convenience checks with stated credit limits and expiration dates to customers. For a significant percentage of consumers, the issuer reduced credit lines after the checks were presented, and then the issuer dishonored the consumer's checks.

Substantial injury. Customers paid returned-check fees and may have experienced a negative impact on credit history.

Not outweighed by benefits. The card issuer later reduced credit limits based on credit reviews. Based on the facts involved in the case, the harm to consumers from the dishonored convenience checks out-weighed any benefit of using new credit reviews.

Not reasonably avoidable. Consumers reasonably relied on their existing credit limits and expiration dates on the checks when deciding to use them for payment. Consumers had received no notice that the checks they used were being dishonored until they were informed by the payees.

Example Three

Processing payments for companies engaged in fraudulent activities.

The OCC brought an enforcement action in a case involving a bank that maintained deposit account relations with telemarketers and payment processors, based on the following allegations: The telemarketers regularly deposited vast numbers of remotely created checks drawn against consumers' accounts. Consumers did not authorize a large percentage of the checks. The bank failed to establish appropriate policies and procedures to prevent, detect, or remedy such activities.

Substantial injury. Consumers lost money from fraudulent checks created remotely and drawn against their accounts.

Not outweighed by benefits. The cost to the bank of establishing a minimum level of due diligence, monitoring, and response procedures sufficient to remedy the problem would have been far less than the amount of injury to consumers that resulted from the bank's avoiding those costs.

Not reasonably avoidable. Consumers could not avoid the harm because the harm resulted principally from transactions to which the consumers had not consented.



UDAAPs

Deceptive Acts or Practices

Dodd-Frank also prohibits conduct that constitutes **a deceptive act or practice**. An act or practice is considered deceptive when:

- The act or practice misleads or is likely to mislead the consumer.
- The consumer's interpretation is reasonable under the circumstances.
- The misleading act or practice is material.

When determining whether an act or practice has misled or is likely to mislead a consumer, the entire situation must be considered. Deceptive acts or practices can take the form of representation or an omission. Ensuring that claims are supported before they are made minimizes the risk of omitting material information or making false statements that could mislead consumers.

To determine if the consumer's interpretation of the information was reasonable under the circumstances when representations target a specific audience, like financially distressed consumers or the elderly, the communication may be considered from the perspective of a reasonable member of the target audience. A statement or information can be misleading even if not all consumers, or not all consumers in the targeted group, would be misled, so long as a significant minority would be misled. Likewise, if a representation conveys more than one meaning to reasonable consumers, one of which is false, the speaker may still be liable for the misleading interpretation. Material information is information that is likely to affect the consumer's choice of, or conduct regarding, the product or service.

Example One

Inadequate disclosure of material lease terms in television advertising.

The FTC brought actions against vehicle leasing companies, alleging that their television advertisements represented that consumers could lease vehicles for "\$0 down" when advertising a monthly lease payment. However, the FTC alleged that the "blur" of "unreadable fine print" that flashed on the screen at the end of the advertisement disclosed costs of at least \$1,000. The settlements prohibited the vehicle leasing companies from misrepresenting the amount consumers must pay when signing the lease.

Also, the FTC required that if the companies make any representation about the amounts due at lease signing, or that there is "no down payment," the companies must make an equally prominent (readable and audible) disclosure of the total amount of all fees due when consumers sign the lease.

Representation or omission likely to mislead. The television advertisements featured prominent statements of "no money down" or "\$0 down" at lease signing. The advertisement also contained, at the bottom of the screen, a "blur" of small print in which disclosures of various costs required by Regulation M (the Consumer Leasing Act) were made. The FTC alleged that the disclosures were inadequate because they were not clear, prominent, or audible to consumers.

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Reasonable consumer perspective. A reasonable consumer would believe that he did not have to put any money down and that all he owed was the regular monthly payment.

Material representation. The stated "no money down" or "\$0 down," plus the low monthly lease payment were material representations to consumers. The fact that the additional material costs were disclosed at the signing of the lease did not cure the deceptive failure to disclose in the television advertising, the FTC claimed.

Example Two

Misrepresentation about loan terms.

In 2004, the FTC sued a mortgage broker advertising mortgage refinance loans at "3.5% fixed payment 30-year loan" or "3.5% fixed payment for 30 years," implying that the offer was for a 30-year loan with a 3.5% fixed interest rate. Instead, the FTC claimed that the broker offered adjustable rate mortgages (ARMs) with an option to pay various amounts, including a minimum monthly payment that represented only a portion of the required interest. As a result, unpaid interest was added to the principal of the loan, resulting in negative amortization.

Practice likely to mislead. The FTC claimed that the advertisements were misleading because they compared payments on a mortgage that fully amortized to payments on a non-amortizing loan with payments that increased after the first year. In addition, the FTC claimed that, after application, the broker provided Truth in Lending Act (TILA) disclosures that misstated the annual percentage rate (APR) and that failed to state that the loan was a variable-rate loan.

Reasonable consumer perspective. It was reasonable for consumers to believe that they would obtain fixed-rate mortgages, based on the representations.

Material representation. The representations were material because consumers relied on them when making the decision to refinance their fully-amortizing 30-year fixed loans. As a result, the consumers ended up with adjustable-rate mortgages that would negatively amortize if they made payments at the stated 3.5% payment rate.



Abusive Acts or Practices

Dodd-Frank further prohibits conduct that constitutes **an abusive act or practice**. An act or practice is abusive when:

- The act materially interferes with the ability of a consumer to understand a term or condition of a consumer financial product or service.
- The act takes unreasonable advantage of:
 - A consumer's lack of understanding of the material risks, costs, or conditions of the product or service.
 - A consumer's inability to protect his or her interests in selecting or using a consumer financial product or service.
 - A consumer's reasonable reliance on a covered person to act in his or her interest.

Although abusive acts or practices might also be considered unfair or deceptive, each of these prohibitions is separate and distinct and are governed by separate legal standards.



UDAAPs

Role of Consumer Complaints in Identifying Unfair, Deceptive, or Abusive Acts or Practices

Knowing how to analyze and handle consumer complaints plays a vital role in the detection of unfair, deceptive, or abusive practices. Consumer complaints are an essential source of information for examination, enforcement, and rulemaking for regulators. Consumer complaints can indicate weaknesses in elements of a company's compliance management system, such as training, internal controls, or monitoring.

Even if complaints are absent, that does not ensure that unfair, deceptive, or abusive practices are not occurring. A presence of complaints alleging that consumers did not understand the terms of a product or service can be a red flag that indicates that there may be an issue. It is especially true when a lot of similar complaints are made about the same product or service. Because the perspective of a reasonable consumer is one of the tests for evaluating whether a representation, omission, or act or practice is potentially deceptive, consumer complaints alleging misrepresentation or misunderstanding can provide a window into the perspective of reasonable consumers.



CFPB Examination Manual

UDAAP Violations: CFPB Acts Against Reverse Mortgage Companies for Deceptive Advertising

Three Companies Cited for Falsely Claiming Consumers Could Not Lose Their Homes

WASHINGTON, D.C. – Today the Consumer Financial Protection Bureau (CFPB) took action against three reverse mortgage companies for deceptive advertisements, including claiming that consumers could not lose their homes. The CFPB is ordering American Advisors Group, Reverse Mortgage Solutions, and Aegean Financial to cease deceptive advertising practices, implement systems to ensure they are complying with all laws, and pay penalties.

“These companies tricked consumers into believing they could not lose their homes with a reverse mortgage,” said CFPB Director Richard Cordray. “All mortgage brokers and lenders need to abide by federal advertising disclosure requirements in promoting their products.”

A reverse mortgage is a special type of home loan that allows homeowners who are 62 or older to access the equity they have built up in their homes and defer payment of the loan until they pass away, sell, or move out. The loan proceeds are generally provided to the borrowers as lump-sum payments, monthly payments, or as lines of credit. Homeowners remain responsible for payment of taxes, insurance, and home maintenance, among other obligations.

The Mortgage Acts and Practices Advertising Rule prohibits misleading claims in mortgage advertising. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act prohibits institutions from engaging in deceptive acts or practices, including advertising of consumer financial products or services.

American Advisors Group

American Advisors Group, headquartered in Orange, Calif., is licensed in 49 states and the District of Columbia. It is the largest reverse mortgage lender in the United States. The company ran television advertisements almost daily and disseminated its information kit to approximately one million consumers. The information kit included a DVD and several brochures with information about reverse mortgage products.

Through its investigation, the CFPB found that, since January 2012, American Advisors Group’s advertisements misrepresented that consumers could not lose their home and that they would have the right to stay in their home for the rest of their lives. The company also falsely told potential customers that they would have no monthly payments and that with a

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reverse mortgage they would be able to pay off all debts. In fact, consumers with a reverse mortgage still have payments and can default and lose their home if they fail to comply with the loan terms. These terms require, among other things, paying property taxes, making homeowner's insurance payments, and paying for property maintenance. Moreover, a reverse mortgage is a debt and therefore cannot be used to eliminate all a consumer's debt.

Under the terms of today's consent order, the company must make clear and prominent disclosures in its reverse mortgage advertisements and implement a system to ensure it is following all laws. It will also pay a civil penalty of \$400,000.

Reverse Mortgage Solutions

Reverse Mortgage Solutions, headquartered in Houston, Texas, is licensed to conduct business in 48 states. The company marketed its product through various media, including television, radio, print, direct mail, and the Internet.

Through its investigation, the CFPB found that, since January 2012, Reverse Mortgage Solutions' advertisements misrepresented that consumers could not lose their home and that they would have the right to stay in their home for the rest of their lives. The company also falsely told potential customers that they would have no payments with a reverse mortgage and that they would "always retain ownership" and "can't be forced to leave." In fact, consumers with a reverse mortgage still have payments and can default and lose their home if they fail to comply with the loan terms. These terms require, among other things, paying property taxes, making homeowner's insurance payments, and paying for property maintenance.

The CFPB also alleges that the company misrepresented that heirs would inherit the home, without disclosing any conditions of the inheritance. In fact, heirs frequently are not able to keep the home after the death of a consumer with a reverse mortgage. Heirs are only allowed to retain ownership of the home after the consumer's death if they either repay the reverse mortgage or pay 95% of the assessed value of the home.

The company also created a false sense of urgency to buy the reverse mortgage product and misrepresented that time limits constrained the availability of a reverse mortgage. For example, one call script required representatives to tell potential customers that if they didn't call back by the close of business, they would "turn your file down and you will miss out on a tremendous money-saving opportunity." In fact, it was not a limited time offer.

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Lastly, the company misrepresented that a reverse mortgage could “eliminate debt.” In fact, a reverse mortgage is a debt and therefore cannot be used to eliminate all a consumer’s debt.

Under the terms of today’s consent order, the company must make clear and prominent disclosures in its reverse mortgage advertisements and implement a system to ensure it is following all laws. It will also pay a civil penalty of \$325,000.

Aegean Financial

Aegean Financial, headquartered in El Segundo, Calif., is licensed to conduct business in California, Louisiana, Oregon, Texas, and Washington. The company also operates under multiple names in the jurisdictions in which it is licensed. Under the name Jubilados Financial, the company advertises reverse mortgages to Spanish-speaking consumers in California. Under the name Reverse Mortgage Professionals, the company advertises reverse mortgages in California, Oregon, Washington, and Texas. Aegean Financial markets its product across various media, including print, direct mail, radio, and the Internet. Through its investigation, the CFPB found that, since 2012, Aegean Financials’ advertisements misrepresented that consumers could not lose their home and that they would have the right to stay in their home for the rest of their lives. The reverse mortgage broker also falsely told potential customers that they would have no payments with a reverse mortgage and claimed that consumers would not be subject to costs associated with refinancing a reverse mortgage. In fact, consumers who refinance reverse mortgages do incur costs, including credit report fees, flood certification fees, title insurance costs, appraisal costs, and other closing costs. And consumers with a reverse mortgage still have payments and can default and lose their home if they fail to comply with the loan terms. These terms require, among other things, paying property taxes, making homeowner’s insurance payments, and paying for property maintenance.

The CFPB also alleges that the company falsely affiliated itself with the government in its Spanish- language advertisements. For example, one advertisement said, “If you are 62 years old or older and you own a house, we have good news for you; you qualify for a reverse mortgage from the United States Housing Department.” In fact, although the Department of Housing and Urban Development provides insurance for the most popular type of reverse mortgage, a reverse mortgage is not a government benefit or a loan from the government. Nor is the product endorsed or sponsored by the government. The disclosures associated with Aegean Financials’ advertisements were in small type or rapidly recited at the end of commercials. The CFPB also alleges that the company failed to keep records of its advertisements as required by law.

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Under the terms of today's consent order, the company cannot imply affiliation with the government, must make clear and prominent disclosures in its reverse mortgage advertisements, implement a system to ensure it is following all laws, and maintain complete and accurate records. It will also pay a civil penalty of \$65,000.

 CFPB Press Release

Predatory Lending and Steering

Predatory lending is unscrupulous actions carried out by a lender to entice, induce, or assist a borrower in taking a mortgage that carries high fees, a high interest rate, strips the borrower of equity, or places the borrower in a lower credit-rated loan to the benefit of the lender. As with most things of a dishonest nature, new and different predatory lending schemes frequently arise.

Credit Insurance Packing

Credit insurance packing occurs when a lender sneaks in paperwork at closing that provides for credit insurance or other benefits that the borrower did not request. The lender hopes the borrower will sign up, perhaps without noticing. The lender doesn't explain how much extra money it will cost each month on the loan. If the borrower does notice, sometimes they are afraid to ask questions or object because of fear they won't get the loan.

The lender may also tell the borrower that the insurance comes with the loan, which makes most borrowers assume that the insurance comes at no additional cost. If the borrower does object, the lender may even tell the borrower that if they don't want the insurance, the loan papers will have to be rewritten, which could take several days, and the manager may reconsider the loan altogether.

TILA states that, "Creditors are prohibited from "financing" (i.e., providing a consumer the right to defer payment beyond the monthly period in which the premium or fee is due), either directly or indirectly, premiums or fees for credit insurance in connection with a consumer credit transaction secured by a dwelling (including a home equity line of credit secured by the consumer's principal dwelling). This prohibition includes financing fees for credit life, credit disability, credit unemployment, credit property insurance, or any other accident, loss of income, life, or health insurance or payment for debt cancellation or

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suspension. This prohibition does not apply to credit unemployment insurance where the premiums are reasonable, the creditor receives no direct or indirect compensation in connection with the premiums, and the premiums are paid under a separate insurance contract and not to an affiliate of the creditor. This prohibition also does not apply to credit insurance where premiums or fees are “calculated” and paid in full “on a monthly basis” (i.e., determined mathematically by multiplying a rate by the actual monthly outstanding balance)."

 12 CFR 1026.36

Failure to Report Credit Information

Some creditors do not report timely payments to the credit reporting agencies. A borrower's payment history will not reflect correctly in this situation. Predatory lenders will not report to try to maintain the borrower for them. If they were to report a borrower's information on the credit report accurately, they would have other mortgage companies soliciting their customers from them. For example, a company shows its client's current balance or highest balance instead of the high credit limit. Available credit is an essential factor in credit scoring.

Price Gouging

Price gouging is something that occurs in many industries, including the mortgage industry. Price gouging occurs when a vendor takes advantage of a consumer by charging high prices, either through fraudulent acts or because the consumer has no available alternative.

A borrower comes to a creditor with certain expectations, including the expectation that the originator will establish a loan with the borrower's best interests in mind. For most borrowers, this means the loan with the best terms at the lowest possible rate.

Excessive Fees

Predatory creditors could charge borrowers outrageous fees, higher than what the borrower would have paid with an ethical creditor. Some of the ways a predator could hide excessive fees are:

- **Padding closing costs:** The lender increases the cost to above their actual cost, such as credit report fees of \$210, or courier fees of \$200, many times over the actual cost.
- **Inflated appraisal costs:** Charging a borrower \$1000 for an appraisal that only costs \$300 because the appraiser performed a "drive-by" appraisal, rather than a complete appraisal.
- **Padded recording fees:** The fees for recording a mortgage at the local county courthouse are set by state and local laws. Predatory lenders could charge a borrower a fee above the legally-set rate.
- **Unbundling:** Creditors who pad closing costs by duplicating the ones that should be under another charge.

Because the above fees can be financed into the loan, they are easy to disguise, and the borrower doesn't even realize he is a victim of predatory lending practices.

High-Interest Rates

Creditors can price a loan based on credit history and credit risk, known as Loan Level Price Adjustments. The lower the credit score, the higher the risk, and the loan is priced accordingly. It is not unethical or considered predatory lending. If the higher interest rates are not based on loan level price adjustments but to obtain more profit from the loan, this is unethical and considered predatory lending.

Equity Stripping

Equity Stripping is when a lender is after the equity in the borrower's home. Equity stripping is done by getting the borrower into a loan they do not qualify for, sometimes by encouraging a borrower to "pad" their income to get approved for the loan. The lender doesn't care whether the borrower can pay their mortgage payments. As soon as the borrower fails to make a payment, the lender will foreclose on the home, taking the home and stripping the equity that the borrower has spent years building up.

Churning or Repeated Refinancing

Churning, or repeated refinancing is excessive selling/lending activity to generate fees and commissions. In some cases, the lender steps the rate down through multiple refinances. Each refinance is only to a slightly lower rate until the pre-arranged rate is reached. In other cases, the lender switches the borrower from a fixed-rate loan to an adjustable-rate a few months later and then back to a fixed-rate with little to no actual benefit to the borrower.

Steering and Targeting

Steering or targeting occurs when an MLO steers a borrower into a subprime product when they could qualify for a loan with better terms. Generally, this is done because the MLO gets something in return for putting that borrower into the subprime loan, like additional compensation. Remember, we talked about loan originator compensation in the first chapter of this course, and it was put into place to help eliminate steering practices in the mortgage industry by limiting how an MLO can be compensated.

Telemarketing and Consumer Fraud and Abuse Prevention Act

To help regulators combat unethical telemarketing fraud, a \$40 billion a year industry, Congress enacted the Telemarketing and Consumer Fraud and Abuse Prevention Act. Within this Act is the Telemarketing Sales Rules (TSR) with the Do Not Call Provision.

The Consumer Financial Protection Bureau (CFPB) prescribed rules prohibiting deceptive and abusive telemarketing acts or practices, which includes fraudulent charitable solicitations and credit card laundering. This provision applies restrictions on the use of automatic telephone dialing systems, artificial or pre-recorded voice messages, and fax machine solicitations.

The Act provides the Telemarketing Sales Rule, which enacted the following rules:

- Prohibits deceptive telemarketing acts or practices and misrepresentation. They are prohibited from lying about any terms of their offer.
- Prohibits telemarketers from engaging in a pattern of unsolicited telephone calls that a reasonable consumer would consider coercive or an invasion of privacy.

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- Restricts the hours of the day and night when unsolicited telephone calls may be made to consumers. Telemarketers may not call before 8 a.m. or after 9 p.m. This is dependent on where the consumer lives.
- Requires the MLO and company to keep records for at least two years on all calls to people that are on the Do No Call list.
- You can call an existing customer for 18 months; 90 days for a pre-qual.
- Prohibits calls to a consumer who have asked not to be called again.
- Sets payment restrictions for the sale of certain goods and services.
- Requires disclosure of the nature of the call at the start of an unsolicited sales call.

The Act provides guidance for how to legally solicit consumers and provides regulators the framework needed to combat telemarketing sales fraud. It also provides the consumers' rights and gives them the choice of whether they want to use the services or goods being offered. As consumer landlines become a thing of the past, stopping telemarketing sales fraud is more important than ever. Consumers' phones are tied to all aspects of their life through helpful applications and widgets with direct links to their asset accounts.

With a fraudster's ability to access readily available consumer's information, massive data breaches exposing consumers' personal information and lives, consumers are vulnerable to all types of fraud approaches.

Telephone scammers will try to steal people's money or personal information for profit. Telephone calls may come from real people, robocalls, or text messages. The scammers often make false promises of opportunities to buy products, invest your money, or receive free product trials. Some may offer money through free grants and lotteries. Other aggressive scammers rely on intimidation with threats of jail, large fines or penalties, or scary lawsuits if they don't get paid. Consumers are advised to report all telephone and telemarketing scams to the Federal Trade Commission, the regulator for this legislation.

 Telemarketing and Consumer Fraud and Abuse Prevention Act; Common Scams and Frauds

Defined Abusive Acts and Practices

The defined abusive telemarketing acts and practices:

- May not undertake a pattern of unsolicited telephone calls which the reasonable consumer would consider coercive or abusive of the consumer's right to privacy.
- Limit the hours of the day a telemarketer may make solicitation calls.
- When selling goods or services, the telemarketer must promptly and clearly disclose the purpose of the call is to sell goods or services. The disclosure should include the nature and price of the goods and services.
- When it is for charitable contributions, donations, or gifts of money or other thing of value, the telemarketer must promptly and clearly disclose the call is to solicit charitable contributions or thing of value. They must provide the charitable organization name and address.

Prohibited Telemarketing Calls

Outbound telemarketing calls that deliver a prerecorded message, or "robocalls," are prohibited unless the seller has obtained the call recipient's prior signed and written agreement to receive such calls from that seller. It cannot require a consumer to agree to the robocalls in order to get any goods or services, and the consumer can change their mind to not receive calls. The business using robocalls must also inform the consumer at the beginning of the message how they can prevent future calls, with an automated opt-out activated by voice or keypress. If a message is left, they must provide a toll-free number at the beginning of the message so consumers may opt-out. Telemarketers are required to connect their call to a sales representative within two seconds of the consumer's greeting. This was to reduce the amount of "dead air" or hang-up calls from telemarketers using automated dialing equipment. The telemarketer may not hang up on an unanswered call before 15 seconds or four rings.

Telemarketers must provide their telephone number, and if possible, their name for caller ID services. This protects consumer privacy, increases accountability on the telemarketer's part, and helps law enforcement efforts.

Permits Some Prerecorded Messages

Some prerecorded messages are permitted under these rules. Messages are allowed, as long as the business does not use the call to promote the sale of any goods or services. Purely informational messages to say a flight was canceled, remind the consumer of an appointment, or tell them that school is opening late, are allowed.

Political calls, calls from certain healthcare providers, and messages from a business contacting a consumer to collect a debt are also permitted. So are prerecorded messages from banks, telephone carriers, and charities.

Restrictions on Telemarketers Payments

It is illegal and violation for a telemarketer to:

- Ask a consumer to pay with a cash-to-cash money transfer. For example, those from MoneyGram and Western Union.
- Ask a consumer to pay by giving the PIN from the cash reload card. For example, MoneyPak and Vanilla Reload.
- Ask for bank account information to create a type of check that is never seen or signed. These checks are called "remotely created payment orders."

The Telemarketing Sales Rule

Do Not Call Provision

Consumers who do not wish to receive telemarketing sales calls may register their telephone number on the National Do Not Call Registry, which is managed by the Federal Trade Commission (FTC). A consumer that registers their number on the registry has the protections provided by this legislation.

Telemarketers may not solicit someone registered on the Do Not Call list. Telemarketers are required to scrub their telemarketing or client list with the Do Not Call Registry every 31 days. A consumer on the Do Not Call list who receives telemarketing sales calls may file a complaint against the telemarketers. There are some exceptions to this rule based on consumer relationship that will be covered shortly.

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According to this legislation, a mortgage loan originator that uses a mortgage lead provider is liable for any TSR violations. It is important for a mortgage loan originator to identify that the company they are using complies Telemarketing Sales Rules.

Do Not Call Exemptions

If a client requests not to be called, the company may not solicit even if they meet any of the below relationships. The client has a right to request the company to not call them, and the company must put the client on their own internal do not call list. Although telemarketers who ask for charitable contributions do not have to search the national registry, a for-profit telemarketer calling on behalf of a charitable organization must honor your request not to receive calls on behalf of that charity.

A mortgage loan originator may solicit a client on the Do Not Call list based on Client Relationship as follows:

- A previous client from an established business relationship may be solicited for up to 18 months after the last transaction, even if the consumer is on the Do Not Call Registry.
- A prospective client who submits an inquiry or application may be solicited for up to three months.
- A client who has given written permission may be solicited with an unspecified time frame even if the client is on the Do Not Call Registry.

Businesses may use questionnaires or surveys for customers to submit, as a means of establishing a business relationship. Once a relationship is established, they may call to solicit those on the Do Not Call Registry for the specified relationship time period. Calls from, or on behalf of, political organizations, charities, and telephone surveyors are permitted and are not subject to these rules.

Customer Relationship

The term "time of establishing a customer relationship" is defined by the regulations for a financial institution as to when they engage in extending credit directly to consumers to finance purchases of goods or services, to mean the "time of establishing the credit relationship" with the consumer. At the closing of the loan, the lender's business relationship starts.

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A special rule defines the customer relationship when several financial institutions participate in a loan transaction. A financial institution establishes a customer relationship with an individual when:

- It originates a loan or closes the loan.
- The financial institution sells the loan but maintains the servicing rights, it continues to have a customer relationship with the individual.
- The financial institution transfers the servicing rights but retains an ownership interest in the loan, the individual is a "consumer" of that institution and a "customer" of the institution with the servicing rights.
- Other institutions hold an ownership interest in the loan (but not the servicing rights), the individual is their consumer, too.

Violations and Fines

Mortgage professionals offer services and are governed by this legislation when their borrower is on the registry. A telemarketer, which includes a mortgage loan originator calling leads, who disregards the National Do Not Call Registry, could be fined up to \$40,000 for each call.

PENALTIES FOR VIOLATING THE RULE

Fair Lending

Fair lending is the unbiased treatment of all borrowers seeking credit. ECOA and the Fair Housing Act are specific federal laws that aim to prevent discrimination against protected groups of individuals in mortgage transactions. Before we talk about the nuances between the two laws, let's discuss discrimination. Two terms we frequently discuss when we talk about fair lending are disparate impact and disparate treatment.

Disparate Impact and Disparate Treatment

Disparate Treatment occurs when one protected group is treated differently from another similarly situated group, and the inconsistencies in treatment can't be fully explained by non-discriminatory factors.

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Overt Evidence of Disparate Treatment occurs when a lender openly discriminates on a prohibited basis. It is a blatant statement of discrimination. This typically occurs through verbal statements by lenders but could also occur through written advertisements and other materials published by the lender. For example, if an advertisement makes a statement that discourages applications from a specific protected class, that advertisement could be considered disparate treatment. An example of overt discrimination would be that a credit card company has a written policy that anyone who is aged 21-27 can only have a credit limit of \$1,000, while anyone over 30 automatically gets a credit limit of \$5,000.

Comparative evidence of Disparate Treatment occurs when a protected class applicant is treated less favorably than other applicants. It is often **not intentional** (though it could be). The differences in treatment are not fully explained by legitimate non-discriminatory factors, and no evidence is required to show that the treatment was motivated by prejudice or that the creditor intended to discriminate against a person. This often occurs when a lender allows discretion in the underwriting process that leads to inconsistencies. When all underwriting discretion is eliminated (such as is the case with some automated underwriting models), fair lending risk from comparative evidence of disparate treatment is significantly reduced.

An example of comparative evidence is if two people have the same credit file. One is White and the other is Hispanic, and the Hispanic applicant receives a higher interest rate.

Disparate Impact occurs when a facially neutral policy or practice is applied equally to all applicants, but the policy or practice adversely affects a protected group. An example is a lender who will only take applications for loan amounts above \$300,000. Upon review of files, it is determined that several protected groups were adversely impacted by this policy, which was not necessarily intended to be discriminatory, but the result is that the company assists less minority borrowers.

 **FDIC Statement of Policy on Discrimination in Lending**

Comparative Analysis

Comparative analysis is a method used by examiners to compare protected class applicants with control group applicants. For example, a comparative analysis might compare the best denials versus the worst approvals. In comparing the denials that were borderline, but were not approved, with the files that barely got approved, auditors can determine whether inconsistencies occurred and whether those inconsistencies adversely affected a protected group. Auditors may also compare fees or credit terms in similarly situated borrowers.

Redlining

Part of HMDA's purpose is to identify potential discriminatory lending patterns while attempting to determine whether a financial institution's policies are creating disparate treatment or disparate impact. HMDA was implemented to identify when **redlining or blockbusting** was occurring. With HMDA's data, **redlining and reverse redlining** can be identified in lending institutions' data.

Redlining is an unethical practice in which a financial institution makes it extremely difficult or impossible for residents of a particular neighborhood to borrow money, gain approval for a mortgage, take out insurance, or gain access to other financial services because of a history of high default rates. Redlining typically occurs in poor inner-city neighborhoods. In the case of redlining, an individual's qualifications and creditworthiness are not considered.

Reverse Redlining is the opposite; it is when a financial institution lends specifically in poor inner-city neighborhoods to charge them more than a comparable White consumer.

If you were to draw a circle around a specific area on a map, and then refuse to lend there, that would be redlining. Reverse redlining occurs when a lender particularly targets minority consumers in a non-redlined area; not to deny them loans, but to charge them more than would be charged to a similarly situated White consumer.

Blockbusting

Blockbusting occurs when a real estate agent or buyer persuades an owner to sell their property at a deflated amount, based on the notion that other houses in the neighborhood are being acquired by individuals from another race or class.

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Sometimes blockbusting can be confused with steering. **Steering** occurs when an MLO directs a borrower into a practice that is not in the borrower's best interest, but it allows the MLO to make more money. Steering may also occur when a real estate agent directs a potential buyer into housing only in specific neighborhoods. *There is generally something discriminatory against a protected class motivating blockbusting, whereas, with steering, it's usually for a monetary gain and is not necessarily discriminatory.*

Example of Redlining

Consumer Financial Protection Bureau and Department of Justice Action Requires Bancorp- South to Pay \$10.6 Million To Address Discriminatory Mortgage Lending Practices Bancorp- South Illegally Denied African-American Consumers Fair and Equal Access to Mortgages

JUN 29, 2016

WASHINGTON, D.C. – Today, the Consumer Financial Protection Bureau (CFPB) and the Department of Justice (DOJ) announced a joint action against BancorpSouth Bank for discriminatory mortgage lending practices that harmed African Americans and other minorities. The complaint filed by the CFPB and DOJ alleges that BancorpSouth engaged in numerous discriminatory practices, including illegally redlining in Memphis; denying certain African Americans mortgage loans more often than similarly situated non-Hispanic white applicants; charging African-American customers for certain mortgage loans more than non-Hispanic white borrowers with similar loan qualifications; and implementing an explicitly discriminatory loan denial policy. If the proposed consent order is approved by the court, BancorpSouth will pay \$4 million in direct loan subsidies in minority neighborhoods in Memphis, at least \$800,000 for community programs, advertising, outreach, and credit repair, \$2.78 million to African-American consumers who were unlawfully denied or overcharged for loans, and a \$3 million penalty.

“BancorpSouth’s discrimination throughout the mortgage lending process harmed the people who were overcharged or denied their dream of homeownership based on their race, and it harmed the Memphis minority neighborhoods that were redlined and denied equal access to affordable credit,” said CFPB Director Richard Cordray. “Today’s action is a reminder that redlining and overt discrimination are not yet remnants of the past, and that federal enforcement is needed to bring real relief to communities and individuals.

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The Consumer Bureau and the Department of Justice will continue working together to root out discrimination in the marketplace and ensure consumers receive fair and equal treatment under the law.”

“When banks discriminate on the basis of race, they violate our civil rights laws and threaten the foundation of a fair economy,” said Principal Deputy Assistant Attorney General Vanita Gupta, head of the Justice Department’s Civil Rights Division. “The Civil Rights Division will continue to enforce our nation’s fair lending laws to ensure that qualified applicants and borrowers can access credit and invest in their financial future without facing unlawful barriers.”

BancorpSouth is a regional bank headquartered in Tupelo, Miss. The bank operates branches in eight states and as of March 31st, 2016, had total assets of \$13.9 billion. BancorpSouth is a wholly owned subsidiary of BancorpSouth, Inc., a financial holding company.

The Equal Credit Opportunity Act prohibits creditors from discriminating against applicants in any aspect of a credit transaction on the basis of characteristics such as race, color, and national origin. Similarly, the Fair Housing Act prohibits discrimination in residential mortgage lending. In the complaint, the CFPB and DOJ allege that BancorpSouth:

Illegally redlined in Memphis: The complaint alleges that from at least 2011 to 2013, BancorpSouth illegally redlined in the Memphis area—the market from which the bank received the most applications—by structuring its business to avoid and discourage consumers in minority neighborhoods from accessing mortgages. Specifically, the agencies allege that the bank placed its branches outside of minority neighborhoods, excluded nearly all minority neighborhoods from the area it chose to serve under the Community Reinvestment Act, and directed nearly all of its marketing away from minority neighborhoods. As a result, BancorpSouth generated relatively few applications from minority neighborhoods as compared to its peers.

Discriminated in underwriting certain mortgages: The agencies also allege that one of BancorpSouth’s lending units discriminated against African-American applicants by denying them mortgage loans—including loans with consumer as well as business purposes—more often than similarly situated White applicants. Specifically, the agencies allege that BancorpSouth granted its employees wide discretion to make credit decisions on mortgage loans. This discretion resulted in African-American applicants being denied certain mortgages at rates more than two times higher than expected if they had been White.

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Discriminated in pricing certain mortgage loans: The agencies also allege that one of BancorpSouth's lending units discriminated against African-American borrowers that it did approve by charging them higher annual percentage rates than White borrowers with similar loan qualifications. Specifically, the agencies allege that BancorpSouth granted its employees wide discretion to set the prices of mortgage loans. This discretion resulted in African-American borrowers paying significantly higher annual percentage rates than similarly situated White borrowers, costing African-American consumers hundreds of dollars more each year they held the loan.

Implemented an explicitly discriminatory denial policy: The complaint alleges that BancorpSouth required its employees to deny applications from minorities and other "protected class" applicants more quickly than those from other applicants and not to provide credit assistance to "borderline" applicants, which may have improved their chances of getting a loan. The bank generally permitted loan officers to assist marginal applicants, but the explicitly race-based denial policy departed from that practice. An audio recording of a 2012 internal meeting at BancorpSouth clearly articulates this discriminatory policy, as well as negative and stereotyped perceptions of African Americans.

As part of its investigation, the CFPB sent testers to several BancorpSouth branches to inquire about mortgages, and the results of that testing support the CFPB and DOJ allegations. The agencies allege that, in several instances, a BancorpSouth loan officer treated the African-American tester less favorably than a White counterpart. Specifically, the complaint alleges that BancorpSouth employees treated African-American testers who sought information about mortgage loans worse than White testers with similar credit qualifications. For example, BancorpSouth employees provided information that would restrict African-American consumers to smaller loans than White testers. This is the CFPB's first use of testing, sometimes referred to as "mystery shopping," to support an allegation of discrimination. Other government agencies, including the DOJ and the Department of Housing and Urban Development, as well as fair housing organizations, have used testers for decades as a method of identifying discrimination. Courts have long recognized testing as a reliable investigative tool.

Enforcement Action

The Dodd-Frank Wall Street Reform and Consumer Protection Act authorizes the CFPB to take action against creditors engaging in discrimination. The consent order, which is subject to court approval, requires BancorpSouth to take several remedial measures.

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Among other things, the order requires BancorpSouth to:

Pay \$4 million to a loan subsidy program: To increase access to affordable credit, the loan subsidy program will offer qualified applicants in majority-minority neighborhoods in Memphis mortgage loans on a more affordable basis than otherwise available from BancorpSouth. The loan subsidies can include interest rate reductions, closing cost assistance, and down payment assistance.

Pay \$2.78 million to African-American consumers harmed by discrimination: BancorpSouth will provide \$2.78 million to African-American consumers who were improperly denied mortgage loans or overcharged for their loans because of BancorpSouth's allegedly discriminatory pricing and underwriting policies.

Spend at least \$300,000 on targeted advertising and outreach: BancorpSouth will fund a targeted advertising and outreach campaign to generate applications for mortgage loans from qualified consumers in majority-minority neighborhoods in Memphis. The bank will be required to spend \$100,000 annually on the campaign during the term of the order, which will be in effect for a minimum of three years.

Spend \$500,000 on local partnerships: BancorpSouth will spend \$500,000 to partner with community-based or governmental organizations that provide education, credit repair, and other assistance in minority neighborhoods in Memphis.

Expand its physical presence: In addition to a branch that BancorpSouth recently opened in a majority-minority neighborhood in Memphis, BancorpSouth must open one new branch or loan production office in a high-minority neighborhood in Memphis.

Extend credit offers: BancorpSouth will offer African-American consumers who were denied mortgage loans while BancorpSouth's allegedly discriminatory underwriting policy was in place the opportunity to apply for a new loan at a subsidized interest rate.

Treat applicants fairly, regardless of race: Among other revisions to its policies, BancorpSouth will implement policies that require its employees to provide equal levels of information and assistance to individuals who inquire about mortgage loans, regardless of race or any other prohibited characteristic. **Pay a \$3 million penalty:** BancorpSouth will pay a \$3 million penalty to the CFPB's Civil Penalty Fund.

The complaint and the proposed consent order resolving the complaint have been simultaneously filed with the United States District Court for the Northern District of Mississippi. The complaint is not a finding or ruling that the defendant has violated the law.

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The proposed federal court order will have the full force of law only when signed by the presiding judge.

When investigating identified redlining risks, the Bureau's approach is consistent with that of other federal agencies, including other federal law enforcement agencies and bank regulators. For example, the Bureau looks to risk indicators described in the Interagency Fair Lending Examination Procedures, which were initially issued by the prudential regulators and later adopted by the Bureau. The Bureau also looks to the types of evidence that the Department of Justice has cited in support of its complaints alleging redlining. These sources identify multiple factors that the Bureau considers during a redlining investigation, including: applications received, and originations in minority areas as compared with a lender's peers; the scope of the lender's Community Reinvestment Act assessment area; the lender's physical branch and office locations; the lender's marketing practices; the lender's policies; employee statements and conduct; and other evidence.

 [CFPB Press Release & CFPB Enforcement Action](#)

Chapter 6 Review

This chapter covers the mortgage ethics. This chapter include discussion on the definition of ethics, the different types of mortgage fraud, UDAAPs, and fair lending.

What is Ethics?

- **Ethics** is moral principles that govern a person's behavior or conduct.
- **Morality** is principles concerning the distinction between right and wrong or good and bad behavior.

Types of Mortgage Fraud

13. **Fraud for Housing/Property**: Committed by a borrower
14. **Fraud for Profit**: Committed by an industry insider
15. **Fraud for Criminal Enterprise**: Committed by organized crime

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Common Fraud Schemes

16. Straw Buyers
17. Air Loans
18. Illegal Property Flips
19. Chunking
20. Builder Bailout/ Excessive Sales Incentives
21. Buy and Bail
22. Foreclosure Rescue Schemes
 - ❖ Mortgage Assistance Relief Services Rule (MARS) made it illegal for mortgage assistance relief providers to collect upfront fees and requires additional disclosures
23. Short Sale Fraud
24. Unauthorized Fees and Payout Characteristics
25. Short Sale Flip
26. Non-Arm's Length Short Sale Transaction
27. Reverse Mortgage Fraud
28. Affinity Fraud
29. Equity Skimming
30. Loan Modification Schemes

Unfair, Deceptive, or Abusive Acts and Practices (UDAAPs)

- **Unfair act or practice** is:
 - ❖ Something that causes or is likely to cause substantial injury to consumers.
 - ❖ An injury that is not reasonably avoidable by consumers.
 - ❖ An injury that is not outweighed by countervailing benefits to the consumers or competition.
 - ❖ A substantial injury typically takes the form of monetary harm, like fees or costs paid by the borrowers because of the unfair act or practice. In the case of Dodd-Frank, a substantial injury does not just have to be monetary damage; it can also take other forms.
- An act or practice is considered **deceptive** when:
 - ❖ The act or practice misleads or is likely to mislead the consumer.
 - ❖ The consumer's interpretation is reasonable under the circumstances.
 - ❖ The misleading act or practice is material.

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- An act or practice is **abusive** when:
 - ❖ The act materially interferes with the ability of a consumer to understand a term or condition of a consumer financial product or service.
 - ❖ The act takes **unreasonable advantage** of:
 - A consumer's lack of understanding of the material risks, costs, or conditions of the product or service.
 - A consumer's inability to protect his or her interests in selecting or using a consumer financial product or service.
 - A consumer's reasonable reliance on a covered person to act in his or her interest.

Predatory Lending and Steering

- **Predatory lending** is unscrupulous actions carried out by a lender to entice, induce or assist a borrower in taking a mortgage that carries high fees, a high-interest rate, strips the borrower of equity, or places the borrower in a lower credit-rated loan to the benefit of the lender.
- **Credit insurance packing** occurs when a lender sneaks in paperwork at closing that provides for credit insurance or other benefits that the borrower did not request.
- **Price gouging** is something that occurs in many industries, including the mortgage industry.
- Predatory creditors could charge borrowers outrageous fees, higher than what the borrower would have paid with an ethical creditor.
- Creditors can price a loan based on credit history and credit risk, known as Loan Level Price Adjustments. The lower the credit score, the higher the risk, and the loan is priced accordingly. It is not unethical or considered predatory lending.
- **Equity Stripping** is when a lender is after the equity in the borrower's home. Equity stripping is done by getting the borrower into a loan they do not qualify for, sometimes by encouraging a borrower to "pad" their income to get approved for the loan.
- **Churning or repeated refinancing** is excessive selling/lending activity to generating fees and commissions
- **Steering or targeting** occurs when an MLO steers a borrower into a subprime product when they could qualify for a loan with better terms. Generally, this is done because the MLO gets something in return for putting that borrower into the subprime loan, like additional compensation.

Telemarketing and Consumer Fraud and Abuse Prevention Act

- Congress enacted the Telemarketing and Consumer Fraud and Abuse Prevention Act.
- Within this Act is the Telemarketing Sales Rules (TSR) with the Do Not Call Provision.
- The Act provides the Telemarketing Sales Rule:
 - ❖ Prohibits deceptive telemarketing acts or practices and misrepresentation. They are prohibited from lying about any terms of their offer.
 - ❖ Prohibits telemarketers from engaging in a pattern of unsolicited telephone calls that a reasonable consumer would consider coercive or an invasion of privacy.
 - ❖ Restricts the hours of the day and night when unsolicited telephone calls may be made to consumers. Telemarketers may not call **before 8 a.m. or after 9 p.m.**
 - ❖ Prohibits calls to a consumer who have asked not to be called again.
 - ❖ Sets payment restrictions for the sale of certain goods and services.
 - ❖ Requires disclosure of the nature of the call at the start of an unsolicited sales call.
- The defined **abusive telemarketing acts and practices** are:
 - ❖ May not undertake a pattern of unsolicited telephone calls which the reasonable consumer would consider coercive or abusive of the consumer's right to privacy.
 - ❖ Limit the hours of the day a telemarketer may make solicitation calls.
 - ❖ When selling goods or services, the telemarketer must promptly and clearly disclose the purpose of the call is to sell goods or services. The disclosure should include the nature and price of the goods and services.
 - ❖ When it is for charitable contributions, donations, or gifts of money or other thing of value, the telemarketer must promptly and clearly disclose the call is to solicit charitable contributions or thing of value. They must provide the charitable organization name and address.
- Telemarketers may not solicit someone registered on the Do Not Call list. Telemarketers are required to scrub their telemarketing or client list with the Do Not Call Registry **every 31 days**

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- A mortgage loan originator may solicit a client on the do not call list based on Client Relationship as follows:
 - ❖ A previous client from an established business relationship you may solicit **for up to 18 months** after the last transaction, even if the consumer is on the Do Not Call Registry.
 - ❖ A prospective client who submits an inquiry or application you may solicit for **up to three months**.
 - ❖ A client who has given written permission may be solicited with an unspecified time frame even if the client is on the Do Not Call Registry.
- A telemarketer, which includes a mortgage loan originator calling leads, who disregards the National Do Not Call Registry, could be **finned up to \$40,000** for each call.

Fair Lending

- **Fair lending** is essentially granting access to credit to everyone and anyone who wishes to obtain, and qualifies for, a loan.
- **Disparate Treatment** is either overt discrimination, or there is comparative evidence of discrimination.
- **Overt discrimination** is when a lender openly discriminates on a prohibited basis; this can be in a written policy or an oral statement.
- **Comparative evidence** is the treatment of a credit applicant differently based on one of the prohibited basis, differences in treatment that are not fully explained by legitimate non-discriminatory factors, and does not require any evidence that the treatment was motivated by prejudice or that the creditor intended to discriminate against a person.
- **Disparate Impact** occurs when a facially neutral policy or practice is applied equally to all applicants, but the policy or practice disproportionately excludes or burdens certain groups of people on a prohibited basis.
- Redlining is an unethical practice where a financial institution makes it extremely difficult or impossible for residents of a particular neighborhood to borrow money, gain approval for a mortgage, take out insurance or gain access to other financial services because of a history of high default rates. Redlining typically occurs in poor inner-city neighborhoods. In the case of redlining, an individual's qualifications and creditworthiness are not considered.

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- **Reverse Redlining** is the opposite; it is where a financial institution lends specifically in poor inner-city neighborhoods to charge them more than a comparable white consumer.
- **Blockbusting** occurs when real estate agents and building developers attempt to convince white property owners to sell their houses at low prices by promoting fears in those homeowners that racial minorities would soon be moving into the neighborhood.

Addendum 1

Mortgage Glossary

This is the Mortgage Term Glossary. This is not an exhaustive glossary but includes the most common and useful mortgage terms. Many of these terms are discussed in more detail throughout the chapters of this textbook so be sure to refer to the proper section of the textbook for more clarification.

Numbers

1003

A Fannie Mae loan application form designed by Fannie Mae and Freddie Mac that is used by lenders to obtain personal financial information from borrowers who apply for a mortgage loan secured by a one-to-four-unit residential real estate. Also known as: Uniform Residential Loan Application (URLA). It has been widely adopted by mortgage lenders as a standard loan application form and is often pronounced "ten-oh-three." Freddie Mac also uses the same application form, referring to it as the Freddie Mac Form 65.

1031 Exchange

A 1031 exchange allows resident and non-resident United States federal taxpayers to defer capital gains and recaptured depreciation taxes when exchanging real or personal property held for productive use in a trade, business, or for investment for like-kind real or personal property held for productive use in a trade, business, or for investment. The tax otherwise paid in a traditional sale is deferred indefinitely until the replacement property is sold or another 1031 exchange is initiated.

2-1 Buydown

A 2-1 buydown is a type of financing that lowers the interest rate on a mortgage for the first two years before reaching a permanent rate. Sellers and builders may offer buydown options to make a property more attractive to buyers, making payments during the initial period to the lender to subsidize the difference

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4506-T

An IRS Form used to retrieve past tax returns, W-2, and 1099 transcripts that are on file with the IRS. It is used to validate income documentation for underwriting and quality control purposes.

A**Abstract of Title**

A concise statement, usually prepared for a mortgagee or purchaser of real property, summarizing the history of a piece of loan, including all conveyances, interests, liens, and encumbrances that affect title to the property. A good and merchantable abstract of title shows clear and marketable title, rather than showing only the history of the property.

Acceleration Clause

A loan-agreement provision that requires the debtor to pay off the balance sooner than the due date if some specified event occurs, such as failure to pay an installment or to maintain insurance.

Accrued Interest

Interest that is earned but not yet paid. For example: If your payment is August 1, you are paying interest for the previous month. Unlike rent, it is paid for the month, you are going to live in the apartment.

Acquisition Costs

The original cost of an asset.

Adjustable Rate Mortgage (ARM)

A mortgage in which the lender can periodically adjust the mortgage interest rate in accordance with fluctuations in an external market index. Also known as: Variable Rate Mortgage (VRM).

Adjusted Basis

Basis increased by capital improvements and decreased by depreciation deductions.

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Adjustment Interval

On an Adjustable Rate Mortgage (ARM), the time between changes in the interest rate and/or monthly payment. Typically, one, three, or five years depending on the index.

Adjustment Period

Time between the adjustment dates for an Adjustable Rate Mortgage (ARM).

Affiliated Business Arrangement (AfBA)

An arrangement in which a person refers a business to a real estate service involving a federally related mortgage loan that has either an affiliate relationship with as little as 1% ownership interest. Such persons directly or indirectly refer business to that provider and may influence the selection of that provider. An MLO that is also a Licensed Real Estate Agent requires an Affiliated Business Arrangement (AfBA) disclosure. AfBA is a violation of Section 8 of the Real Estate Settlement Procedures Act (RESPA), if not disclosed to the borrower with three business days of informing the borrower of the conflict of interest.

Agreement of Sale

An agreement that obligates someone to sell and may include a corresponding obligation for someone else to buy.

Alienation Clause

An alienation clause is a provision in the contract signed with the lender that states that the borrower must pay the mortgage in full before the borrower can transfer the property to another person. This is also known as a due-on-sale clause.

Alternative Documentation

A method of documenting a loan file by using information such as pay stubs, W-2 forms, tax returns and bank stubs instead of waiting on verifications sent to third parties for confirmation of statements made on the application.

American Land Title Association (ALTA)

The mission of ALTA is to improve the skills and knowledge of providers in the real property transaction, effectively advocate member concerns, and standardize products for industry use.

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Amortization

The act or result of gradually extinguishing a debt, such as a mortgage, usually by contributing payments or principal each time a periodic interest payment is due.

Amortization Term

The length of time it will take to amortize the mortgage loan expressed in months. For example, a 30-year mortgage is a 360-month amortization term.

Annual Percentage Rate (APR)

The actual cost of borrowing money expressed in the form of an annualized interest rate.

Annuity

A fixed sum of money payable periodically, usually monthly or annually. These payments terminate upon the death of the designated beneficiary. Also, a right, often acquired under a life-insurance contract, to receive fixed payments periodically for a specified duration.

Appraisal

The determination of what constitutes a fair price for something or how its condition can be fairly stated at a point in time.

Appraisal Fee

A fee charged by a licensed certified appraiser to determine the fair market value.

Appraiser

An impartial person who estimates the value of something such as real estate.

Appreciation

An increase in an asset's value (often because of inflation).

Arbitration

A dispute-resolution process in which the disputing parties choose one or more neutral third parties to make a final and binding decision resolving the dispute. A third party may be chosen directly by mutual agreement, or indirectly by agreeing to have an arbitration organization select the third party.

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Adjustable Rate Mortgage Disclosure

Describes the features of the Adjustable Rate Mortgage (ARM) loan which must be presented to the consumer within 3 days of application.

Adjustable Rate Mortgage Handbook (CHARM)

The consumer Handbook to Adjustable-Rate Mortgages must be presented within 3 days of application.

Asbestos

A soft gray mineral that was used as a building material in the past. It is no longer in use but can still be found in some older homes. When asbestos dust is inhaled it can cause serious diseases of the lungs.

Assessed Value

The value of an asset as determined by an appraiser for tax purposes.

Assessment

Determination of the rate or amount of something, such as a tax or damages.

Assessor

An official who evaluates or makes assessments, especially for purposes of taxation.

Asset

An owned item that has value.

Assignment

The transfer of rights or property.

Assignment of Mortgage/Assigned Loan

An assignment in which a mortgage lender or borrower transfers the mortgage to a third party.

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Assumption (of Mortgage or Trust Deed)/Assumable

The acquisition of real property coupled with the assumption of personal liability for debt secured by that property. Assumption is not allowed by Fannie Mae, Freddie Mac or USDA. FHA and VA do allow for assumptions in certain situations.

Assumption Fee

The fee paid to a lender when an assumption takes place. It is usually paid by the purchaser.

Average Prime Offer Rate

The Average Prime Offer Rate (APOR) is an annual percentage rate that is based on average interest rates, fees, and other terms on mortgages offered to highly qualified borrowers.

B

Balance Sheet

A statement of financial position as of the statement's date, disclosing the value of assets, liabilities, and equity.

Balloon Mortgage

A mortgage requiring periodic payments for a specified time and a lump-sum payment of the outstanding balance at maturity. The minimum term for a balloon mortgage under HOEPA is five (5) years.

Balloon Payment

A final loan payment that is usually much larger than the preceding regular payments. This payment discharges the principal balance of the loan.

Bait and Switch

The action (generally illegal) of advertising goods which are an apparent bargain, with the intention of substituting inferior or more expensive goods.

Basis Point

Basis points are used in computing and calculating the interest rate in real estate

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transaction. One basis point is equal to 1/100th of 1%, or 0.01%, and is used to denote the percentage change in a financial instrument.

Bankruptcy

A statutory procedure by which a usually insolvent debtor obtains financial relief and undergoes a judicially supervised reorganization or liquidation of the debtor's assets for the benefit of lenders. Chapter 11 or 13 remains on the credit report for 7 years, a Chapter 7 for 10 years.

Blanket Mortgage

A mortgage that covers an aggregation of property, or that secures indebtedness previously existing in various forms. For example: a mortgage covering two or more properties that are pledged to support a debt.

Bona fide

Made in good faith without fraud or deceit.

Bona-Fide Nonprofit Organization

Bona fide nonprofit organization means any organization that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as amended from time to time.

Borrower (Mortgagor)

Someone who mortgages property.

Borrowers Signature Authorization

A form signed by the applicant authorizing the lender to obtain and verify information and documentation from third parties that is needed in connection with the application for mortgage loan.

Bridge Loan

A short-term loan that uses the borrower's equity to make a down payment on a new home. The Bridge Loan will be paid upon the sale of the existing home.

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Building Code

A law or regulation setting forth standards for the construction, maintenance, occupancy, use, or appearance of buildings and dwelling units.

Buy-Down

Money paid by the buyer of a house to reduce the mortgage-interest payments.

Buy-Down Account for Temporary Buydowns

The account in which funds are held so they can be applied as each payment comes due for an interest rate buy-down plan.

Buyer's Broker/Agent

A real estate broker who acts as the agent of a purchaser of property. Statutes in many states permit prospective buyers to retain a licensed real estate agent. In some states, a buyer's broker is treated as the subagent of the broker with whom the owner lists property for sale and not the agent of the buyer.

Buyer's Market

A market in which supply significantly exceeds demand, resulting in lower prices.

C

Call Option

An option to buy something at a fixed rate price even if the market rises; the right to require another to sell.

Capacity

Gross income X the Debt to Income (DTI) ratio = the maximum mortgage and debt payments, the borrower can afford.

Cash Flow

The movement of cash through a business as a measure of profitability or liquidity.

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Cash Out Refinance

Cash-out refinance gives the borrower a lump sum when they close their refinance loan. The loan proceeds are first used to pay off the borrower's existing mortgage(s), including closing costs and any prepaid items (for example real estate taxes or homeowners insurance); any remaining funds are the borrower to use as they wish.

Cashier's Check

A check drawn by a bank payable to another person. This is evidence that the payee has authorization from the bank for the amount of money represented by the check.

Certificate of Deposit

A banker's certificate acknowledging the receipt of money and promising to repay the depositor.

Certificate of Eligibility

A certificate issued by the Department of Veterans Affairs (VA) certifying a veteran's maximum benefits for a VA loan. This certificate is also known as the Certificate of Entitlement.

Certificate of Occupancy

A document indicating that a building complies with zoning and building ordinances and is ready to be occupied. A certificate of occupancy is often required before title can be transferred and the building occupied.

Certificate of Reasonable Value (CRV)

An appraisal issued by the Department of Veterans Affairs (VA) showing the property's fair market value.

Certificate of Title

A document indicating the ownership of real or personal property. This document also identifies any liens or other encumbrances.

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Certificate of Veteran Status

Certificate given to veterans or reservists who have served 90 days of continuous active duty (including training time), which enables veterans to obtain lower down payments on VA loans.

Chain of Title

The ownership history of a piece of land, from its first owner to the present one. For the holder to have a good title, every prior negotiation must have been proper. If the necessary indorsement is missing or forged, the chain of title is broken, and no later transferee can become a holder.

Change Orders

A modification of the original construction plans ordered by the property owner or general contractor.

Clear Title

A title free from any encumbrances, burdens, or other limitations. I.e. a good and marketable title.

Civil Rights Act (1964)

Is a landmark civil rights and labor law in the United States that outlaw's discrimination based on race, color, religion, sex, or national origin. It prohibits unequal application of voter registration requirements, and racial segregation in schools, employment, and public accommodations. Enacted July 2, 1964.

Change Frequency

Change in the frequency of payment or interest rate of Adjustable Rate Mortgage (ARM).

Closing/Settlement

The final transaction between the buyer and seller whereby the conveyance of documents is concluded, and the money and property are transferred.

Closing Agent

An agent who represents the buyer and seller in the negotiation and closing of real property transactions by handling financial calculations and transfer of documents.

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Closing Costs

The expenses that must be paid, usually in a lump sum at closing, apart from the purchase price and interest. These may include taxes, title insurance, and attorney's fees and any other cost assessed to the borrower to obtain the loan

Closing Date

The date scheduled for the signing of the documents on the real estate transaction.

Closing Statement

A written breakdown of the costs involved in the real estate transaction, usually prepared by a lender or an escrow agent.

Cloud on Title

A defect or potential defect in the owner's title to a piece of land arising from some claim or encumbrance, such as a lien, an easement, or a court order.

Co-Borrower

Any borrower in addition to the primary borrower whose name appears on the application. The co-borrower's along with the borrower's income, assets, liabilities, and credit history are considered in determining creditworthiness.

Collateral

Property that is pledged as security against a debt, such as mortgage.

Combined Loan-to-Value (CLTV)

Ratio of the total mortgage liens against the property to the lesser of either the appraised value or the sales price. On a refinance, it is first mortgage and the amount of the HELOC, or second mortgage drawn divided by the value.

Commission

The fee paid to an agent for a transaction usually as a percentage of the money received from the transaction.

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Commitment

A binding offer by a lender to make a loan under certain terms or conditions to a borrower. Includes the amount of the mortgage, the interest rate, and repayment terms.

Common Areas

The common areas (ex. hallways, lobby, workout facilities) that all tenants may use, though the landlord retains control over and responsibility for it.

Community Property State

In community property states, the assets of each spouse are considered assets of the marital unit. The assets of each partner in the relationship are not legally separate from those of the spouse. That is, while a couple is married, creditors of one spouse, with certain restrictions, can seize the assets of both spouses

Community Reinvestment Act (1977)

Intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low to moderate income neighborhoods, consistent with safe and sound banking operations.

Comparables

An abbreviation for "comparable properties" used in the appraisal process. Comparables are properties similar to the property under consideration. They have reasonably the same size, location, and amenities and have recently been sold. They must be similar property, within one mile of the subject property and should be no more than 6 months old. Comparables help the appraiser determine the approximate fair market value of the subject property.

Concession

The voluntary yielding to a demand for the sake of a settlement. In a real estate transaction, something given up or agreed to in sale negotiations. For example, the sellers may agree to help pay for closing costs.

Condition

A stipulation or prerequisite in a sales contract. If a court construes a contractual term to be a condition, then its breach will entitle the party to whom it is made to be discharged

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from all liabilities under the contract.

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Condominium

A single real estate unit in a multi-unit development in which a person has both separate ownership of a unit and a common interest, along with the development's other owners, in the common areas.

Conforming Loan

A mortgage loan meeting the guidelines and are under the maximum amount of loans that Fannie Mae and Freddie Mac are legally allowed to buy.

Construction Mortgage

A mortgage used to finance a construction project.

Consumer Credit

Credit advanced to consumers for the purchase of goods or services.

Consumer Financial Protection Bureau (CFPB)

An independent federal agency that regulates consumer financial products and services. The Bureau protects consumers by restricting unfair and deceptive business practices, by promoting financial education, taking consumer complaints, and enforcing federal consumer-financial-protection laws. It was established by the Dodd-Frank Act in 2010 and began operating in 2011.

Consumer Reporting Agency (Credit Bureau)

An independent firm that collects, compiles and reports the credit activities of individuals which is made available, for a fee, to lenders or credit issuing entities investigating the creditworthiness of those applying for credit. Consumers may also access reports from each of the three major reporting agencies for free as required by law.

Contingency Clause

A clause within the sales contract stating that a certain condition must be met before a contract is legally binding, and the sale can close. Real estate contracts often have a specific date by which the contingency must be met. E.g. The buyer will often include an inspection contingency, requiring the home to be inspected for physical damages or problems before the sales contract is binding. The buyer will have the right to rescind if the contingency is not met.

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Conventional Mortgage

A mortgage which the borrower gives a voluntary lien to the mortgage lender or other financial institution. These mortgages, which feature a fixed periodic payment and interest throughout the mortgage term, are typically used for home financing.

Conversion Clause/Option

A provision in an Adjustable Rate Mortgage (ARM) which allows the loan to be converted from an ARM to a fixed-rate mortgage at specified times during the term. Usually allowed at the end of the first adjustment period. Also known as a Convertible ARM.

Conveyance

The voluntary transfer of property.

Cooperative (Co-op) Project

A project in which a corporation holds the title to a residential property and sells shares to individual buyers, who then receive a proprietary lease as their title.

Counteroffer

An offeree's new offer that varies the terms of the original offer and that ordinarily rejects and terminates the original offer. A late or defective acceptance is considered a counteroffer.

Covenants

A formal agreement or promise to perform, or not perform, a particular act.

Credit

One's ability to borrow money.

Credit History

Information in the files of a credit bureau regarding an individual's debts and repayments (or non-repayments).

Credit Life Insurance

Life insurance on a borrower, usually in a consumer installment loan, in which the amount due is paid if the borrower dies.

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Credit Report

A credit bureau's report on a person's financial status, usually including the approximate amounts and locations of a person's bank accounts, charge accounts, loans, other debts, bill-paying habits, defaults, bankruptcies, foreclosures, marital status, occupation, income, and lawsuits. It may indicate a High, Middle or Low Credit Score.

Credit Score

Statistically derived numeric expression of a person's creditworthiness that is used by lenders to assess the likelihood that the individual will repay their debts. Payment history, inquiries and credit utilization are some of the factors determining credit score.

Creditworthy

Financially sound enough that a lender will extend credit in the belief that default is unlikely.

D

Debt

Liability on a loan.

Declaration Page

The front page (or pages) of a policy that specifies the named insured, address, policy period, location of premises, policy limits, and other key information that varies from insured to insured. The declarations page is also known as the information page.

Delinquent loan

Delinquency means that a borrower is behind on payments. Once a borrower is delinquent for a certain period of time, the lender will declare the loan to be in default. The entire loan balance will become due at that time.

DD-214

Known as the Certificate of Release or Discharge from Active Duty, generally referred to as a "DD 214", is a document of the United States Department of Defense, issued upon a military service member's retirement, separation, or discharge from active duty in the Armed Forces of the United States

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Debt-to-Income Ratio/Debt Ratio

The percentage of verified gross monthly income divided into total payments for monthly housing expenses, alimony, child support, car payments, and other installment debts, and payments on revolving or open-ended accounts such as credit cards.

Deed

A legal document that is signed and delivered from the seller to the borrower showing ownership of property.

Deed-in-Lieu of Foreclosure

Deed in which the mortgagor conveys all interest in the property to the mortgagee to satisfy a loan that is in default to avoid foreclosure proceedings. A written settlement agreement will always accompany deed-in-lieu. The lender waives the right to collect any deficiency based on a promissory note.

Deed of Reconveyance

A mortgage holder issues a deed of reconveyance to indicate that the borrower has been released from the mortgage debt. The deed transfers the property title from the lender, also called the beneficiary, to the borrower. This document is most commonly used when a mortgage has been paid in full.

Deed of Trust

A deed conveying the title of real property to a trustee as security until the grantor repays a loan. This type of deed resembles a mortgage. It is an alternative to a mortgage preferred by lenders because it is faster and cheaper to foreclose.

Default

The omission or failure to perform a legal or contractual duty, especially the failure to pay a debt when due.

Delinquency

A debt that is overdue in payment.

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Department of Veterans Affairs (VA)

The cabinet-level department of the federal government responsible for operating programs that benefit veterans of military service and their families. It is headed by the Secretary of Veterans Affairs.

Depreciation

A reduction in the value or price of something, specifically, a decline in an asset's value because of use, wear, obsolescence, or age.

Discount Point

A fee equal to 1 percent of the loan amount that is prepaid interest on the mortgage loan. The more points, the lower the interest rate. Discount Points can only be used to reduce the interest rate. Borrowers can typically pay from 0-4 points.

Dodd-Frank Wall Street Reform & Consumer Protection Act

A 2010 federal statute that promotes the financial stability of the United States by improving account- ability and transparency in the financial system. The statute affects nearly every federal agency with jurisdiction over finance or consumer protection, and nearly every segment of the financial-services industry.

Double Selling

Double selling is a type of real estate or mortgage fraud that generally involves a mortgage broker. The mortgage broker takes the information from a potential borrower in order to obtain a mortgage loan. The borrower is usually in on the mortgage fraud scam.

Down Payment

A portion of the purchase price paid in cash (or its equivalent) at the time the sale agreement is executed.

Due-on-Sale Clause

A mortgage provision that gives a lender the option to accelerate the debt if the borrower transfers any part of the mortgaged real estate without the lender's consent.

E**Early Payment Default**

Early Payment Default means, with respect to a Mortgage Loan, the failure of the Mortgagor to make any of the first three Monthly Payments due under the Mortgage Loan on or before its scheduled Due Date.

Earnest Money Deposit

A deposit paid (often in escrow) by a prospective buyer to show a good-faith intention to complete the transaction, and ordinarily forfeited if the buyer defaults. It is generally a percentage of the purchase price and it rarely exceeds 10 percent.

Easement

An interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose. E.g., an ingress and egress easement for the right to access the land through the land of another. The land benefitting from an easement is called the dominant estate, while the land burdened by an easement is called the servient estate. Unlike a lease or license, an easement may last forever, but it does not give the holder the right to possess, take from, improve upon, or sell the land.

The primary recognized easements are:

- A right-of-way.
- A right of entry for any purpose relating to the dominant estate.
- A right to support of land and buildings.
- A right of light and air.
- A right to water.
- A right to do some act that would otherwise amount to a nuisance; and
- A right to place or keep something on the servient estate.

Economic Obsolescence

Obsolescence that results from external economic factors, such as decreased demand or changed governmental regulations.

Effective Interest Rate

The actual annual rate, which incorporates compounding when calculating interest, rather than the stated rate or coupon rate.

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Eminent Domain

The inherent power of a governmental entity to take privately owned property and convert it to public use, subject to reasonable compensation for the taking.

Employer-Assisted Housing

A program in which an employer assists its employees in purchasing homes by helping with the down payment, closing costs, or monthly payments.

Encroachment

An interference with or intrusion onto another's property.

Encumbrance

A claim or liability that is attached to property and that may lessen its value, such as a lien or mortgage. An encumbrance cannot defeat the transfer of possession, but it remains after the property or right is transferred.

Entitlement

An absolute right to a benefit granted immediately upon legal requirement.

Equal Credit Opportunity Act (ECOA/Regulation B)

A federal statute that prohibits lenders from discriminating against credit applicants based on race, color, religion, national origin, age, sex, or marital status with respect to any aspect of a credit transaction.

Equitable Mortgage

A transaction that has the intent but not the form of a mortgage, and that a court of equity will treat as a mortgage.

Equity

The amount by which an interest in property exceeds secured claims or liens. The difference between the value of the property and all encumbrances on it.

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Escrow

A legal document or property delivered by a promisor to a third party to be held by that third party for a given amount of time or until the occurrence of a condition at which time the third party is to hand over the document or property to the promiser.

Escrow Account(s)

A bank account generally held in the name of the depositor and an escrow agent that is returnable to the depositor or paid to a third person on the fulfillment of specified conditions.

Escrow Agent

The third-party depository of an escrow. An escrow holder is not a common-law agent because the holder does not act subject to the control of the parties to the escrow agreement.

Escrow Agreement

The instruction given to the third-party depository of an escrow.

Escrow Contract

The contract among buyer, seller, and escrow holder, setting forth the rights and responsibilities of each.

Escrow Holdback

An escrow holdback is simple money set aside that assures the seller will finish agreed upon work at a later time.

Eviction

The act or process of legally dispossessing a person of land or rental property.

Exclusive Right-to-Sell Listing

The right to sell a principal's products or to act as the seller's real estate agent to the exclusion of all others, including the owner. The listing agreement upon which the broker gets commission even if seller is the one who sells the house during the agreement period or for a certain period thereafter.

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Exclusive Agency Listing

A listing giving one agent the right to be the only person, other than the owner, to sell the property during a specified period. A listing agreement upon which the broker does not get a commission if the seller sells the property themselves.

Executor

A person named by a testator to carry out the provisions of the testator's will.

F

Fair and Accurate Credit Transactions Act (FACT Act) 2003

A 2003 amendment to the federal Fair Credit Reporting Act providing free annual credit reports to consumers and establishing measures intended to help prevent identity theft. One of the Act's better-known and more heavily litigated provisions prohibits merchants from printing the expiration date or more than the last five digits of the card number on a point-of-sale credit card or debit card receipts.

Fair Credit Reporting Act (FCRA/Regulation V)

A 1970 federal statute that regulates disclosure and use of consumer-credit information and ensures the right of consumers to have access to and to correct their credit reports. Many states have enacted similar statutes.

Fair Housing Act (FHA)

A 1968 federal statute that prohibits discrimination based on race, sex, religion, family status, or national origin in the sale or rental of a dwelling, especially in the refusal to sell or rent.

Fair Market Value

The price that a seller is willing to accept and a buyer is willing to pay on the open market and in an arm's-length transaction, the point at which, supply and demand intersect.

Fannie Mae/Freddie Mac Loan Limit

The loan limits as set by FHFA for Fannie Mae and Freddie Mac loans. These numbers are higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands. They change yearly.

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Federal Mortgage Loans

Federal Mortgage Loans are loans insured or guaranteed by the federal government. Examples are FHA, VA and USDA loans.

Federal National Mortgage Association (Fannie Mae/FNMA)

A privately owned and managed corporation chartered by the U.S. government that provides a secondary mortgage market for the purchase and sale of conventional conforming mortgages.

Federal Home Loan Mortgage Corporation (Freddie Mac/FHLMC)

A corporation that purchases both conventional conforming first mortgages from members of the Federal Reserve System and other approved banks.

Federal Housing Administration (FHA)

An agency in the U.S. Department of Housing and Urban Development responsible for facilitating FHA mortgage lending by insuring mortgage loans on houses meeting the agency's standards. The FHA was created in 1934.

Federal Reserve System (FRS)

The central bank that sets credit and monetary policy by fixing the reserves to be maintained by depository institutions, determining the discount rate charged by Federal Reserve Banks, and regulating the amount of credit that may be extended on any security. The Federal Reserve System was established by the Federal Reserve Act of 1913. It incorporates 12 central banks supervised by a Board of Governors whose members are appointed by the President and confirmed by the Senate.

Fee Simple

An interest in land that, being the broadest property interest allowed by law, endures until the current holder dies without heirs.

FHA Mortgage

A mortgage that is insured fully or partially by the Federal Housing Administration (FHA).

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FHA Mortgage Insurance

Current Federal Housing Administration (FHA) upfront mortgage insurance premiums are 1.75 percent of the loan size. If an FHA-backed mortgage is used for a purchase mortgage and your loan size is \$300,000, then your upfront Mortgage Insurance Premium (MIP) will be \$5,250. The renewal premium varies by FHA product, generally $.85 \times \text{mortgage amount} \div 12$ = the monthly premium added to the monthly payment

Finance Charge

A finance charge is a fee charged for the use of credit or the extension of existing credit. It may be a flat fee or a percentage of borrowings, with percentage-based finance charges being the most common. A finance charge is often an aggregated cost, including the cost of carrying the debt itself along with any related transaction fees, account maintenance fees or late fees charged by the lender.

Firm Commitment

A promise from a lender to make a mortgage loan.

First Mortgage

A mortgage that is senior to all other mortgages or liens on the same property.

First-Time Home Buyer

An individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase of the property. This includes a spouse. If either meets the test, they are considered first-time homebuyers.

A single parent who has only owned with a former spouse while married.

Fixed Installment

The monthly payment due on a mortgage loan which includes both principal and interest.

Fixed Period Adjustable Rate Mortgage

An adjustable rate mortgage with an initial fixed interest rate period. After the fixed interest rate expires, the interest rate starts to adjust based on an index plus a margin. The amount by which the interest rate can adjust after the fixed period is usually subject to an interest rate cap.

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Fixed-Rate Mortgage (FRM)

A mortgage with an interest rate that remains the same over the life of the mortgage regardless of market conditions.

Flood Certification Fee

Fee issued to the client which covers the cost of the assessment and is included in closing costs and fees.

Flood Insurance

Insurance that indemnifies against a loss caused by a flood. This type of insurance is often sold privately but subsidized by the federal government. Maximum coverage is \$250,000.

Floor

On an ARM loan, the margin is the floor and the lowest the interest rate can go over the life of the loan.

Forbearance

The act of refraining from enforcing a right, obligation, or debt. Permitting one to retain a loan of money after it has become due and payable is forbearing it. Forbearance, within the meaning of usury laws, is the giving of further time for the return of payment of money after the date upon which it became due.

Forced Placed Insurance

Lien holders will put forced place insurance onto a mortgaged property in cases where the borrower allows the coverage they were required to purchase to lapse. Lapses may be due to non-payment of premium, filing false claims, or other reasons. Forced place insurance will protect the property, the homeowner, and the lien holder. Future mortgage payments will reflect the added cost of the insurance

Foreclosure

A legal proceeding to terminate a mortgagor's interest in property, instituted by the lender (the mortgagee) either to gain title or to force a sale to satisfy the unpaid debt secured by the property.

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Forfeiture

A destruction or deprivation of some estate or right because of the failure to perform some contractual obligation or condition. When a condition is not likely to occur until the obligee has relied on the expected exchange by, for example, performing or preparing to perform, a non-occurrence of the condition results in the obligee's loss of its reliance interest when the obligee loses the right to that exchange. This loss of reliance interest is often described as forfeiture.

Fraud Enforcement and Recovery Act of 2009 (FERA)

The law enhanced criminal enforcement of federal fraud laws, especially regarding financial institutions, mortgage fraud, and securities fraud or commodities fraud. Enacted May 2009.

Fully Amortized Mortgage

A mortgage in which the mortgagor pays the interest as well as a portion of the principal in the periodic payment. At maturity, the periodic payments will have completely repaid the loan. Also known as a self-liquidating mortgage. For example, 360 P&I payments on a 30-year loan will pay the loan in full.

G

General Contractor

Someone who contracts for the completion of an estate project, including purchasing all materials, hiring and paying subcontractors, and coordinating all the work.

General Warranty Deed

A seller promises that there are no defects in the title that arose or were created while the seller owned the property or while anyone prior to the seller owned the property.

Gift Letter

A letter to the lender from the donor stating a gift of money has been made to the buyer to purchase a specific property. The gift must come from an immediate blood relative and no evidence of repayment required.

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Good Faith Estimate

Gives you an estimate of the costs of the mortgage loan. A form that lists basic information about the terms of a mortgage for which the applicant has applied. If the applicant applied for a mortgage before October 3, 2015, or if the applicant is applying for a reverse mortgage or HELOC, they will receive a Good Faith Estimate (GFE).

Government Mortgage

Mortgage insured by a government entity, such as Federal Housing Administration (FHA), Veteran's Administration (VA) or Rural Housing Service (RHS – USDA loans).

Government National Mortgage Association (Ginnie Mae/GNMA)

A federally owned corporation in the U.S. Department of Housing and Urban Development responsible for guaranteeing mortgage-backed securities composed of FHA insured or VA guaranteed mortgage loans. The Association purchases, on the secondary market, residential mortgages originated by local lenders; it then issues federally insured securities backed by these mortgages.

Graduated Payment Mortgage (GPM)

A mortgage whose initial payments are lower than its later payments. The payments are intended to gradually increase, as the borrower's income increases over time. This type of mortgage may result in negative amortization.

Grace Period

An extra period of time allowed for taking some required action (such as making payment) without incurring the usual penalty for being late. Article 9 of the Uniform Commercial Code (UCC) provides for a 20-day grace period after the collateral is received. During that time a purchase-money security interest must be perfected to have priority over any conflicting security interests.

Gramm-Leach-Bliley Act (GLB) 1999 – Regulation P

A federal statute that repealed both parts of the Glass-Steagall Act prohibiting combinations among banking, securities, and insurance companies, as well as related conflict-of-interest provisions for such companies' officers, directors, and employees. The Act also regulates the collection, disclosure, use, and protection of consumers' nonpublic personal information.

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Gross Monthly Income

The total amount of a person's income before taxes.

Ground Rent

Rent paid by a tenant under a long-term lease for the use of undeveloped land, usually for the construction of a commercial building.

Growing-Equity Mortgage (GEM)

A mortgage that is fully amortized over a significantly shorter term than the traditional 30-year mortgage, with increasing payments each year.

Guarantee

Assumption of the liability of another's debts in the event of default.

Guarantee Mortgage

A mortgage that is guaranteed by a third party.

Guaranty

A promise to answer for the payment of some debt, or the performance of some duty, in case of the failure of another who is liable in the first instance.

H

Hazard Insurance

Insurance that protects property owners against damage caused by fires, severe storms, earthquakes, or other natural events. It will also protect the borrower against liability for someone that is injured on the property. If the specific event is covered within the policy, the property owner will receive compensation to cover the cost of any damage incurred.

Higher-Priced mortgage/High Priced Mortgage

In general, a higher-priced mortgage loan is one with an annual percentage rate, or APR, higher than a benchmark rate called the Average Prime Offer Rate. The Average Prime Offer Rate (APOR) is an annual percentage rate that is based on average interest rates, fees, and other terms on mortgages offered to highly qualified borrowers. A mortgage will be considered a higher-priced mortgage loan if the APR is a certain percentage higher than the

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APOR depending on what type of loan the borrower has. See the Federal Comprehensive Textbook for the thresholds.

High Cost Mortgage

In general, a high-cost mortgage is a type of loan where the loan exceeds one or more of the three thresholds. See Federal Comprehensive Textbook for the thresholds.

Home Equity Loan

A line of bank credit given to a homeowner, using the homeowner's equity in the home as collateral.

Home Inspection

A non-invasive visual examination of a residential dwelling, performed for a fee, which is designed to identify observed material defects within specific components of said dwelling.

Home Mortgage Disclosure Act of 1975 (HMDA/Regulation C)

This regulation provides the public loan data that can be used to assist in determining whether financial institutions are serving the housing needs of their communities, public officials in distributing public-sector investments to attract private investment to areas where it is needed, and in identifying possible discriminatory lending patterns. The regulation applies to certain financial institutions, including banks, savings associations, credit unions, and other mortgage lending institutions. Mortgage Brokers are exempt.

Homeowner's Insurance

Insurance that covers both damage to the insured's residence and liability claims made against the insured, especially those arising from the insured's negligence.

Homeowner's Warranty (HOW)

A warranty and insurance program that, among other coverage, insures a new home for ten years against major structural defects. The program was developed by the Home Owners Warranty Corporation, a subsidiary of the National Association of Home Builders. Builders often provide this type of coverage and may states provide similar warranty protection by statute.

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Home Ownership and Equity Protection Act (HOEPA) 1994

HOEPA was enacted in 1994 as an amendment to the Truth-In-Lending Act (TILA) to address abusive practices in refinances and closed end home equity loans with high interest rates or high fees.

Housing and Urban Development (HUD)

The cabinet-level department of the federal government responsible for overseeing programs that are concerned with housing needs and fair-housing opportunities, and with improving and developing the country's communities. Established in 1965, headed by the Secretary of Housing and Urban Development.

Housing Code

A law or regulation setting standards for the construction, maintenance, occupancy, use, or appearance of buildings and dwelling units.

Housing and Economic Recovery Act of 2008

The Housing and Economic Recovery Act (HERA) was created to address the subprime mortgage crisis of 2008. The Housing and Economic Recovery Act allowed the Federal Housing Administration (FHA) to guarantee up to \$300 billion in new 30-year fixed rate mortgages for subprime borrowers. In order to participate, lenders were required to write down the balances on principal loans up to 90 percent of their current appraised value.

Housing Expenses-to-Income Ratio

A ratio comparing housing expenses to before-tax income that is used by lenders to qualify borrowers for a mortgage. The housing expense measure includes mortgage principal, interest payments, property taxes, hazard insurance, mortgage insurance, and association fees. The limit for housing is generally 28 percent of the expense-to-income ratio on manually underwritten conventional conforming loans.

HUD-1 Settlement Statement

Standard form at closing which is used to itemize services and fees charged to the borrower by the lender or broker when applying for a loan for the purpose of purchasing or refinancing real estate. This form is used only for Reverse Mortgages and HELOC's since TRID was implemented

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Hybrid Loan

It performs like a fixed and adjustable rate loan. It has a fixed rate for an initial period before turning into an Adjustable Rate Mortgage (ARM). These initial periods are offered in 3, 5, 7, or 10-year terms.

/

Impound

The portion of a monthly mortgage payment that is earmarked to pay property taxes and property- insurance premiums.

Income Property

Property that produces income, such as 1- 4 family rental property.

Index

A number, usually expressed in the form of a percentage or ratio, commonly used in ARM loans, High Cost and High-Priced loans.

Indexed Rate

Also, referred to as the Fully Indexed Rate. An interest rate charged on loans to borrowers that is calculated by taking the sum of a benchmark index and a specified margin. The indexed rate is used to calculate the interest rate on an ARM.

Individual Retirement Account (IRA)

A savings or brokerage account to which a person may contribute up to a specified amount of earned income each year. The contributions, along with any interest earned in the account, are not taxed until the money is withdrawn after a participant reaches the age of 59 1/2 (or before then, if a 10 percent penalty is paid).

Inflation

A general increase in prices coinciding with a fall in the real value of money.

Initial Interest Rate

The interest rate that applies on the first day of the loan's term.

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Inquiry

A request for a copy of your credit report by a lender or other business, often when you fill out a credit application and/or request more credit.

Insolvency

Insolvency is a term for when an individual or organization can no longer meet its financial obligations with its lender(s) as debts become due.

Insurance Binder

An insurance binder is a temporary insurance contract that offers the binder holder fully effective insurance coverage while they wait for the formal issuance, or in some cases rejection, of an insurance policy.

Installment

A periodic partial payment of a debt.

Installment Debt

A loan that is repaid by the borrower in regular installments. Installment debt is generally repaid in equal monthly payments that include interest and a portion of principal.

Interest

Interest is the charge for the privilege of borrowing money.

Interest Accrual Rate

The rate of interest that is added to the principal of a financial instrument between cash payments of that interest.

Interest Rate Buy Down Plan

Arrangement that allows the seller to deposit money to an account, from which the money is released each month to reduce the mortgagor's monthly payments during the early years of the mortgage.

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Interest Rate Ceiling (Cap)

The maximum interest rate that a financial institution can charge a borrower for an Adjustable Rate Mortgage (ARM) or loan according to the contractual terms of the mortgage loan.

Interest Rate Change Date

Date upon which the rate of interest is subject to change.

Interest Rate Floor

The minimum interest rate allowed according to the contractual terms of the mortgage loan.

Interim Financing

A short-term loan secured to cover certain major expenditures, such as construction costs, until permanent financing is obtained.

Investment Property

Any asset purchased to produce a profit, whether from income or resale.

Investor

A buyer of a security or other property who seeks to profit from it without exhausting the principal.

J

Joint Liability

Liability shared by two or more parties.

Joint Tenancy

A tenancy with two or more co-owners who are not spouses on the date of acquisition and have identical interests in a property with the same right of possession. A joint tenancy differs from a tenancy in common because each joint tenant has a right of survivorship to the other's share (in some states, this right must be clearly expressed in the conveyance – otherwise, the tenancy will be presumed to be a tenancy in common).

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Judgment Lien

A lien imposed on a judgment debtor's nonexempt property. This lien gives the judgment lender the right to attach the judgment debtor's property.

Jumbo Mortgage

A mortgage loan in a principal amount that exceeds the dollar limits for Fannie Mae, Freddie Mac or government loans.

Junior Mortgage/Junior Lien(s)/Subordinate Loan(s)

A mortgage that is subordinate to another mortgage on the same property. A junior mortgage is also known as a second lien, junior lien or subordinate loan. Common 2nd liens are HELOC's or 2nd Mortgages

K

Keogh Plan

A tax-deferred retirement program developed for the self-employed. This plan is also known as an H.R. 10 plan, after the House of Representatives bill that established the plan.

L

Late Charge

An additional fee assessed on a debt when a payment is not received by the 15th of the month in which the payment is due.

Lender (Mortgagee)

A person or entity from which money is borrowed.

Lender Credit

A lender credit is money from a mortgage lender to help cover the mortgage-related closing costs associated with the purchase of a borrower's house. The lender may offer a borrower several thousand dollars in credit to cover most (or all) of those costs. That credit is then applied to the borrower's mortgage

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Lease-Purchase Option

A rent-to-own purchase plan under which the buyer takes possession of the property with the first payment and takes ownership with the final payment. Such a lease is usually treated as an installment sale. Under a capital lease, the lessee is responsible for paying taxes and other expenses on the property.

Liabilities

Financial obligations in a specified amount. Any debt including an IRS lien,

Liability Insurance

Liability insurance provides the insured party with protection against claims resulting from injuries and damage to people and/or property. Liability insurance policies cover both legal costs and any payouts for which the insured party would be responsible if found legally liable. Intentional damage and contractual liabilities are generally not covered in these types of policies.

Lien

A legal right or interest that a lender has in another's property. This lasts until a debt or duty that it secures is satisfied. Typically, the lender does not take possession of the property on which the lien has been obtained.

Lifetime Payment Cap

For an Adjustable Rate Mortgage (ARM), a limit on the amount that payments can increase or decrease over the life of the mortgage.

Lifetime Rate Cap

For an Adjustable Rate Mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the mortgage.

Liquid Asset

An asset that is readily convertible into cash, such as a marketable security, a note, or an account receivable.

Loan

An act of lending.

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Loan Application Fee

A fee the buyer pays to a lender when applying for a mortgage.

Loan Discount Points

Prepaid interest on the mortgage loan. The more points paid, the lower the interest rate. Typically, borrowers can pay for 0-4 points. 1% of the loan amount is a Discount Point. Discount points can only be used for the reduction of interest rate.

Loan Origination

The process by which a borrower applies for a new loan, and a lender processes that application. Origination generally includes all the steps from taking a loan application up to disbursement of funds.

Loan Origination Fee

A fee charged by a lender to cover the administrative costs of making a loan.

Loan Pool

A group of Mortgage Loans that is serviced for an Investor by the Seller or that collateralizes one or more classes of securities which is considered to be aggregated for the purposes of servicing.

Loan Servicing/Administration

The process by which a company collects interest, principal, and escrow payments from a borrower.

Loan-to-Value Ratio (LTV)

The ratio between the amount of a mortgage loan and the value of the property pledged as security for the mortgage, usually expressed as a percentage. For example, an \$80,000 loan on property worth \$100,000 results in a loan-to-value ratio of 80 percent - which is usually the highest ratio that lenders will agree to without requiring the debtor to buy mortgage insurance on a conventional conforming loan

Lock

A guarantee that the lender will deliver a specific combination of interest rate and points if the mortgage closes by a specified date.

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Lock-In-Rate

A mortgage application interest rate that is established and guaranteed for a specified period.

London Interbank Offered Rate (LIBOR)

A daily compilation by the British Association of the rates that major international banks charge each other for large-volume, short-term loans of Eurodollars, with monthly maturity rates calculated out to one year. These daily rates are used as the underlying interest rates for derivative contracts in currencies other than the euro.

Long Term Debt

Is any amount of outstanding debt a company holds that has a maturity of 12 months or longer.

Low-Down-Payment Feature

A feature of some mortgages that can be fixed rate or ARM loans, that helps you buy a home with a low-down payment, may require mortgage insurance over 80% LTV.

M

Manufactured Housing

A type of prefabricated housing that is largely assembled in factories and then transported to sites of use. They are 320 square feet or more when assembled and built on a permanent chassis designed to be used as a dwelling with or without a permanent foundation. Manufactured homes are connected to the required utilities, and have within them plumbing, heating, air-conditioning, and electrical systems.

Margin

The yield an investor wants to earn over the life of the loan. It is also the lowest the rate can go on an ARM loan.

Market Condition Addendum (Form 1004MC)

The Market Conditions Addendum (Form 1004MC) is designed to enhance the transparency of the market trends and conditions conclusions made by the appraiser.

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Marketable Title

A title that a reasonable buyer would accept because it appears to lack any defect and covers the entire property that the seller has purported to sell.

Material Misstatement

A material misstatement is information in the financial statements that is sufficiently incorrect that it may impact the economic decisions of someone relying on those statements.

Maturity Date

The date when a debt falls due, such as a debt on a promissory note or bond.

Mechanic's Lien

A statutory lien that secures payment for labor or materials supplied in improving, repairing, or maintaining real or personal property.

Merged Credit Report

A credit report that contains information from at least three credit bureaus. Any duplicate entries are combined to provide a concise summary of outstanding liabilities and credit history.

Mixed Use Property

Commercial and Residential uses at the same time.

Modification

A process where the terms of a payment are modified outside the original terms of the contract agreed to by the lender and borrower.

Money Market Account

An interest-bearing account at a bank or other financial institution. Such an account usually pays interest competitive with money-market funds but allows a limited number of transactions per month.

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Monthly Fixed Installment

That portion of the total monthly payment that is applied toward principal and interest. When a mortgage is negatively amortized, the monthly fixed installment does not include any amount for principal reduction and does not cover all the interest. The loan balance therefore increases instead of decreasing.

Monthly Housing Expense

The sum of a homeowner's monthly mortgage principal and interest payments, plus, hazard insurance premiums, property taxes, and homeowner's association fees.

Mortgagee Clause

A mortgagee clause is a property insurance provision granting special protection for a mortgagee (e.g., financial institution that has an interest in the property) named in the policy that, in effect, sets up a separate contract between the insurer and the mortgagee.

Mortgage

A conveyance of title to property that is given as a voluntary lien for the payment of a debt or the performance of a duty and that will become void upon payment or performance according to the stipulated terms. This conveyance is a lien against the property. Also refers to the instrument specifying the terms of such a transaction. The loan on which such a transaction is based. In essence any real-property security transaction, including a deed of trust.

Mortgage Banker

An individual or organization that originates real estate loans for a fee, resells them to other parties, and may service the monthly payments.

Mortgage Broker

An individual or organization that markets mortgage loans and brings lenders and borrowers together. A mortgage broker does not underwrite, fund or service mortgage loans.

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Mortgage Disclosure Improvement Act (MDIA) 2008

Enacted to ensure that consumers receive good faith estimates of Truth-In-Lending-Act (TILA) disclosures at the beginning of the application process and to provide sufficient time for consumers to review the disclosures before consummation can take place.

Mortgage Insurance (MI)

Insurance that protects the lender in the case the borrower goes into default.

Mortgage Insurance Premium (MIP)

An insurance policy used in FHA loans, ensuring the lender if the borrower goes into default and is not allowed to be cancelled during the life of the loan. The FHA assesses either an “upfront” MIP at the time of closing, or an annual MIP that is calculated every year and paid in 12 installments.

Mortgage Investor

A mortgage investor is the party that purchases mortgages from lenders. In most cases, these investors are actually government entities or government-sponsored enterprises that purchase home loans so the lender is able to continue selling new home loans.

Mortgage Lender

A mortgage lender is a bank or financial company that lends money to borrowers to purchase a home.

Mortgage Life Insurance

A form of insurance specifically designed to protect a repayment mortgage. If the policyholder were to die while the mortgage life insurance was in force, the policy would pay out a capital sum that will be just sufficient to repay the outstanding mortgage.

Mortgage Loan

A loan secured by a mortgage or deed of trust on real property.

Mortgage Note

A note evidencing a loan for which real property has been offered as security.

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Mortgage Rate

The rate of interest charged by a mortgage lender.

Multifamily Mortgage

A residential mortgage on a dwelling that is designed to house more than four families, such as an apartment complex.

Multiple Listing Service (MLS)

A listing stating the agent will allow other agents to try to sell the property. Under this agreement, the original agent gives the selling agent a percentage of the commission or some other stipulated amount.

Mutual Funds

An investment company that invests its shareholders' money in a diversified selection of securities.

N

Negative Amortization

When a mortgage allows the borrower to make minimum payments that are less than the entire amount of interest owed, the unpaid interest is deferred by adding it to the loan balance. Also known as a deferred interest.

Net Effective Income

The amount of after-tax income produced by a specific asset or group of assets, calculated by subtracting federal income tax from gross income.

Net Monthly Income

Take home pay after taxes and payroll deductions.

Net Worth

A measure of one's wealth, usually calculated as the excess of total assets over total liabilities.

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Non-Assumption Clause

A statement in a mortgage contract forbidding the assumption of the mortgage by another borrower without the prior approval of the lender.

Non-Conforming Loan

Any loan that does not Fannie Mae or Freddie Mac lending requirements. Reasons include the loan amount is higher than the conforming loan limit, lack of sufficient credit, the unorthodox nature of the use of funds, or the collateral backing it.

Non-Discharge Debt

A debt, such as one for delinquent taxes, that is not released through bankruptcy.

Non-Liquid Asset

A type of asset that is not easily turned into cash. Real estate is considered a non-liquid asset.

Nontraditional Mortgage

A nontraditional mortgage is any mortgage other than a 30-year fixed mortgage.

Note

A written promise by one party to pay money to another party.

Notice of Default (NOD)

A notification given to a borrower stating that they have not made their payments by the predetermined deadline or is otherwise in default on the mortgage contract.

0

Occupancy Fraud

Occupancy fraud is a type of mortgage fraud, whereby the borrower lies about whether or not the home will be owner-occupied. Occupancy fraud happens when the borrower says that a home will be owner-occupied when, in reality, it will not be.

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Offer

A price given at which one is ready to buy or sell to another party.

Office of Comptroller Currency

A U.S. federal agency that serves to charter, regulate, and supervise the national banks and federal branches and agencies of foreign banks. Headed by the Comptroller of the Currency.

Office of Thrift Supervision (OTS)

An office in the U.S. Department of the Treasury responsible for regulating and examining thrift institutions to ensure that they are financially sound.

One Year Adjustment Rate Mortgage

A loan with a fixed rate for the first year that has a rate that changes yearly for the remaining life of the loan. Borrower is qualified at the highest the rate can over the life of the loan.

Open House

An occasion when real estate offered for sale can be viewed by prospective buyers without an appointment.

Option Contract

An agreement between a buyer and seller that gives the purchaser of the option the right to buy or sell a particular asset at a later date at an agreed upon price.

Original Principal Balance

The amount the borrower owes the lender on the funding date of the loan.

Origination Fee

A fee charged by a lender for preparing and processing a loan.

Origination Service

Origination Services means the activities of a mortgage loan originator performed in regard to a residential mortgage loan

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Owner Financing

A loan provided by the seller of a property or business to the purchaser.

Owner-Occupied Property

A form of housing tenure where a person owns the home in which he or she lives.

P

Partial Payment

A payment for less than the full amount claimed by the lender.

Par Rate

The par rate is the interest rate where a lender will offer a loan with neither a lender credit (yield spread premium) nor require discount points paid by the borrower.

Payment Cap

A clause found in an Adjustable Rate Mortgage (ARM) contract that limits the possible increase in the loan's interest rate to a certain amount each year. The cap is usually defined in terms of rate, but the dollar amount of the principal and interest payment can be capped as well.

Payment Change Date

The date when a new monthly payment amount takes effect.

Payment Shock

Payment shock is the risk that a loan's scheduled future periodic payments may increase substantially and may cause the borrower to default on the loan. Payment shock is a risk with many popular mortgage products, including payment option adjustable-rate mortgages (ARM) and interest-only loans

Per Diem Interest

The pro-rated amount of interest due for remaining days in a month. Calculated and paid at loan closings. $\text{Principal} \times \text{Interest rate} / 360$ for a conventional and 365 for government = per day/diem interest.

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Periodic Payment Cap

A restriction on how much payments can increase or decrease over a single adjustment period.

Permanent Loan

A long-term mortgage loan. In real estate projects, it is obtained after completion of construction, usually to repay the short-term construction loan.

Personal Property

Any movable or intangible thing that is subject to ownership and not classified as real property. Appraiser cannot give any value to personal property, nor can you lend on personal property

Planned Unit Development (PUD)

A land area zoned for a single-community subdivision with flexible restrictions on residential, commercial, and public uses.

Power of Attorney

An instrument granting someone authority to act as agent or attorney-in-fact for the grantor. An ordinary power of attorney is revocable and automatically terminates upon the death or incapacity of the principal.

Preliminary Title Report

A report prepared prior to issuing a policy of title insurance that shows the ownership of a specific parcel of land, together with the liens and encumbrances thereon which will not be covered under a subsequent title insurance policy.

Premium Pricing

Premium Pricing allows a buyer to choose an above-market interest rate in exchange of receiving a percentage of their loan amount back as a lender credit to be applied towards their closing costs; essentially financing their closing costs through the interest rate.

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Pre-Approval

An evaluation of a potential borrower by a lender that determines whether the borrower qualifies for a loan from the lender, or the maximum amount that the lender would be willing to lend. Credit, income and assets are verified. Not a loan commitment.

Prepaid Expenses/Prepays

A type of asset that arises on a balance sheet because a business made payment for goods and services to be received. The three most common prepaids are property taxes, homeowner's insurance, and mortgage interest

Prepayment

The satisfaction of a debt or installment payment before its official due date. A prepayment can be for the entire balance or for any upcoming payment that is paid in advance of the date for which the borrower is contractually obligated to pay it.

Prepayment Penalty

A clause in a mortgage contract that says if the mortgage is prepaid within a certain time, a penalty will be assessed. The penalty is usually based on percentage of the remaining mortgage balance or a certain number of months' worth of interest. None of the agency products allow prepayment penalties.

Pre-Qualification

An initial evaluation of the credit worthiness of a potential borrower that is used to determine the estimated amount that the person can afford to borrow. Credit is looked at and income and asset information is not verified, information is based on borrower's information, not a commitment.

Predatory Lending

Unscrupulous actions carried out by a lender to entice, induce, and/or assist a borrower in taking a mortgage that carries high fees, a high interest rate, strips the borrower of equity, or places the borrower in a lower credit rated loan to the benefit of the lender.

Primary Mortgage Market

The national market in which mortgages are originated.

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Prime Rate

The interest rate that a commercial bank holds out as its lowest rate for short-term loans to its most creditworthy borrowers (usually large corporations). This rate, which can vary slightly from bank to bank, often dictates other interest rates for various personal and commercial loans.

Principal

The amount of a debt, investment, or other fund, not including interest, earnings, or profits.

Principal, Interest, Taxes, and Insurance (PITI)

The components of a monthly mortgage payment.

Profit and Loss Statement

A financial statement that summarizes the revenues, costs, and expenses that a business incurred during a given period.

Promissory Note

A promissory note, or "promise to pay", is a note that details money borrowed from a lender and the repayment structure. The document holds the borrower accountable for paying back the money (plus interest, if any). An agreement to borrow money with the condition that if it is not paid back to the lender then the security, which is usually an asset or property, is turned over to the lender.

Property Tax

A tax levied on the owner of the property. The tax is based on the property's value. Local governments often impose property taxes to finance school districts, municipal projects, etc.

Purchase/Sales Agreement

A sales contract in which ownership of property is transferred from a seller to a buyer for a fixed sum at a fixed date.

Purchase Money Mortgage (PMM)

A mortgage that a buyer gives the seller when the property is conveyed to secure the unpaid balance of the purchase price.

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Q**Qualified Mortgage**

A Qualified Mortgage is a category of loans that have certain, more stable features that help make it more likely that a borrower will be able to afford their loan. See the Federal Comprehensive Textbook for more information on the Qualified Mortgage Rule.

Qualifying Guidelines

Criteria used to determine eligibility for a loan.

Qualifying Rate

The interest rate used in calculating the initial mortgage payment in qualifying a borrower.

Qualifying Ratios

Ratio of debt to income and housing expense to income that is used by mortgage lenders to determine a borrower's creditworthiness for certain loan amounts.

Quality Control

A process used to make sure that companies participating in the issuance of mortgages comply with all state and national laws related to those mortgages.

Quitclaim Deed

A deed that serves to transfer the title but offers no promises about the quality of that title.

R**Radon**

A naturally occurring radioactive gas found in some buildings. In sufficient concentrations, Radon may cause health problems.

Rate Lock/ Rate Lock Agreement

A lock-in or rate lock on a mortgage loan means that your interest rate won't change between the offer and closing, as long as you close within the specified time frame and there are no changes to your application. Rate locks are typically available for 30, 45, or 60 days, and sometimes longer. Rate locks are secured by a rate lock agreement.

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Ratified Sales Contract

A sales contract in which an offer has been made and accepted, and the contract has been signed and initialed by all parties involved.

Realtor

A real estate agent who is a member of the National Association of Realtors.

Real Estate Agent/Broker

One who is engaged on behalf of another (usually on a commission) to negotiate contracts relating to property in which he or she has no custodial or proprietary interest.

Real Estate Settlement Procedures Act (RESPA/Regulation X)

A federal statute that requires lenders to provide home buyers with information about known or estimated settlement costs.

Real Property

Land and anything growing on, attached to, or erected on it. Real property can be either corporeal (soil and buildings) or incorporeal (easements).

Reclamation

The act or an instance of improving the value of economically useless land by physically changing the land, such as irrigating a desert.

Reconveyance

The restoration or return of something to a former owner or holder.

Recorder

The government official who keeps the public records affecting real property, such as deeds, liens, and judgments.

Recording

The Recording System was put in place to require the prior purchaser to record their purchase so that a subsequent purchaser can search for prior purchases to determine whether they should buy the land.

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Refinance

When a business or person revises a payment schedule for repaying debt. The debt payment would be reduced because the interest rate is reduced, or the term is extended.

Rehabilitation Mortgage

A mortgage that covers the costs of rehabilitating a property. Some rehabilitation mortgages allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan.

Remaining Term

The original term of the loan after the number of payments made has been subtracted.

Rent with Option to Buy

A contractual provision by which an owner of realty enters an agreement with another allowing the latter to rent the property upon signing the lease with the option to buy the property at the end of the lease term, usually for a reduced rate.

Repayment Plan

An arrangement by which a borrower agrees to make additional payments to pay down past due amounts while still making regularly scheduled payments.

Replacement Cost

The cost of a substitute asset that is equivalent to an asset currently held. A property is destroyed, what would the replacement cost be based on today's costs of materials. The new asset has the same utility but may or may not be identical to the one replaced.

Rescission

A party's unilateral unmaking of a contract for a legally sufficient reason, such as the other party's material breach, or a judgment rescinding the contract. Rescission allows the borrowers and owners of a property have a three (3) day period after closing to rescind (cancel) the transaction on primary owner-occupied property only.

Restriction

A limitation placed on the use or enjoyment of property.

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Reverse Annuity Mortgage (RAM)

A mortgage in which the lender disburses money over a long period to provide regular income to the borrower, and in which the loan is repaid in a lump sum when the borrower dies or when the property is sold. Also known as a Reverse Mortgage or HECM loan

Revolving Debt

Open-ended accounts, usually with variable interest rates, pre-determined credit limits and payments that are calculated as a percentage of the unpaid balance.

Credit cards, home equity lines of credit (HELOC) and personal lines of credit are all examples of revolving debt.

Right of First Refusal

A potential buyer's contractual right to meet the terms of a third party's higher offer. For example, if Beth has a right of first refusal on the purchase of Sam's house of \$290,000, and if Terry offers to buy the house for \$300,000, then Beth can match this offer and prevent Terry from buying it.

Right of Redemption

The right of redemption, in the law of real property, is the right of a debtor whose real property has been foreclosed upon and sold to reclaim that property if they are able to come up with the money to repay the amount of the debt.

Rural Housing Service (RHS)

An agency in the U.S. Department of Agriculture responsible for making or guaranteeing loans for rural housing.

S

Sale-Leaseback

The sale of property on the understanding, or with the express option, that the seller may lease the property from the buyer, usually immediately after the sale.

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Satisfaction of Mortgage

The complete payment of a mortgage. Also, can refer to a discharge signed by the mortgagee or mortgage holder indicating that the property subject to the mortgage is released or that the mortgage debt has been paid and the mortgage conditions have been fully satisfied.

Schedule C

Schedule C (Form 1040) is used to report income or loss from a business you operated or a profession you practiced as a sole proprietor on a borrower's tax return.

Second Mortgage

A mortgage that is junior to a first mortgage on the same property, but that is senior to any later mortgage.

Secondary Mortgage Market/ Secondary Market

The national market in which existing mortgages are bought and sold, usually on a package basis.

Section 203(k) Loans

Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage or to finance the rehabilitation of their existing home.

Secure and Fair Enforcement Act (SAFE Act) 2008

Designed to enhance consumer protection and reduce fraud through the setting of minimum standards for the licensing and registration of state-licensed mortgage loan originators. Mortgage loan originators who work for an insured depository or its owned or controlled subsidiary that is regulated by a federal banking agency, or for an institution regulated by the Farm Credit Administration, are registered. All non-financial mortgage loan originators are registered and licensed by the states.

Secured Loan

A loan that is secured by property. Also known as a collateral loan.

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Security

Collateral given or pledged to guarantee the fulfillment of an obligation, especially that a lender will be repaid (usually with interest) any money or credit extended to a debtor.

Seller Carry Back

When a seller acts as the bank or lender and carries a second mortgage on the subject property, which the buyer pays down each month.

Seller Take-Back

When a seller wants to close a sale of real estate but the buyer is not yet able to fully fund the purchase, the parties can close the sale with the seller taking from the buyer a purchase money note and mortgage in lieu of an all-cash payment.

Service Members Civil Relief Act

Offers protections for service members, and sometimes their family members. Examples include: reduced interest rates, postponement of foreclosures, deferred income taxes, eviction prevention, protection against default judgments, postponed civil court matters, protection for small-business owners, termination of lease agreements, prevention of repossession of property, life insurance coverage protection, and suspension of professional liability insurance. This Act protects active-duty service members, including National Guard and reserve members, who have been activated by the federal government. Many of these protections extend to the family of service members.

Servicing

The administration of a mortgage loan, including the collection of payments, release liens, payment of the investor that bought the loan and property insurance and taxes. Servicing is usually performed by the lender or the lender's agent, for a fee.

Service Relief Premium (SRP)

The payment received by a mortgage lender, such as a bank or retail mortgage lender (mortgage banker), on the sale of a closed mortgage loan in a secondary mortgage market transaction.

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Servicing Transfer

A servicer can transfer the servicing rights for a loan to another servicer. This is called a servicing transfer. See information in the Federal Comprehensive Textbook on Transfer of Servicing.

Silent Second

Describes a fraudulent scheme where house sellers accept second mortgages as part of a sale transaction, without the full knowledge of the first mortgage lender. The “silence” refers to the absence of full disclosure to the first mortgage lender.

Simple Interest/Daily Simple Interest

The interest paid on the principal only and not on accumulated interest.

Single-Family Properties

An individual, freestanding, unattached dwelling unit, typically built on a lot larger than the structure itself, also includes attached properties that are for single families

Soft Second Loan

A loan in which its entirety, or a portion of it, can be forgiven or deferred for a period by the lender when certain conditions are met.

Sole Proprietorship

The sole proprietorship is the simplest business form under which one can operate a business. The sole proprietorship is not a legal entity. It simply refers to a person who owns the business and is personally responsible for its debts.

Special Warranty Deed

Seller promises that there were no defects in title that arose or were created while seller owned the property. This does not make promises about defects arising while someone prior to the seller owned the property.

Standard Payment Calculation

The method used to determine the monthly payment required to repay the remaining balance of a mortgage, in substantially equal installments over the remaining term of the mortgage, at the current interest rate.

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State Financing Agency

State-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary widely in characteristics such as their relationship to state government, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state's governor. They administer a wide range of affordable housing and community development programs.

Statute of Frauds

The requirement that certain kinds of contracts be memorialized in writing and signed by the party to be charged, with sufficient content to evidence the contract.

Step Rate Mortgage

A loan which allows for gradual interest rate increase during the first few years of the loan.

Subordination/Subordination Agreement

A subordination agreement is a legal document that establishes one debt as ranking behind another in priority for collecting repayment from a debtor.

Subordinate Financing

Debt that ranks behind the first secured lender and means that the secured lenders will be paid back before subordinate debt holders.

Subsidized Second Mortgage

An alternative financing option for low- and moderate-income households.

Survey

The measuring of a tract of land and its boundaries and contents. Also refers to the map indicating the results of such measurements.

Sweat Equity

Financial equity created on a property by the owner's labor in improving the property.

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T**Tablefunding**

Table funding means a settlement at which a loan is funded by a contemporaneous advance of loan funds and an assignment of the loan to the person advancing the funds.

Tax Lien

A lien on a property, and all rights to that property, imposed by the federal government for unpaid federal taxes. Also refers to a lien on real estate in favor of a state or local government that may be foreclosed for nonpayment of taxes. Most states have adopted the Uniform Federal Tax Lien Registration Act.

Tax Sale

A sale of property due to nonpayment of taxes.

Teaser Rate

Generally, refers to an introductory rate charged on a credit product. Adjustable rate mortgages (ARMs) are also known for charging a low initial rate that helps entice borrowers. Teaser rates may also serve to increase the marketability of ARMs over traditional mortgages.

Term(s)/Loan Terms/Financial Terms/General Terms

A contractual stipulation. May also refer to a set period of time.

Termite Inspection

The examination of a structure by a qualified person to determine the possible existence of an infestation of termites.

Third-Party Origination (TPO)/Third Party Service Provider

Origination from a third party where the person is involved in the process of making mortgages and gathering borrower information for a mortgage application, which is then transferred or sold to the actual mortgage lender. This is generally a Mortgage Broker

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Title/Legal Title

The union of all elements (ownership, possession, and custody) constituting the legal right to control and dispose of property. The legal link between a person who owns property and the property itself.

Title Company

A company that examines real estate titles for any encumbrances, claims, or other flaws, and issues title insurance.

Title Insurance

An agreement to indemnify against loss arising from a defect in the title to real property, usually issued to the buyer of the property by the title company that conducted the search.

Title Search

An examination of the public records to determine whether any defects or encumbrances exist in a given property's chain of title. A title search is typically conducted by a title company or a real estate lawyer at a prospective buyer's or mortgagee's request.

Tolerances

Per TRID there are three fee tolerances. Tolerance levels fall into one of three categories: no tolerance, zero percent tolerance and 10 percent cumulative tolerance. See Federal Comprehensive Textbook for more information.

Trade Equity

Equity that results from a buyer giving an existing property as trade for all or part of the down payment on the subject property.

Transfer Tax

Imposed on the transfer of property, especially by will, inheritance, or gift.

Transmittal Summary (Form 1008)

The Underwriting Transmittal (1008) is used to summarize key information utilized in the comprehensive risk assessment of a mortgage and the final underwriting decision. The 1008 is divided into 16 sections.

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Treasury Index

An index based on the auctions of U.S. Treasury bills or on the U.S. Treasury's daily yield curve, which is used in determining mortgage rates for mortgages with an unfixed component.

Total Expense Ratio

Total payments including the mortgage payment divided by the total verified Income.

Trustee

Someone who stands in as fiduciary or confidential relation to another, especially one who, having legal title to property, holds it in trust for the benefit of another and owes a fiduciary duty to that beneficiary.

Truth-in-Lending Act (TILA/Regulation Z)

A 1968 federal statute enacted as the first subchapter of the Consumer Credit Protection Act to safeguard consumers in the use of credit by (1) requiring full disclosure of the terms of loan agreements, including finance charges, (2) restricting the garnishment of wages, and (3) regulating the use of credit cards.

U

Underwriting

The act of reviewing all income, asset and credit documents, to determine if the information meets the investor requirements

Unsecured Loan

A loan that is issued and supported only by the borrower's creditworthiness, rather than by a type of collateral. It is obtained without the use of property as collateral for the loan. Borrowers generally must have high credit ratings to be approved for an unsecured loan.

Uniform Residential Loan Application (URLA, Form 1003)

The URLA (also known as the Freddie Mac Form 65 / Fannie Mae Form 1003) is a standardized document used by borrowers to apply for a mortgage. The URLA is jointly published by the GSEs and has been in use for more than 20 years in all U.S. States and Territories.

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Uniform Residential Appraisal Report (URAR, Form 1004)

A URAR form, also known as Fannie Mae Form 1004, contains information needed to complete a full appraisal of a property using three primary approaches to determine value: cost approach, sales comparison approach and income approach.

Usury

The charging of an illegal rate of interest as a condition to lending money.

V

Veterans Administration (VA) Mortgage

A veteran's mortgage that is guaranteed by the Veterans Administration.

Verification of Deposit (VOD)

A statement of a borrower's account history and status, given by financial institutions or investment companies.

Verification of Employment (VOE)

A process used by banks and mortgage lenders to review the employment history of a borrower, to determine the borrower's job stability and cross-reference income history with that stated on the Uniform Residential Loan Application.

Verification of Mortgage (VOM)

Documentation of a borrower's mortgage payment history that is often required when applying for a loan. In mortgage lending, the VOM is also used to verify the existing balance and monthly payments, and to check for any late payments on the account.

Verification of Rent (VOR)

A form used in mortgage lending to verify monthly rents paid and late payments, if any.

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W**Walk-Through**

A clause in a sales contract that allows the buyer to examine the property being purchased at a specified time immediately before the closing.

Warehouse Fee

A charge to a borrower when a mortgage banker or other small lender must borrow money on a short-term basis to loan money on mortgage loans. If the interest rate on the short-term loan is too large to make money on the spread, the mortgage banker will charge a warehouse fee to cover its costs until it can assemble enough loans in its virtual warehouse and sell them to someone else making enough money to pay off its short-term loans.

Warranty Deed

A covenant by which the grantor in a deed promises to secure to the grantee the estate conveyed in the deed, and pledges to compensate the grantee if the grantee is evicted by someone having better title. The covenant is binding on the grantor's heirs. Historically, a warrantor was expected to turn over land, but cash compensation could be substituted.

Wraparound Mortgage

A second mortgage issued when a lender assumes the payments on the borrower's low-interest first mortgage (usually issued through a different lender) and lends additional funds. Such a mortgage covers both the outstanding balance of the first mortgage and the additional funds loaned.

Y**Yield Spread Premium**

A yield spread premium also called a "YSP" is a form of compensation that a mortgage broker, acting as the intermediary, receives from the original lender for selling an interest rate to a borrower that is above the lender's par rate for which the borrower qualifies.

Z**Zoning Ordinance**

A city ordinance that regulates the use to which land within various parts of the city may be put. It allocates uses to the various districts of a municipality, by allocating residences to certain parts and businesses to other parts. A comprehensive zoning ordinance usually regulates the height of buildings and the proportion of the lot area that must be kept free from buildings.

Addendum 2

Mortgage Acronyms

This is a mortgage acronym list. This list has many of the most common acronyms used in the mortgage industry. It is not an exhaustive list but it does include the most use acronyms.

A

AARMR (America Association of Residential Mortgage Regulators): Responsible for the creation of the National Mortgage Licensing System (NMLS).

AFBA (Affiliated Business Arrangement): An arrangement between two different companies involved in providing services in the closing of a real estate transaction. There can be no ownership interest. Requires disclosure under Real Estate Settlement Procedures Act (RESPA).

AMC (Appraisal Management Company): The middleman between appraisers and mortgage companies.

AML (Anti-Money Laundering): A law in place to require financial institutions to prevent, detect and report money laundering activities

APOR (Average Prime Offer Rate): Rate used to determine whether a loan is high-cost or higher priced.

APR (Annual Percentage Rate): The APR calculates the annual percentage rate you would pay on the loan once the costs of getting the loan are factored in.

ARM (Adjustable Rate Mortgage): An Adjustable rate mortgage is a mortgage that will have a fixed rate for a set period and then the rate is adjusted. The rate will normally be adjusted once or twice a year.

ATR (Ability to Repay): The rule that requires lenders to determine whether a borrower has the ability to repay their loan and requires verification of the information provided to prove the ability to repay.

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AUS (Automated Underwriting System): Example: Used to automatically underwrite conforming loans.

B

BSA (Bank Secrecy Act): Requires Suspicious Activity Reports (SARS) to be filed regarding dubious activities.

C

CAIVRS (Credit Alert Verification Reporting System): A federal database of people who have delinquencies on any kind of federal debt.

CFPB (Consumer Financial Protection Bureau): The federal entity that regulates the entire mortgage industry.

CHARM (Consumer Handbook on Adjustable Rate Mortgages): Required disclosure on ARM loans to educate the consumer about the type of loan they have.

CLTV (Combined Loan to Value): This ratio is calculated by dividing the amount of a 1st lien loan and the amount drawn on a HELOC or total amount of a 2nd lien loan by the appraised value of the property price or the appraised value of the property, whichever is less.

COE (Certificate of Eligibility): Required document on VA loans to determine the amount of eligibility that veteran borrower has.

COFI (Cost of Funds Index): Index used on ARM loans.

D

DTI (Debt to Income): two ratios, front end and back end DTI. Front end DTI (housing expense) is determined by dividing the amount of housing divided by the borrower's gross income. Back end DTI is all debts divided by the borrower's gross income. (Examples of debts: credit cards, car loans, student loans. Not included = cell phone bills and utilities)

DU (Desktop Underwriter): The Automated Underwing System used by Fannie Mae.

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E

ECOA (Equal Credit Opportunity Act): A law in the US that makes it illegal for any lender to discriminate against an applicant based on race, religion, national origin, sex, etc.

FACTA (Fair and Accurate Credit Transactions Act): Prevents identity theft, puts limits on information sharing. Amendment to FCRA.

F

FCRA (Fair Credit Reporting Act): Regulates how consumer-reporting agencies use consumer information.

FDIC (Federal Deposit Insurance Corporation): Regulates depository institutions.

FFIEC (Federal Financial Institutions Examination Council): Collects and distributes HMDA information.

FHA (Federal Housing Administration): The Federal Government Agency that oversees the US Housing Market. FHA mortgages are guaranteed by the Federal Government and offered by banks/lenders.

FHLMC (Federal Home Loan Mortgage Corporation; Freddie Mac): A corporation authorized by Congress to provide a secondary market for residential mortgages. Mortgages offered under Freddie Mac guidelines are called “conforming” mortgages.

FICO (Fair Isaac Corporation): The company that created the industry standard credit scores used by almost all lenders. The FICO score is a numerical summary of the information in your credit reports that represents your potential credit risk.

FinCEN (Financial Crimes Enforcement Network): the entity that a SAR would be reported to.

FNMA (Federal National Mortgage Association (Fannie Mae)): a government sponsored entity created by Congress to increase access to mortgages. Mortgages offered under Fannie Mae guidelines are called "conforming" mortgages.

FTC: Federal Trade Commission. Enforces Red Flag Rules, Safeguard Rules and Do Not Call.

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G

GFE (Good Faith Estimate): A GFE is a document that the lender is required to give a prospective borrower when they apply for a loan. The GFE is an estimate of all closing costs and fees required for the proposed mortgage loan. Only used for Reverse Mortgages and HELOC's after TRID was implemented.

GLBA (Gramm-Leach Bliley Act): Requires disclosure of information sharing policies.

GNMA: Ginnie Mae, Government National Mortgage Association. (the Fannie and Freddie of government lending)

GPM (Graduated Payment Mortgage): With this type of mortgage the payment starts low and rises over time.

GSE: Government Sponsored Enterprise is a financial services corporation created by the US Congress (Fannie and Freddie Mac)

H

HARP (Home Affordable Refinance Program): HARP is a refinance program that allows eligible borrowers, with little to no equity in their homes, to take advantage of low interest rates and other refinancing benefits.

HECM (Home Equity Conversion Mortgage): Loan for borrowers 62 years and older. Uses the equity in their home to create cash disbursements to the borrower.

HELOC (Home Equity Line of Credit): HELOC is a loan in which the lender agrees to lend a maximum amount within an agreed loan term, where the collateral is the borrower's equity in his or her house.

HMDA (Home Mortgage Disclosure Act): Requires lenders to report their lending patterns geo- graphically to prevent redlining and reverse redlining.

HOA: Homeowner's Association

HOEPA (Home Ownership and Equity Protection Act): Regulates high cost home loans.

HPA (Homeowners Protection Act): Regulates the cancellation of private mortgage insurance.

HPML: Higher Priced Mortgage Loan

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HUD (U.S. Department of Housing and Urban Development): HUD is the primary housing and lending regulatory authority in the U.S.

/

IO (Interest Only): a payment that only covers the interest on the loan.

IP (Investment Property): a non-owner-occupied property that is rented out by the borrower

IRRRL: VA Interest Rate Reduction Refinance Loan. This refinance loan allows you to lower your interest rate on an existing VA home loan.

L

LP: Loan Product Advisor. The Automated Underwriting System used by Freddie Mac. (formerly Loan Prospector)

LTV (Loan-to-Value): LTV is a ratio used by the lender that divides the amount of money borrowed by the appraised value or purchase price, whichever is the lowest, of the home expressed as a percentage. For example, a borrower may purchase a home appraised at \$200,000 with a down payment of \$40,000. This means he has a loan-to-value ratio of 80 percent.

M

MARS: Mortgage Assistance Relief Services Rule

MBS (Mortgage Backed Security): These are investment instruments that are bundled by Fannie, Freddie and Ginnie Mae for sale on Wall Street.

MDIA: Mortgage Disclosure Improvement Act

MERS: Mortgage Electronic Registration System

MLO: Mortgage Loan Originator

MIP: Monthly Insurance Premium. Mortgage insurance charged annually but broken up monthly on an FHA loan.

MSA: Marketing Services Agreements

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N

NINA: No income No Asset loan. A loan that doesn't require income or assets.

NIV: No income verification, a loan that requires no income verification

NMLS: Nationwide Multistate Licensing System and Registry

NOO (Non-owner occupied): A loan on a property not occupied by the owner. (investment property, vacation/ second home).

O

O/O (Owner-occupied): A loan on a property owned and occupied by the owner.

OCC: Office of the Comptroller of the Currency

P

P&I: Principal and Interest. Principal and interest are the two elements that go towards repaying your loan.

PITI (Principal, Interest, Taxes and Insurance): These are the four main components of your monthly mortgage payment. Principal is the loan amount. Interest is the rate at which the finance charge you pay for borrowing is calculated. Taxes are the real estate taxes for which you are responsible, and insurance is the homeowner's insurance that your lender requires you to have.

PMI (Private Mortgage Insurance): If you put down less than 20 percent most lenders or banks require you to have private mortgage insurance. PMI is required on any conventional conforming loan over 80% LTV. This can be put into your monthly mortgage payment or calculated into your rate.

PPP (Prepayment Penalty): A penalty charged to a borrower if they pay their loan in full before the end of its term.

PUD (Planned Urban Development): A type of development is designed real estate, usually a combination of housing, recreation, commercial and industrial parks all within one development or subdivision.

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Q

QM (Qualified Mortgage): A type of loan that requires the lender to make sure that borrower can repay the loan

S

SAR (Suspicious Activity Report): Report required to be made to FinCEN under the Bank Secrecy Act (BSA) when there is a suspicion of money laundering or fraud.

SISA (Stated Income): Stated Asset. The loan only requires the borrower to state their income and assets, doesn't require verification.

SRP (Service Release Premium): payment received by a lender on the sale of a closed mortgage loan to the secondary market

SSN: Social Security Number

T

TIL (Truth in Lending): TIL is an important document you will receive from the lender or bank within three days of your application. Within the document certain disclosures are set forth. Such as, finance charges, annual percentage rate (APR), amount financed, total of payments, and total sales price will be disclosed. This document is required on Reverse Mortgages and HELOC's, since the implementation of TRID.

TIN: Tax Identification Number

TLTV (Total Loan to Value): Total Loan to Value. Total loan to value is calculated by dividing the sum of the 1st lien mortgage amount and the disbursed amount of a HELOC or 2nd lien by either the property's purchase price or appraised value (whichever is less)

TRID (TILA-RESPA Integrated Disclosure Rule): New legislation as of October 2015, requires the Loan Estimate and Closing Disclosure, replaces the GFE, TIL and HUD-1 disclosures.

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U

UFMIP (Upfront Mortgage Insurance Premium): Mortgage insurance premium paid in a lump sum upfront on an FHA loan.

UST (Uniform State Test): 25 question addition to the National Test Component that replaced most individual state tests.

V

VA (Department of Veterans Affairs): This federal government agency guarantees mortgages that assist eligible veterans in buying homes.

VOD (Verification of Deposit): Used to verify that X amount of money is in a borrower's bank account.

VOE (Verification of Employment): Used to verify that a borrower is employed.

VOM (Verification of Mortgage): Used to verify that a borrower has X mortgage.

VOR (Verification of Rent): Used to verify that a borrower pays rent and pays their rent on time.

Y

YSP (Yield Spread Premium): Paid to the broker for giving a borrower a higher interest rate on a loan in exchange for lower up-front costs generally paid in origination fees, broker fees or discount points

Uniform Residential Loan Application

Verify and complete the information on this application. If you are applying for this loan with others, each additional Borrower must provide information as directed by your Lender.

Section 1: Borrower Information. This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

1a. Personal Information

Name (First, Middle, Last, Suffix) _____

Social Security Number _____
(or Individual Taxpayer Identification Number)

Alternate Names – List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix) _____

Date of Birth (mm/dd/yyyy) _____ / _____ / _____
Citizenship
☐ U.S. Citizen
☐ Permanent Resident Alien
☐ Non-Permanent Resident Alien

Type of Credit

- ☐ I am applying for **individual credit**.
☐ I am applying for **joint credit**. Total Number of Borrowers: _____
Each Borrower intends to apply for joint credit. **Your initials:** _____

List Name(s) of Other Borrower(s) Applying for this Loan
(First, Middle, Last, Suffix) – Use a separator between names _____

Marital Status

- ☐ Married
☐ Separated
☐ Unmarried
(Single, Divorced, Widowed, Civil Union, Domestic Partnership, Registered Reciprocal Beneficiary Relationship)

Dependents (not listed by another Borrower)

Number _____
Ages _____

Contact Information

Home Phone (____) _____ - _____
Cell Phone (____) _____ - _____
Work Phone (____) _____ - _____ **Ext.** _____
Email _____

Current Address

Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____
How Long at Current Address? ____ Years ____ Months **Housing** ☐ No primary housing expense ☐ Own ☐ Rent (\$ _____ /month)

If at Current Address for LESS than 2 years, list Former Address ☐ **Does not apply**

Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____
How Long at Former Address? ____ Years ____ Months **Housing** ☐ No primary housing expense ☐ Own ☐ Rent (\$ _____ /month)

Mailing Address – if different from Current Address ☐ **Does not apply**

Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

1b. Current Employment/Self-Employment and Income

☐ **Does not apply**

Employer or Business Name _____ Phone (____) _____ - _____
Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Position or Title _____

Start Date ____ / ____ / ____ (mm/dd/yyyy)
How long in this line of work? ____ Years ____ Months

Check if this statement applies:

- ☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ **Check if you are the Business Owner or Self-Employed** ☐ I have an ownership share of less than 25%. **Monthly Income (or Loss)** \$ _____
☐ I have an ownership share of 25% or more. \$ _____

Gross Monthly Income

Base \$ _____ /month
Overtime \$ _____ /month
Bonus \$ _____ /month
Commission \$ _____ /month
Military Entitlements \$ _____ /month
Other \$ _____ /month
TOTAL \$ _____ **0.00/month**

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income☐ Does not apply

Employer or Business Name _____ Phone (____) ____ - ____
Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Position or Title _____**Start Date** ____ / ____ / ____ (mm/dd/yyyy)

How long in this line of work? ____ Years ____ Months

Check if this statement applies:☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ **Check if you are the Business Owner or Self-Employed** ☐ I have an ownership share of less than 25%. **Monthly Income (or Loss)**
☐ I have an ownership share of 25% or more. \$ _____

Gross Monthly Income

Base \$ _____ /month
Overtime \$ _____ /month
Bonus \$ _____ /month
Commission \$ _____ /month
Military Entitlements \$ _____ /month
Other \$ _____ /month
TOTAL \$ _____ **0.00/month**

1d. IF APPLICABLE, Complete Information for Previous Employment/Self-Employment and Income☐ Does not apply**Provide at least 2 years of current and previous employment and income.**

Employer or Business Name _____
Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Position or Title _____**Start Date** ____ / ____ / ____ (mm/dd/yyyy)**End Date** ____ / ____ / ____ (mm/dd/yyyy)☐ **Check if you were the Business Owner or Self-Employed****Previous Gross Monthly Income \$** _____ /month**1e. Income from Other Sources**☐ Does not apply**Include income from other sources below. Under Income Source, choose from the sources listed here:**

• Alimony	• Child Support	• Interest and Dividends	• Notes Receivable	• Royalty Payments	• Unemployment
• Automobile Allowance	• Disability	• Mortgage Credit Certificate	• Public Assistance	• Separate Maintenance	Benefits
• Boarder Income	• Foster Care	• Mortgage Differential	• Retirement	• Social Security	• VA Compensation
• Capital Gains	• Housing or Parsonage	Payments	(e.g., Pension, IRA)	• Trust	• Other

NOTE: Reveal alimony, child support, separate maintenance, or other income ONLY IF you want it considered in determining your qualification for this loan.

Income Source – use list above	Monthly Income
	\$
	\$
	\$
	\$
Provide TOTAL Amount Here	\$ 0.00

Borrower Name: _____

Uniform Residential Loan Application
Freddie Mac Form 65 • Fannie Mae Form 1003
Effective 1/2021

Section 2: Financial Information — Assets and Liabilities. This section asks about things you own that are worth money and that you want considered to qualify for this loan. It then asks about your liabilities (or debts) that you pay each month, such as credit cards, alimony, or other expenses.

2a. Assets – Bank Accounts, Retirement, and Other Accounts You Have

Include all accounts below. Under Account Type, choose from the types listed here:

- Checking
- Savings
- Money Market
- Certificate of Deposit
- Mutual Fund
- Stocks
- Stock Options
- Bonds
- Retirement (e.g., 401k, IRA)
- Bridge Loan Proceeds
- Individual Development Account
- Trust Account
- Cash Value of Life Insurance (used for the transaction)

Account Type – use list above	Financial Institution	Account Number	Cash or Market Value
			\$
			\$
			\$
			\$
			\$
Provide TOTAL Amount Here			\$ 0.00

2b. Other Assets and Credits You Have

☐ Does not apply

Include all other assets and credits below. Under Asset or Credit Type, choose from the types listed here:

- Assets*

 - Proceeds from Real Estate
 - Property to be sold on or before closing
 - Proceeds from Sale of Non-Real Estate Asset
 - Secured Borrowed Funds
 - Unsecured Borrowed Funds
 - Other

Credits

 - Earnest Money
 - Employer Assistance
 - Lot Equity
 - Relocation Funds
 - Rent Credit
 - Sweat Equity
 - Trade Equity

Asset or Credit Type – use list above	Cash or Market Value
	\$
	\$
	\$
	\$
Provide TOTAL Amount Here	\$ 0.00

2c. Liabilities – Credit Cards, Other Debts, and Leases that You Owe

☐ Does not apply

List all liabilities below (except real estate) and include deferred payments. Under Account Type, choose from the types listed here:

- Revolving (e.g., credit cards)
- Installment (e.g., car, student, personal loans)
- Open 30-Day (balance paid monthly)
- Lease (not real estate)
- Other

Account Type – use list above	Company Name	Account Number	Unpaid Balance	To be paid off at or before closing	Monthly Payment
			\$	☐	\$
			\$	☐	\$
			\$	☐	\$
			\$	☐	\$
			\$	☐	\$

2d. Other Liabilities and Expenses

☐ Does not apply

Include all other liabilities and expenses below. Choose from the types listed here:

Account Type – use list above	Monthly Payment
• Alimony • Child Support • Separate Maintenance • Job Related Expenses • Other	\$
	\$
	\$

Borrower Name:

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Section 3: Financial Information — Real Estate. This section asks you to list all properties you currently own and what you owe on them. ☐ *I do not own any real estate*

3a. Property You Own

If you are refinancing, list the property you are refinancing FIRST.

Address Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Property Value	Status: Sold, Pending Sale, or Retained	Intended Occupancy: Investment, Primary Residence, Second Home, Other	Monthly Insurance, Taxes, Association Dues, etc. <i>if not included in Monthly Mortgage Payment</i>	For 2-4 Unit Primary or Investment Property	
				Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income
\$			\$	\$	\$

Mortgage Loans on this Property ☐ Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance <i>To be paid off at or before closing</i>	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit <i>(if applicable)</i>
		\$	\$ ☐		\$
		\$	\$ ☐		\$

3b. IF APPLICABLE, Complete Information for Additional Property

☐ Does not apply

Address Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Property Value	Status: Sold, Pending Sale, or Retained	Intended Occupancy: Investment, Primary Residence, Second Home, Other	Monthly Insurance, Taxes, Association Dues, etc. <i>if not included in Monthly Mortgage Payment</i>	For 2-4 Unit Primary or Investment Property	
				Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income
\$			\$	\$	\$

Mortgage Loans on this Property ☐ Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance <i>To be paid off at or before closing</i>	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit <i>(if applicable)</i>
		\$	\$ ☐		\$
		\$	\$ ☐		\$

3c. IF APPLICABLE, Complete Information for Additional Property

☐ Does not apply

Address Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Property Value	Status: Sold, Pending Sale, or Retained	Intended Occupancy: Investment, Primary Residence, Second Home, Other	Monthly Insurance, Taxes, Association Dues, etc. <i>if not included in Monthly Mortgage Payment</i>	For 2-4 Unit Primary or Investment Property	
				Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income
\$			\$	\$	\$

Mortgage Loans on this Property ☐ Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance <i>To be paid off at or before closing</i>	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit <i>(if applicable)</i>
		\$	\$ ☐		\$
		\$	\$ ☐		\$

Borrower Name: _____

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Section 4: Loan and Property Information.

This section asks about the loan's purpose and the property you want to purchase or refinance.

4a. Loan and Property Information

Loan Amount \$ _____ **Loan Purpose** ☐ Purchase ☐ Refinance ☐ Other (specify) _____

Property Address Street _____ Unit # _____
City _____ State _____ ZIP _____ County _____
Number of Units _____ **Property Value** \$ _____

Occupancy ☐ Primary Residence ☐ Second Home ☐ Investment Property **FHA Secondary Residence** ☐

1. Mixed-Use Property. If you will occupy the property, will you set aside space within the property to operate your own business? (e.g., daycare facility, medical office, beauty/barber shop) ☐ NO ☐ YES

2. Manufactured Home. Is the property a manufactured home? (e.g., a factory built dwelling built on a permanent chassis) ☐ NO ☐ YES

4b. Other New Mortgage Loans on the Property You are Buying or Refinancing

☐ Does not apply

Creditor Name	Lien Type	Monthly Payment	Loan Amount/ Amount to be Drawn	Credit Limit (if applicable)
	☐ First Lien ☐ Subordinate Lien	\$ _____	\$ _____	\$ _____
	☐ First Lien ☐ Subordinate Lien	\$ _____	\$ _____	\$ _____

4c. Rental Income on the Property You Want to Purchase

For Purchase Only ☐ Does not apply

Complete if the property is a 2-4 Unit Primary Residence or an Investment Property	Amount
Expected Monthly Rental Income	\$ _____
For LENDER to calculate: Expected Net Monthly Rental Income	\$ _____

4d. Gifts or Grants You Have Been Given or Will Receive for this Loan

☐ Does not apply

Include all gifts and grants below. Under Source, choose from the sources listed here:

- Community Nonprofit
- Federal Agency
- Relative
- State Agency
- Lender
- Employer
- Local Agency
- Religious Nonprofit
- Unmarried Partner
- Other

Asset Type: Cash Gift, Gift of Equity, Grant	Deposited/Not Deposited	Source – use list above	Cash or Market Value
	☐ Deposited ☐ Not Deposited		\$ _____
	☐ Deposited ☐ Not Deposited		\$ _____

Borrower Name: _____

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Section 5: Declarations. This section asks you specific questions about the property, your funding, and your past financial history.

5a. About this Property and Your Money for this Loan

A. Will you occupy the property as your primary residence? If YES, have you had an ownership interest in another property in the last three years? If YES, complete (1) and (2) below: (1) What type of property did you own: primary residence (PR), FHA secondary residence (SR), second home (SH), or investment property (IP)? (2) How did you hold title to the property: by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?	☐ NO ☐ YES ☐ NO ☐ YES
B. If this is a Purchase Transaction: Do you have a family relationship or business affiliation with the seller of the property?	☐ NO ☐ YES
C. Are you borrowing any money for this real estate transaction (<i>e.g., money for your closing costs or down payment</i>) or obtaining any money from another party, such as the seller or realtor, that you have not disclosed on this loan application? If YES, what is the amount of this money?	☐ NO ☐ YES \$ _____
D. 1. Have you or will you be applying for a mortgage loan on another property (not the property securing this loan) on or before closing this transaction that is not disclosed on this loan application? 2. Have you or will you be applying for any new credit (<i>e.g., installment loan, credit card, etc.</i>) on or before closing this loan that is not disclosed on this application?	☐ NO ☐ YES ☐ NO ☐ YES
E. Will this property be subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid through your property taxes (<i>e.g., the Property Assessed Clean Energy Program</i>)?	☐ NO ☐ YES

5b. About Your Finances

F. Are you a co-signer or guarantor on any debt or loan that is not disclosed on this application?	☐ NO ☐ YES
G. Are there any outstanding judgments against you?	☐ NO ☐ YES
H. Are you currently delinquent or in default on a Federal debt?	☐ NO ☐ YES
I. Are you a party to a lawsuit in which you potentially have any personal financial liability?	☐ NO ☐ YES
J. Have you conveyed title to any property in lieu of foreclosure in the past 7 years?	☐ NO ☐ YES
K. Within the past 7 years, have you completed a pre-foreclosure sale or short sale, whereby the property was sold to a third party and the Lender agreed to accept less than the outstanding mortgage balance due?	☐ NO ☐ YES
L. Have you had property foreclosed upon in the last 7 years?	☐ NO ☐ YES
M. Have you declared bankruptcy within the past 7 years? If YES, identify the type(s) of bankruptcy: ☐ Chapter 7 ☐ Chapter 11 ☐ Chapter 12 ☐ Chapter 13	☐ NO ☐ YES

Borrower Name:

Section 6: Acknowledgments and Agreements.

This section tells you about your legal obligations when you sign this application.

Acknowledgments and Agreements

Definitions:

- "Lender" includes the Lender's agents, service providers, and any of their successors and assigns.
- "Other Loan Participants" includes (i) any actual or potential owners of a loan resulting from this application (the "Loan"), (ii) acquirers of any beneficial or other interest in the Loan, (iii) any mortgage insurer, (iv) any guarantor, (v) any servicer of the Loan, and (vi) any of these parties' service providers, successors or assigns.

I agree to, acknowledge, and represent the following:

(1) The Complete Information for this Application

- The information I have provided in this application is true, accurate, and complete as of the date I signed this application.
- If the information I submitted changes or I have new information before closing of the Loan, I must change and supplement this application, including providing any updated/supplemented real estate sales contract.
- For purchase transactions: The terms and conditions of any real estate sales contract signed by me in connection with this application are true, accurate, and complete to the best of my knowledge and belief. I have not entered into any other agreement, written or oral, in connection with this real estate transaction.
- The Lender and Other Loan Participants may rely on the information contained in the application before and after closing of the Loan.
- Any intentional or negligent misrepresentation of information may result in the imposition of:
 - (a) civil liability on me, including monetary damages, if a person suffers any loss because the person relied on any misrepresentation that I have made on this application, and/or
 - (b) criminal penalties on me including, but not limited to, fine or imprisonment or both under the provisions of Federal law (18 U.S.C. §§ 1001 *et seq.*).

(2) The Property's Security

The Loan I have applied for in this application will be secured by a mortgage or deed of trust which provides the Lender a security interest in the property described in this application.

(3) The Property's Appraisal, Value, and Condition

- Any appraisal or value of the property obtained by the Lender is for use by the Lender and Other Loan Participants.
- The Lender and Other Loan Participants have not made any representation or warranty, express or implied, to me about the property, its condition, or its value.

(4) Electronic Records and Signatures

- The Lender and Other Loan Participants may keep any paper record and/or electronic record of this application, whether or not the Loan is approved.

- If this application is created as (or converted into) an "electronic application", I consent to the use of "electronic records" and "electronic signatures" as the terms are defined in and governed by applicable Federal and/or state electronic transactions laws.
- I intend to sign and have signed this application either using my:
 - (a) electronic signature; or
 - (b) a written signature and agree that if a paper version of this application is converted into an electronic application, the application will be an electronic record, and the representation of my written signature on this application will be my binding electronic signature.
- I agree that the application, if delivered or transmitted to the Lender or Other Loan Participants as an electronic record with my electronic signature, will be as effective and enforceable as a paper application signed by me in writing.

(5) Delinquency

- The Lender and Other Loan Participants may report information about my account to credit bureaus. Late payments, missed payments, or other defaults on my account may be reflected in my credit report and will likely affect my credit score.
- If I have trouble making my payments I understand that I may contact a HUD-approved housing counseling organization for advice about actions I can take to meet my mortgage obligations.

(6) Authorization for Use and Sharing of Information

By signing below, in addition to the representations and agreements made above, I expressly authorize the Lender and Other Loan Participants to obtain, use, and share with each other (i) the loan application and related loan information and documentation, (ii) a consumer credit report on me, and (iii) my tax return information, as necessary to perform the actions listed below, for so long as they have an interest in my loan or its servicing:

- (a) process and underwrite my loan;
- (b) verify any data contained in my consumer credit report, my loan application and other information supporting my loan application;
- (c) inform credit and investment decisions by the Lender and Other Loan Participants;
- (d) perform audit, quality control, and legal compliance analysis and reviews;
- (e) perform analysis and modeling for risk assessments;
- (f) monitor the account for this loan for potential delinquencies and determine any assistance that may be available to me; and
- (g) other actions permissible under applicable law.

Borrower Signature _____ **Date (mm/dd/yyyy)** ____/____/____

Additional Borrower Signature _____ **Date (mm/dd/yyyy)** ____/____/____

Borrower Name:

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Section 7: Military Service.

This section asks questions about your (or your deceased spouse's) military service.

Military Service of Borrower

Military Service – Did you (or your deceased spouse) ever serve, or are you currently serving, in the United States Armed Forces? ☐ NO ☐ YES

If YES, check all that apply:

- ☐ Currently serving on active duty with projected expiration date of service/tour ____ / ____ / ____ (mm/dd/yyyy)
- ☐ Currently retired, discharged, or separated from service
- ☐ Only period of service was as a non-activated member of the Reserve or National Guard
- ☐ Surviving spouse

Section 8: Demographic Information.

This section asks about your ethnicity, sex, and race.

Demographic Information of Borrower

The purpose of collecting this information is to help ensure that all applicants are treated fairly and that the housing needs of communities and neighborhoods are being fulfilled. For residential mortgage lending, Federal law requires that we ask applicants for their demographic information (ethnicity, sex, and race) in order to monitor our compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to provide this information, but are encouraged to do so. You may select one or more designations for "Ethnicity" and one or more designations for "Race." **The law provides that we may not discriminate** on the basis of this information, or on whether you choose to provide it. However, if you choose not to provide the information and you have made this application in person, Federal regulations require us to note your ethnicity, sex, and race on the basis of visual observation or surname. The law also provides that we may not discriminate on the basis of age or marital status information you provide in this application. If you do not wish to provide some or all of this information, please check below.

Ethnicity: Check one or more

- ☐ Hispanic or Latino
 - ☐ Mexican ☐ Puerto Rican ☐ Cuban
 - ☐ Other Hispanic or Latino – Print origin: _____

For example: Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, and so on.

- ☐ Not Hispanic or Latino
- ☐ I do not wish to provide this information

Sex

- ☐ Female
- ☐ Male
- ☐ I do not wish to provide this information

Race: Check one or more

- ☐ American Indian or Alaska Native – Print name of enrolled or principal tribe: _____

☐ Asian

- ☐ Asian Indian ☐ Chinese ☐ Filipino
- ☐ Japanese ☐ Korean ☐ Vietnamese
- ☐ Other Asian – Print race: _____

For example: Hmong, Laotian, Thai, Pakistani, Cambodian, and so on.

- ☐ Black or African American
- ☐ Native Hawaiian or Other Pacific Islander
 - ☐ Native Hawaiian ☐ Guamanian or Chamorro ☐ Samoan
 - ☐ Other Pacific Islander – Print race: _____

For example: Fijian, Tongan, and so on.

- ☐ White
- ☐ I do not wish to provide this information

To Be Completed by Financial Institution (for application taken in person):

- Was the ethnicity of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES
- Was the sex of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES
- Was the race of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES

The Demographic Information was provided through:

- ☐ Face-to-Face Interview (includes Electronic Media w/ Video Component) ☐ Telephone Interview ☐ Fax or Mail ☐ Email or Internet

Borrower Name:

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Section 9: Loan Originator Information.

To be completed by your **Loan Originator**.

Loan Originator Information

Loan Originator Organization Name _____

Address _____

Loan Originator Organization NMLSR ID# _____ State License ID# _____

Loan Originator Name _____

Loan Originator NMLSR ID# _____ State License ID# _____

Email _____ Phone (_____) _____ - _____

Signature _____ Date (mm/dd/yyyy) ____ / ____ / ____

Borrower Name:

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Uniform Residential Loan Application — Lender Loan Information

This section is completed by your Lender.

L1. Property and Loan Information

Community Property State

- ☐ At least one borrower lives in a community property state.
☐ The property is in a community property state.

Transaction Detail

- ☐ Conversion of Contract for Deed or Land Contract
☐ Renovation
☐ Construction-Conversion/Construction-to-Permanent
 ☐ Single-Closing ☐ Two-Closing

Construction/Improvement Costs \$ _____

Lot Acquired Date ____ / ____ / ____ (mm/dd/yyyy)

Original Cost of Lot \$ _____

Refinance Type

- ☐ No Cash Out
☐ Limited Cash Out
☐ Cash Out

Refinance Program

- ☐ Full Documentation
☐ Interest Rate Reduction
☐ Streamlined without Appraisal
☐ Other _____

Energy Improvement

- ☐ Mortgage loan will finance energy-related improvements.
☐ Property is currently subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid for through property taxes (e.g., the *Property Assessed Clean Energy* program).

Project Type ☐ Condominium ☐ Cooperative ☐ Planned Unit Development (PUD) ☐ Property is not located in a project

L2. Title Information

Title to the Property **Will** be Held in What Name(s):

For Refinance: Title to the Property is **Currently** Held in What Name(s):

Estate Will be Held in

- ☐ Fee Simple
☐ Leasehold Expiration Date ____ / ____ / ____ (mm/dd/yyyy)

Manner in Which Title Will be Held

- ☐ Sole Ownership ☐ Joint Tenancy with Right of Survivorship
☐ Life Estate ☐ Tenancy by the Entirety
☐ Tenancy in Common ☐ Other

Trust Information

- ☐ Title Will be Held by an *Inter Vivos (Living)* Trust
☐ Title Will be Held by a Land Trust

Indian Country Land Tenure

- ☐ Fee Simple On a Reservation
☐ Individual Trust Land (*Allotted/Restricted*)
☐ Tribal Trust Land On a Reservation
☐ Tribal Trust Land Off Reservation
☐ Alaska Native Corporation Land

L3. Mortgage Loan Information

Mortgage Type Applied For

- ☐ Conventional ☐ USDA-RD
☐ FHA ☐ VA ☐ Other: _____

Terms of Loan

Note Rate _____ %
Loan Term _____ (months)

Mortgage Lien Type

- ☐ First Lien
☐ Subordinate Lien

Amortization Type

- ☐ Fixed Rate ☐ Other (explain): _____
☐ Adjustable Rate

If Adjustable Rate:

Initial Period Prior to First Adjustment _____ (months)

Subsequent Adjustment Period _____ (months)

Loan Features

- ☐ Balloon/ Balloon Term _____ (months)
☐ Interest Only / Interest Only Term _____ (months)
☐ Negative Amortization
☐ Prepayment Penalty / Prepayment Penalty Term _____ (months)
☐ Temporary Interest Rate Buydown/Initial Buydown Rate _____ %
☐ Other (explain): _____

Proposed Monthly Payment for Property

First Mortgage (P & I)	\$ _____
Subordinate Lien(s) (P & I)	\$ _____
Homeowner's Insurance	\$ _____
Supplemental Property Insurance	\$ _____
Property Taxes	\$ _____
Mortgage Insurance	\$ _____
Association/Project Dues (Condo, Co-Op, PUD)	\$ _____
Other	\$ _____
TOTAL	\$ 0.00

Borrower Name(s):

Uniform Residential Loan Application — Lender Loan Information

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L4. Qualifying the Borrower – Minimum Required Funds or Cash Back**DUE FROM BORROWER(S)**

A. Sales Contract Price	\$
B. Improvements, Renovations, and Repairs	\$
C. Land <i>(if acquired separately)</i>	\$
D. For Refinance: Balance of Mortgage Loans on the Property to be paid off in the Transaction <i>(See Table 3a. Property You Own)</i>	\$
E. Credit Cards and Other Debts Paid Off <i>(See Table 2c. Liabilities — Credit Cards, Other Debts, and Leases that You Owe)</i>	\$
F. Borrower Closing Costs <i>(including Prepaid and Initial Escrow Payments)</i>	\$
G. Discount Points	\$
H. TOTAL DUE FROM BORROWER(s) (Total of A thru G)	\$ 0.00

TOTAL MORTGAGE LOANS

I. Loan Amount Loan Amount Excluding Financed Mortgage Insurance <i>(or Mortgage Insurance Equivalent)</i> \$ _____ Financed Mortgage Insurance <i>(or Mortgage Insurance Equivalent)</i> Amount \$ _____	\$ 0.00
J. Other New Mortgage Loans on the Property the Borrower(s) is Buying or Refinancing <i>(See Table 4b. Other New Mortgage Loans on the Property You are Buying or Refinancing)</i>	\$
K. TOTAL MORTGAGE LOANS (Total of I and J)	\$ 0.00

TOTAL CREDITS

L. Seller Credits <i>(Enter the amount of Borrower(s) costs paid by the property seller)</i>	\$
M. Other Credits <i>(Enter the sum of all other credits — Borrower Paid Fees, Earnest Money, Employer Assisted Housing, Lease Purchase Fund, Lot Equity, Relocation Funds, Sweat Equity, Trade Equity, Other)</i>	\$
N. TOTAL CREDITS (Total of L and M)	\$ 0.00

CALCULATION

TOTAL DUE FROM BORROWER(s) <i>(Line H)</i>	\$ 0.00
LESS TOTAL MORTGAGE LOANS <i>(Line K)</i> AND TOTAL CREDITS <i>(Line N)</i>	– \$ 0.00
Cash From/To the Borrower (Line H minus Line K and Line N) NOTE: This amount does not include reserves or other funds that may be required by the Lender to be verified.	\$ 0.00

Borrower Name(s):

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To be completed by the **Lender:**

Lender Loan No./Universal Loan Identifier _____

Agency Case No. _____

Uniform Residential Loan Application — Continuation Sheet

Continuation Sheet

Use this continuation sheet if you need more space to complete the Uniform Residential Loan Application.

Borrower Name (*First, Middle, Last, Suffix*) _____

Additional Information _____

Additional Borrower Name (*First, Middle, Last, Suffix*) _____

Additional Information _____

I/We fully understand that it is a federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements concerning any of the above facts as applicable under the provisions of federal law (18 U.S.C. §§ 1001 *et seq.*).

Borrower Signature _____ **Date** (*mm/dd/yyyy*) ____/____/____

Additional Borrower Signature _____ **Date** (*mm/dd/yyyy*) ____/____/____

To be completed by the **Lender:**

Lender Loan No./Universal Loan Identifier _____

Agency Case No. _____

Uniform Residential Loan Application — Unmarried Addendum

For Borrower Selecting the Unmarried Status

Lenders Instructions for Using the Unmarried Addendum

The Lender may use the Unmarried Addendum only when a Borrower selected “Unmarried” in Section 1 and the information collected is necessary to determine how State property laws directly or indirectly affecting creditworthiness apply, including ensuring clear title.

For example, the Lender may use the Unmarried Addendum when the Borrower resides in a State that recognizes civil unions, domestic partnerships, or registered reciprocal beneficiary relationships or when the property is located in such a State. “State” means any state, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States.

If you selected “Unmarried” in Section 1, is there a person who is not your legal spouse but who currently has real property rights similar to those of a legal spouse? ☐ NO ☐ YES

If YES, indicate the type of relationship and the State in which the relationship was formed. For example, indicate if you are in a civil union, domestic partnership, registered reciprocal beneficiary relationship, or other relationship recognized by the State in which you currently reside or where the property is located.

☐ Civil Union ☐ Domestic Partnership ☐ Registered Reciprocal Beneficiary Relationship ☐ Other (*explain*) _____

State:

Borrower Name:

Uniform Residential Loan Application — Unmarried Addendum

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Uniform Residential Loan Application — Additional Borrower

Verify and complete the information on this application as directed by your Lender.

Section 1: Borrower Information. This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

1a. Personal Information

Name (First, Middle, Last, Suffix) _____

Alternate Names – List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix) _____

Social Security Number _____
(or Individual Taxpayer Identification Number)

Date of Birth
(mm/dd/yyyy)
____/____/____

Citizenship
☐ U.S. Citizen
☐ Permanent Resident Alien
☐ Non-Permanent Resident Alien

Type of Credit

- ☐ I am applying for **individual credit**.
☐ I am applying for **joint credit**. Total Number of Borrowers: _____
Each Borrower intends to apply for joint credit. **Your initials:** _____

List Name(s) of Other Borrower(s) Applying for this Loan
(First, Middle, Last, Suffix) – Use a separator between names

Marital Status

- ☐ Married
☐ Separated
☐ Unmarried
(Single, Divorced, Widowed, Civil Union, Domestic Partnership, Registered Reciprocal Beneficiary Relationship)

Dependents (not listed by another Borrower)

Number _____
Ages _____

Contact Information

Home Phone (____) ____ - ____
Cell Phone (____) ____ - ____
Work Phone (____) ____ - ____ **Ext.** _____
Email _____

Current Address

Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____
How Long at Current Address? ____ Years ____ Months **Housing** ☐ No primary housing expense ☐ Own ☐ Rent (\$ _____ /month)

If at Current Address for LESS than 2 years, list Former Address ☐ **Does not apply**

Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____
How Long at Former Address? ____ Years ____ Months **Housing** ☐ No primary housing expense ☐ Own ☐ Rent (\$ _____ /month)

Mailing Address – if different from Current Address ☐ **Does not apply**

Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

1b. Current Employment/Self-Employment and Income

☐ **Does not apply**

Employer or Business Name _____ Phone (____) ____ - ____
Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Position or Title

Start Date ____/____/____ (mm/dd/yyyy)
How long in this line of work? ____ Years ____ Months

Check if this statement applies:

- ☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ **Check if you are the Business Owner or Self-Employed** ☐ I have an ownership share of less than 25%. **Monthly Income (or Loss)** \$ _____
☐ I have an ownership share of 25% or more. \$ _____

Gross Monthly Income

Base \$ _____ /month
Overtime \$ _____ /month
Bonus \$ _____ /month
Commission \$ _____ /month
Military Entitlements \$ _____ /month
Other \$ _____ /month
TOTAL \$ _____ **0.00/month**

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income☐ Does not apply

Employer or Business Name _____ Phone (____) ____ - ____
Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Position or Title _____**Start Date** ____ / ____ / ____ (mm/dd/yyyy)

How long in this line of work? ____ Years ____ Months

Check if this statement applies:☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ **Check if you are the Business Owner or Self-Employed** ☐ I have an ownership share of less than 25%. **Monthly Income (or Loss)** \$ _____
☐ I have an ownership share of 25% or more. \$ _____

Gross Monthly Income

Base \$ _____ /month
Overtime \$ _____ /month
Bonus \$ _____ /month
Commission \$ _____ /month
Military Entitlements \$ _____ /month
Other \$ _____ /month
TOTAL \$ _____ **0.00 /month**

1d. IF APPLICABLE, Complete Information for Previous Employment/Self-Employment and Income☐ Does not apply**Provide at least 2 years of current and previous employment and income.**

Employer or Business Name _____
Street _____ Unit # _____
City _____ State _____ ZIP _____ Country _____

Position or Title _____**Start Date** ____ / ____ / ____ (mm/dd/yyyy)**End Date** ____ / ____ / ____ (mm/dd/yyyy)☐ **Check if you were the Business Owner or Self-Employed****Previous Gross Monthly Income \$** _____ /month**1e. Income from Other Sources**☐ Does not apply**Include income from other sources below. Under Income Source, choose from the sources listed here:**

• Alimony	• Child Support	• Interest and Dividends	• Notes Receivable	• Royalty Payments	• Unemployment
• Automobile Allowance	• Disability	• Mortgage Credit Certificate	• Public Assistance	• Separate Maintenance	• Benefits
• Boarder Income	• Foster Care	• Mortgage Differential	• Retirement	• Social Security	• VA Compensation
• Capital Gains	• Housing or Parsonage	• Payments	(e.g., Pension, IRA)	• Trust	• Other

NOTE: Reveal alimony, child support, separate maintenance, or other income ONLY IF you want it considered in determining your qualification for this loan.

Income Source – use list above	Monthly Income
_____	\$ _____
_____	\$ _____
_____	\$ _____
Provide TOTAL Amount Here	\$ 0.00

Section 2: Financial Information — Assets and Liabilities.

My information for Section 2 is listed on the Uniform Residential Loan Application with _____
(insert name of Borrower)

Section 3: Financial Information — Real Estate.

My information for Section 3 is listed on the Uniform Residential Loan Application with _____
(insert name of Borrower)

Section 4: Loan and Property Information.

My information for Section 4 is listed on the Uniform Residential Loan Application with _____
(insert name of Borrower)

Borrower Name:

Uniform Residential Loan Application — Additional Borrower
Freddie Mac Form 65 • Fannie Mae Form 1003
Effective 1/2021

Section 5: Declarations. This section asks you specific questions about the property, your funding, and your past financial history.

5a. About this Property and Your Money for this Loan

A. Will you occupy the property as your primary residence? If YES, have you had an ownership interest in another property in the last three years? If YES, complete (1) and (2) below: (1) What type of property did you own: primary residence (PR), FHA secondary residence (SR), second home (SH), or investment property (IP)? (2) How did you hold title to the property: by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?	☐ NO ☐ YES ☐ NO ☐ YES _____ _____
B. If this is a Purchase Transaction: Do you have a family relationship or business affiliation with the seller of the property?	☐ NO ☐ YES
C. Are you borrowing any money for this real estate transaction (e.g., money for your closing costs or down payment) or obtaining any money from another party, such as the seller or realtor, that you have not disclosed on this loan application? If YES, what is the amount of this money?	☐ NO ☐ YES \$ _____
D. 1. Have you or will you be applying for a mortgage loan on another property (not the property securing this loan) on or before closing this transaction that is not disclosed on this loan application? 2. Have you or will you be applying for any new credit (e.g., installment loan, credit card, etc.) on or before closing this loan that is not disclosed on this application?	☐ NO ☐ YES ☐ NO ☐ YES
E. Will this property be subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid through your property taxes (e.g., the Property Assessed Clean Energy Program)?	☐ NO ☐ YES

5b. About Your Finances

F. Are you a co-signer or guarantor on any debt or loan that is not disclosed on this application?	☐ NO ☐ YES
G. Are there any outstanding judgments against you?	☐ NO ☐ YES
H. Are you currently delinquent or in default on a Federal debt?	☐ NO ☐ YES
I. Are you a party to a lawsuit in which you potentially have any personal financial liability?	☐ NO ☐ YES
J. Have you conveyed title to any property in lieu of foreclosure in the past 7 years?	☐ NO ☐ YES
K. Within the past 7 years, have you completed a pre-foreclosure sale or short sale, whereby the property was sold to a third party and the Lender agreed to accept less than the outstanding mortgage balance due?	☐ NO ☐ YES
L. Have you had property foreclosed upon in the last 7 years?	☐ NO ☐ YES
M. Have you declared bankruptcy within the past 7 years? If YES, identify the type(s) of bankruptcy: ☐ Chapter 7 ☐ Chapter 11 ☐ Chapter 12 ☐ Chapter 13	☐ NO ☐ YES

Section 6: Acknowledgements and Agreements.

My signature for Section 6 is on the Uniform Residential Loan Application with _____
(insert name of Borrower)

Section 7: Military Service. This section asks questions about your (or your deceased spouse's) military service.

Military Service of Borrower

Military Service – Did you (or your deceased spouse) ever serve, or are you currently serving, in the United States Armed Forces? ☐ NO ☐ YES

If YES, check all that apply: ☐ Currently serving on active duty with projected expiration date of service/tour ____ / ____ / ____ (mm/dd/yyyy)
☐ Currently retired, discharged, or separated from service
☐ Only period of service was as a non-activated member of the Reserve or National Guard
☐ Surviving spouse

Borrower Name:

Uniform Residential Loan Application — Additional Borrower
Freddie Mac Form 65 • Fannie Mae Form 1003
Effective 1/2021

Section 8: Demographic Information.

This section asks about your ethnicity, sex, and race.

Demographic Information of Borrower

The purpose of collecting this information is to help ensure that all applicants are treated fairly and that the housing needs of communities and neighborhoods are being fulfilled. For residential mortgage lending, Federal law requires that we ask applicants for their demographic information (ethnicity, sex, and race) in order to monitor our compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to provide this information, but are encouraged to do so. You may select one or more designations for "Ethnicity" and one or more designations for "Race." **The law provides that we may not discriminate** on the basis of this information, or on whether you choose to provide it. However, if you choose not to provide the information and you have made this application in person, Federal regulations require us to note your ethnicity, sex, and race on the basis of visual observation or surname. The law also provides that we may not discriminate on the basis of age or marital status information you provide in this application. If you do not wish to provide some or all of this information, please check below.

Ethnicity: Check one or more

- ☐ Hispanic or Latino
☐ Mexican ☐ Puerto Rican ☐ Cuban
☐ Other Hispanic or Latino – *Print origin:* _____

For example: Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, and so on.

- ☐ Not Hispanic or Latino
☐ I do not wish to provide this information

Sex

- ☐ Female
☐ Male
☐ I do not wish to provide this information

Race: Check one or more

- ☐ American Indian or Alaska Native – *Print name of enrolled or principal tribe:* _____

- ☐ Asian
☐ Asian Indian ☐ Chinese ☐ Filipino
☐ Japanese ☐ Korean ☐ Vietnamese
☐ Other Asian – *Print race:* _____

For example: Hmong, Laotian, Thai, Pakistani, Cambodian, and so on.

- ☐ Black or African American
☐ Native Hawaiian or Other Pacific Islander
☐ Native Hawaiian ☐ Guamanian or Chamorro ☐ Samoan
☐ Other Pacific Islander – *Print race:* _____

For example: Fijian, Tongan, and so on.

- ☐ White
☐ I do not wish to provide this information

To Be Completed by Financial Institution (for application taken in person):

- Was the ethnicity of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES
Was the sex of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES
Was the race of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES

The Demographic Information was provided through:

- ☐ Face-to-Face Interview (includes Electronic Media w/ Video Component) ☐ Telephone Interview ☐ Fax or Mail ☐ Email or Internet

Section 9: Loan Originator Information.

To be completed by your **Loan Originator**.

Loan Originator Information

Loan Originator Organization Name _____
Address _____
Loan Originator Organization NMLSR ID# _____ State License ID# _____
Loan Originator Name _____
Loan Originator NMLSR ID# _____ State License ID# _____
Email _____ Phone (_____) _____ - _____
Signature _____ Date (mm/dd/yyyy) ____ / ____ / ____

Borrower Name:

Uniform Residential Loan Application — Additional Borrower
Freddie Mac Form 65 • Fannie Mae Form 1003
Effective 1/2021

IVES Request for Transcript of Tax Return

▶ Do not sign this form unless all applicable lines have been completed.

▶ Request may be rejected if the form is incomplete or illegible.

▶ For more information about Form 4506-C, visit www.irs.gov and search IVES.

1a. Name shown on tax return (if a joint return, enter the name shown first)	1b. First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)
2a. If a joint return, enter spouse's name shown on tax return	2b. Second social security number or individual taxpayer identification number if joint tax return
3. Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)	
4. Previous address shown on the last return filed if different from line 3 (see instructions)	
5a. IVES participant name, address, and SOR mailbox ID	
5b. Customer file number (if applicable) (see instructions)	

Caution: This tax transcript is being sent to the third party entered on Line 5a. Ensure that lines 5 through 8 are completed before signing. (see instructions)

6. Transcript requested. Enter the tax form number here (1040, 1065, 1120, etc.) and check the appropriate box below. Enter only one tax form number per request _____

a. Return Transcript , which includes most of the line items of a tax return as filed with the IRS. A tax return transcript does not reflect changes made to the account after the return is processed. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120-A, Form 1120-H, Form 1120-L, and Form 1120S. Return transcripts are available for the current year and returns processed during the prior 3 processing years	☐
b. Account Transcript , which contains information on the financial status of the account, such as payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns	☐
c. Record of Account , which provides the most detailed information as it is a combination of the Return Transcript and the Account Transcript. Available for current year and 3 prior tax years	☐
7. Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript. The IRS can provide a transcript that includes data from these information returns. State or local information is not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 information for 2016, filed in 2017, will likely not be available from the IRS until 2018. If you need W-2 information for retirement purposes, you should contact the Social Security Administration at 1-800-772-1213	☐

Caution: If you need a copy of Form W-2 or Form 1099, you should first contact the payer. To get a copy of the Form W-2 or Form 1099 filed with your return, you must use Form 4506 and request a copy of your return, which includes all attachments.**8.** Year or period requested. Enter the ending date of the tax year or period using the mm/dd/yyyy format (see instructions)

/ / / / / / / /

Caution: Do not sign this form unless all applicable lines have been completed.**Signature of taxpayer(s).** I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. If the request applies to a joint return, at least one spouse must sign. If signed by a corporate officer, 1 percent or more shareholder, partner, managing member, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506-C on behalf of the taxpayer. **Note:** This form must be received by IRS within 120 days of the signature date.☐ **Signatory attests that he/she has read the attestation clause and upon so reading declares that he/she has the authority to sign the Form 4506-C. See instructions.**

Sign Here	Signature (see instructions)	Date	Phone number of taxpayer on line 1a or 2a
	Print/Type name		
	Title (if line 1a above is a corporation, partnership, estate, or trust)		
	Spouse's signature		Date
	Print/Type name		

Instructions for Form 4506-C, IVES Request for Transcript of Tax Return

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about Form 4506-C and its instructions, go to www.irs.gov and search IVES. Information about any recent developments affecting Form 4506-C (such as legislation enacted after we released it) will be posted on that page.

What's New. Form 4506-C was created to be utilized by authorized IVES participants to order tax transcripts with the consent of the taxpayer.

General Instructions

Caution: Do not sign this form unless all applicable lines have been completed.

Designated Recipient Notification. Internal Revenue Code, Section 6103(c), limits disclosure and use of return information received pursuant to the taxpayer's consent and holds the recipient subject to penalties for any unauthorized access, other use, or redisclosure without the taxpayer's express permission or request.

Taxpayer Notification. Internal Revenue Code, Section 6103(c), limits disclosure and use of return information provided pursuant to your consent and holds the recipient subject to penalties, brought by private right of action, for any unauthorized access, other use, or redisclosure without your express permission or request.

Purpose of form. Use Form 4506-C to request tax return information through an authorized IVES participant. You will designate an IVES participant to receive the information on line 5a.

Note: If you are unsure of which type of transcript you need, check with the party requesting your tax information.

Where to file. The IVES participant will fax Form 4506-C with the approved IVES cover sheet to their assigned Service Center.

Chart for ordering transcripts

If your assigned Service Center is:	Fax the requests with the approved coversheet to:
Austin Submission Processing Center	Austin IVES Team 844-249-6238
Fresno Submission Processing Center	Fresno IVES Team 844-249-6239
Kansas City Submission Processing Center	Kansas City IVES Team 844-249-8128
Ogden Submission Processing Center	Ogden IVES Team 844-249-8129

Specific Instructions

Line 1b. Enter the social security number (SSN) or individual taxpayer identification number (ITIN) for the individual listed on line 1a, or enter the employer identification number (EIN) for the business listed on line 1a.

Line 3. Enter your current address. If you use a P.O. box, include it on this line.

Line 4. Enter the address shown on the last return filed if different from the address entered on line 3.

Note: If the addresses on lines 3 and 4 are different and you have not changed your address with the IRS, file Form 8822, Change of Address, or Form 8822-B, Change of Address or Responsible Party — Business, with Form 4506-C.

Line 5b. Enter up to 10 numeric characters to create a unique customer file number that will appear on the transcript. The customer file number cannot contain an SSN, ITIN or EIN. Completion of this line is not required.

Note. If you use an SSN, name or combination of both, we will not input the information and the customer file number will reflect a generic entry of "9999999999" on the transcript.

Line 8. Enter the end date of the tax year or period requested in mm/dd/yyyy format. This may be a calendar year, fiscal year or quarter. Enter each quarter requested for quarterly returns. Example: Enter 12/31/2018 for a calendar year 2018 Form 1040 transcript.

Signature and date. Form 4506-C must be signed and dated by the taxpayer listed on line 1a or 2a. The IRS must receive Form 4506-C within 120 days of the date signed by the taxpayer or it will be rejected. Ensure that all applicable lines, including lines 5a through 8, are completed before signing.



You must check the box in the signature area to acknowledge you have the authority to sign and request the information. The form will not be processed if unchecked.

Individuals. Transcripts listed on line 6 may be furnished to either spouse if jointly filed. Only one signature is required. Sign Form 4506-C exactly as your name appeared on the original return. If you changed your name, also sign your current name.

Corporations. Generally, Form 4506-C can be signed by:

(1) an officer having legal authority to bind the corporation, (2) any person designated by the board of directors or other governing body, or (3) any officer or employee on written request by any principal officer and attested to by the secretary or other officer. A bona fide shareholder of record owning 1 percent or more of the outstanding stock of the corporation may submit a Form 4506-C but must provide documentation to support the requester's right to receive the information.

Partnerships. Generally, Form 4506-C can be signed by any person who was a member of the partnership during any part of the tax period requested on line 8.

All others. See section 6103(e) if the taxpayer has died, is insolvent, is a dissolved corporation, or if a trustee, guardian, executor, receiver, or administrator is acting for the taxpayer.

Note: If you are Heir at law, Next of kin, or Beneficiary you must be able to establish a material interest in the estate or trust.

Documentation. For entities other than individuals, you must attach the authorization document. For example, this could be the letter from the principal officer authorizing an employee of the corporation or the letters testamentary authorizing an individual to act for an estate.

Signature by a representative. A representative can sign Form 4506-C for a taxpayer only if the taxpayer has specifically delegated this authority to the representative on Form 2848, line 5. The representative must attach Form 2848 showing the delegation to sign Form 4506-C.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to establish your right to gain access to the requested tax information under the Internal Revenue Code. We need this information to properly identify the tax information and respond to your request. You are not required to request any transcript; if you do request a transcript, sections 6103 and 6109 and their regulations require you to provide this information, including your SSN or EIN. If you do not provide this information, we may not be able to process your request. Providing false or fraudulent information may subject you to penalties.

Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file Form 4506-C will vary depending on individual circumstances. The estimated average time is:

Learning about the law or the form . . . 10 min.
Preparing the form . . . 12 min.
Copying, assembling, and sending the form to the IRS . . . 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making Form 4506-C simpler, we would be happy to hear from you. You can write to:

Internal Revenue Service
Tax Forms and Publications Division
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

Do not send the form to this address. Instead, see Where to file on this page.

Your home loan toolkit

A step-by-step guide



Consumer Financial
Protection Bureau

How can this toolkit help you?

Buying a home is exciting and, let's face it, complicated. This booklet is a toolkit that can help you make better choices along your path to owning a home.

After you finish this toolkit:

- You'll know the most important steps you need to take to **get the best mortgage** for your situation Section 1: Page 3
- You'll better **understand your closing costs** and what it takes to buy a home Section 2: Page 16
- You'll see a few ways to **be a successful homeowner** Section 3: Page 24

How to use the toolkit:



The location symbol orients you to where you are in the home buying process.



The pencil tells you it is time to get out your pencil or pen to circle, check, or fill in numbers.



The magnifying glass highlights tips to help you research further to find important information.



The speech bubble shows you conversation starters for talking to others and gathering more facts.

About the CFPB

The Consumer Financial Protection Bureau is a federal agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.

Have a question about a common consumer financial product or problem? You can find answers by visiting consumerfinance.gov/askcfpb. Have an issue with a mortgage, student loan, or other financial product or service? You can submit a complaint to the CFPB. We'll forward your complaint to the company and work to get you a response. Turn to the back cover for details on how to submit a complaint or call us at (855) 411-2372.

This booklet was created to comply with federal law pursuant to 12 U.S.C. 2604, 12 CFR 1024.6, and 12 CFR 1026.19(g).

Choosing the best mortgage for you



You're starting to look for a mortgage or want to confirm you made a good decision.

To make the most of your mortgage, you need to decide what works for you and then shop around to find it. In this section, you'll find eight steps to get the job done right.

1. Define what affordable means to you

Only you can decide how much you are comfortable paying for your housing each month. In most cases, your lender can consider only if you are able to repay your mortgage, not whether you will be comfortable repaying your loan. Based on your whole financial picture, think about whether you want to take on the mortgage payment plus the other costs of homeownership such as appliances, repairs, and maintenance.

IN THIS SECTION

1. Define what affordable means to you
2. Understand your credit
3. Pick the mortgage type that works for you
4. Choose the right down payment for you
5. Understand the trade-off between points and interest rate
6. Shop with several lenders
7. Choose your mortgage
8. Avoid pitfalls and handle problems



THE TALK

Ask your spouse, a loved one, or friend about what affordable means to you:

"What's more important—a bigger home with a larger mortgage or more financial flexibility?"

"How much do we want to budget for all the monthly housing costs, including repairs, furniture, and new appliances?"

"What will a mortgage payment mean for other financial goals?"



KNOW YOUR NUMBERS

Calculate the home payment you can take on by filling in the worksheets below:

Think about what an affordable home loan looks like for you. These worksheets can help. First, estimate your total monthly home payment. Second, look at the percentage of your income that will go toward your monthly home payment. Third, look at how much money you will have available to spend on the rest of your monthly expenses.

Step 1. Estimate your total monthly home payment by adding up the items below

Your **total monthly home payment** is more than just your mortgage. There are more expenses that go along with owning your home. Start with estimates and adjust as you go.

MONTHLY ESTIMATE	
Principal and interest (P&I) Your principal and interest payment depends on your home loan amount, the interest rate, and the number of years it takes to repay the loan. Principal is the amount you pay each month to reduce the loan balance. Interest is the amount you pay each month to borrow money. Many principal and interest calculators are available online.	\$
Mortgage insurance Mortgage insurance is often required for loans with less than a 20% down payment.	+ \$
Property taxes The local assessor or auditor's office can help you estimate property taxes for your area. If you know the yearly amount, divide by 12 and write in the monthly amount.	+ \$
Homeowner's insurance You can call one or more insurance agents to get an estimate for homes in your area. Ask if flood insurance is required.	+ \$
Homeowner's association or condominium fees, if they apply Condominiums and other planned communities often require homeowner's association (HOA) fees.	+ \$
My estimated total monthly home payment	= \$

Step 2. Estimate the percentage of your income spent on your monthly home payment

Calculate the percentage of your total monthly income that goes toward your total monthly home payment each month. A mortgage lending rule of thumb is that **your total monthly home payment should be at or below 28% of your total monthly income before taxes**. Lenders may approve you for more or for less depending on your overall financial picture.

$$\begin{array}{ccccc} \$ & \div & \$ & \times 100 & = & \% \\ \hline \text{My estimated total monthly} & & \text{My total monthly income} & & & \text{Percentage of my income} \\ \text{home payment (from step 1)} & & \text{before taxes} & & & \text{going toward my monthly} \\ & & & & & \text{home payment} \end{array}$$

Step 3. Estimate what is left after subtracting your monthly debts

To determine whether you are comfortable with your total monthly home payment, figure out how much of your income is left after you pay for your housing plus your other monthly debts.

Total monthly income <i>after taxes</i>	\$
My estimated total monthly home payment (from step 1)	
Monthly car payment(s)	– \$
Monthly student loan payment(s)	– \$
Monthly credit card payment(s)	– \$
Other monthly payments, such as child support or alimony	– \$
Total monthly income minus all debt payments This money must cover your utilities, groceries, child care, health insurance, repairs, and everything else. If this isn't enough, consider options such as buying a less expensive home or paying down debts.	= \$

Step 4. Your choice

I am comfortable with a total monthly home payment of: \$

2. Understand your credit

Your credit, your credit scores, and how wisely you shop for a loan that best fits your needs have a significant impact on your mortgage interest rate and the fees you pay. To improve your credit and your chances of getting a better mortgage, get current on your payments and stay current. About 35% of your credit scores are based on whether or not you pay your bills on time. About 30% of your credit scores are based on how much debt you owe. That's why you may want to consider paying down some of your debts.

RESEARCH STARTER

Check out interest rates and make sure you're getting the credit you've earned.

- ☐ Get your credit report at annualcreditreport.com and check it for errors. If you find mistakes, submit a request to each of the credit bureaus asking them to fix the mistake. For more information about correcting errors on your credit report, visit consumerfinance.gov/askcfpb.
- ☐ For more on home loans and credit, visit consumerfinance.gov/owning-a-home.

TIP

Be careful making any big purchases on credit before you close on your home. Even financing a new refrigerator could make it harder for you to get a mortgage.

TIP

Correcting errors on your credit report may raise your score in 30 days or less. It's a good idea to correct errors before you apply for a mortgage.

NOW

- If your credit score is below 700, you will likely pay more for your mortgage.
- Most credit scoring models are built so you can shop for a mortgage within a certain period—generally between 14 days and 45 days—with little or no impact on your score. If you shop outside of this period, any change triggered by shopping should be minor—a small price to pay for saving money on a mortgage loan.

IN THE FUTURE

- If you work on improving your credit and wait to buy a home, you will likely save money. Some people who improve their credit save \$50 or \$100 on a typical monthly mortgage payment.
- An average consumer who adopts healthy credit habits, such as paying bills on time and paying down credit cards, could see a credit score improvement in three months or more.

YOUR CHOICE *Check one:*

- ☐ I will go with the credit I have. **OR** ☐ I will wait a few months or more and work to improve my credit.

3. Pick the mortgage type—fixed or adjustable—that works for you

With a **fixed-rate mortgage**, your principal and interest payment stays the same for as long as you have your loan.

- Consider a fixed-rate mortgage if you want a predictable payment.
- You may be able to refinance later if interest rates fall or your credit or financial situation improves.

With an **adjustable-rate mortgage (ARM)**, your payment often starts out lower than with a fixed-rate loan, but your rate and payment could increase quickly. It is important to understand the trade-offs if you decide on an ARM.

- Your payment could increase a lot, often by hundreds of dollars a month.
- Make sure you are confident you know what your maximum payment could be and that you can afford it.

Planning to sell your home within a short period of time? That's one reason some people consider an ARM. But, you probably shouldn't count on being able to sell or refinance. Your financial situation could change. Home values may go down or interest rates may go up.

You can learn more about ARMs in the Consumer Handbook on Adjustable Rate Mortgages (files.consumerfinance.gov/f/201401_cfpb_booklet_charm.pdf) or by visiting consumerfinance.gov/owning-a-home.

TIP

Many borrowers with ARMs underestimate how much their interest rates can rise.

YOUR CHOICE Check one:

- ☐ I prefer a fixed-rate mortgage. **OR** ☐ I prefer an adjustable-rate mortgage.

Check for risky loan features

Some loans are safer and more predictable than others. It is a good idea to make sure you are comfortable with the risks you are taking on when you buy your home. You can find out if you have certain types of risky loan features from the Loan Terms section on the first page of your Loan Estimate.

A **balloon payment** is a large payment you must make, usually at the end of your loan repayment period. Depending on the terms of your loan, the balloon payment could be as large as the entire balance on your mortgage.

A **prepayment penalty** is an amount you have to pay if you refinance or pay off your loan early. A prepayment penalty may apply even if you sell your home.

4. Choose the right down payment for you

A down payment is the amount you pay toward the home yourself. You put a percentage of the home's value down and borrow the rest through your mortgage loan.

YOUR CHOICE Check one:

YOUR DOWN PAYMENT	WHAT THAT MEANS FOR YOU
☐ I will put down 20% or more.	A 20% or higher down payment likely provides the best rates and most options. However, think twice if the down payment drains all your savings.
☐ I will put down between 5% and 19%.	You probably have to pay higher interest rates or fees. Lenders most likely require private mortgage insurance (PMI). PMI is an insurance policy that lets you make a lower down payment by insuring the lender against loss if you fail to pay your mortgage. Keep in mind when you hear about “no PMI” offers that doesn’t mean zero cost. No PMI offers often have higher interest rates and may also require you to take out a second mortgage. Be sure you understand the details.
☐ I will make no down payment or a small one of less than 5%.	Low down payment programs are typically more expensive because they may require mortgage insurance or a higher interest rate. Look closely at your total fees, interest rate, and monthly payment when comparing options. Ask about loan programs such as: ▪ Conventional loans that may offer low down payment options. ▪ FHA, which offers a 3.5% down payment program. ▪ VA, which offers a zero down payment option for qualifying veterans. ▪ USDA, which offers a similar zero down payment program for eligible borrowers in rural areas.

The advantages of prepayment

Prepayment is when you make additional mortgage payments so you pay down your mortgage early. This reduces your overall cost of borrowing, and you may be able to cancel your private mortgage insurance early and stop paying the premium. Especially if your down payment is less than 20%, it may make sense to make additional payments to pay down your loan earlier.

TIP

Prepayment is your choice. You don’t have to sign up for a program or pay a fee to set it up.

5. Understand the trade-off between points and interest rate

Points are a percentage of a loan amount. For example, when a loan officer talks about one point on a \$100,000 loan, the loan officer is talking about one percent of the loan, which equals \$1,000. Lenders offer different interest rates on loans with different points. There are three main choices you can make about points. You can decide you don't want to pay or receive points at all. This is called a **zero point loan**. You can pay points at closing to receive a lower interest rate. Or you can choose to have points paid to you (also called **lender credits**) and use them to cover some of your closing costs.

The example below shows the trade-off between points as part of your closing costs and interest rates. In the example, you borrow \$180,000 and qualify for a 30-year fixed-rate loan at an interest rate of 5.0% with zero points. Rates currently available may be different than what is shown in this example.

COMPARE THREE SCENARIOS OF HOW POINTS AFFECT INTEREST RATE

RATE	4.875%	5.0%	5.125%
POINTS	+0.375	0	-0.375
YOUR SITUATION	You plan to keep your mortgage for a long time. You can afford to pay more cash at closing.	You are satisfied with the market rate without points in either direction.	You don't want to pay a lot of cash upfront and you can afford a larger mortgage payment.
YOU MAY CHOOSE	Pay points now and get a lower interest rate. This will save you money over the long run.	Zero points.	Pay a higher interest rate and get a lender credit toward some or all of your closing costs.
WHAT THAT MEANS	You might agree to pay \$675 more in closing costs, in exchange for a lower rate of 4.875%. Now: You pay \$675 Over the life of the loan: Pay \$14 less each month	With no adjustments in either direction, it is easier to understand what you're paying and to compare prices.	You might agree to a higher rate of 5.125%, in exchange for \$675 toward your closing costs. Now: You get \$675 Over the life of the loan: Pay \$14 more each month

6. Shop with several lenders

You've figured out what affordable means for you. You've reviewed your credit and the kind of mortgage and down payment that best fits your situation. Now is the time to start shopping seriously for a loan. The work you do here could save you thousands of dollars over the life of your mortgage.

GATHER FACTS AND COMPARE COSTS

☐ Make a list of several lenders you will start with

Mortgages are typically offered by community banks, credit unions, mortgage brokers, online lenders, and large banks. These lenders have loan officers you can talk to about your situation.

☐ Get the facts from the lenders on your list

Find out from the lenders what loan options they recommend for you, and the costs and benefits for each. For example, you might find a discount is offered for borrowers who have completed a home buyer education program.

☐ Get at least three offers—in writing—so that you can compare them

Review the decisions you made on [pages 4 to 8](#) to determine the loan type, down payment, total monthly home payment and other features to shop for. Now ask at least three different lenders to give you a **Loan Estimate**, which is a standard form showing important facts about the loan. It should be sent to you within three days, and it shouldn't be expensive. Lenders can charge you only a small fee for getting your credit report—and some lenders provide the Loan Estimate without that fee.

☐ Compare Total Loan Costs

Review your Loan Estimates and compare Total Loan Costs, which you can see under *Section D* at the bottom left of the second page of the Loan Estimate. **Total Loan Costs** include what your lender charges to make the loan, as well as costs for services such as appraisal and title. The third page of the Loan Estimate shows the **Annual Percentage Rate** (APR), which is a measure of your costs over the loan term expressed as a rate. Also shown on the third page is the **Total Interest Percentage** (TIP), which is the total amount of interest that you pay over the loan term as a percentage of your loan amount. **You can use APR and TIP to compare loan offers.**

RESEARCH STARTER

Loan costs can vary widely from lender to lender, so this is one place where a little research may help you save a lot of money. Here's how:

☐ Ask real estate and title professionals about average costs in your area.

☐ Learn more about loan costs, and get help comparing options, at consumerfinance.gov/owning-a-home.

TIP

A loan officer is not necessarily shopping on your behalf or providing you with the best fit or lowest cost loan.

TIP

It is illegal for a lender to pay a loan officer more to steer you into a higher cost loan.

THE TALK

Talking to different lenders helps you to know what options are available and to feel more in control. Here is one way to start the conversation:

“This mortgage is a big decision and I want to get it right. Another lender is offering me a different loan that may cost less. Let’s talk about what the differences are and whether you may be able to offer me the best deal.”



TRACK YOUR LOAN OFFERS

Fill in the blanks for these important factors:

	LOAN OFFER 1	LOAN OFFER 2	LOAN OFFER 3
Lender name			
Loan amount	\$	\$	\$
Interest rate	%	%	%
	☐ Fixed ☐ Adjustable	☐ Fixed ☐ Adjustable	☐ Fixed ☐ Adjustable
Monthly principal and interest	\$	\$	\$
Monthly mortgage insurance	\$	\$	\$
Total Loan Costs (See section D on the second page of your Loan Estimate.)	\$	\$	\$

My best loan offer is: _____

7. Choose your mortgage

You've done a lot of hard work to get this far! Now it is time to make your call.



CONFIRM YOUR DECISION

Check the box if you agree with the statement:

- ☐ I can repay this loan.
- ☐ I am comfortable with my monthly payment.
- ☐ I shopped enough to know this is a good deal for me.
- ☐ There are no risky features such as a balloon payment or prepayment penalty I can't handle down the road.
- ☐ I know whether my principal and interest payment will increase in the future.

Still need advice? The U.S. Department of Housing and Urban Development (HUD) sponsors housing counseling agencies throughout the country to provide free or low-cost advice. To find a HUD-approved housing counselor visit consumerfinance.gov/find-a-housing-counselor or call HUD's interactive voice system at (800) 569-4287.

Intent to proceed

When you receive a Loan Estimate, the lender has not yet approved or denied your loan. Up to this point, they are showing you what they expect to offer if you decide to move forward with your application. You have not committed to this lender. In fact, you are not committed to any lender before you have signed final closing documents.

Once you have found your best mortgage, the next step is to tell the loan officer you want to proceed with that mortgage application. This is called expressing your **intent to proceed**. Lenders have to wait until you express your intent to proceed before they require you to pay an application fee, appraisal fee, or most other fees.

Rate lock

Your Loan Estimate may show a rate that has been "locked" or a rate that is "floating," which means it can go up or down. Mortgage interest rates change daily, sometimes hourly. A **rate lock** sets your interest rate for a period of time. Rate locks are typically available for 30, 45, or 60 days, and sometimes longer.

The interest rate on your Loan Estimate is not a guarantee. If your rate is floating and it is later locked, your interest rate will be set at that later time. Also, if there are changes in your application—including your loan amount, credit score, or verified income—your rate and terms will probably change too. In those situations, the lender gives you a revised Loan Estimate.

There can be a downside to a rate lock. It may be expensive to extend if your transaction needs more time. And, a rate lock may lock you out of better market pricing if rates fall.

THE TALK

Rate lock policies vary by lender. Choosing to lock or float your rate can make an important difference in your monthly payment. To avoid surprises, ask:

“What does it mean if I lock my rate today?”

“What rate lock time frame does this Loan Estimate provide?”

“Is a shorter or longer rate lock available, and at what cost?”

“What if my closing is delayed and the rate lock expires?”

“If I lock my rate, are there any conditions under which my rate could still change?”

8. Avoid pitfalls

WHAT NOT TO DO	WHY?
Don't sign documents where important details are left blank or documents you don't understand.	You are agreeing to repay a substantial amount of money over an extended period of time. Make sure you know what you are getting into and protect yourself from fraud.
Don't assume you are on your own.	HUD-approved housing counselors can help you navigate the process and find programs available to help first-time homebuyers. You can find a HUD-approved housing counselor in your area at consumerfinance.gov/find-a-housing-counselor or call HUD's interactive voice system at (800) 569-4287.
Don't take on more mortgage than you want or can afford.	Make certain that you want the loan that you are requesting and that you are in a position to live up to your end of the bargain.
Don't count on refinancing, and don't take out a loan if you already know you will have to change it later.	If you are not comfortable with the loan offered to you, ask your lender if there is another option that works for you. Keep looking until you find the right loan for your situation.
Don't fudge numbers or documents.	You are responsible for an accurate and truthful application. Be upfront about your situation. Mortgage fraud is a serious offense.
Don't hide important financial information.	Hiding negative information may delay or derail your loan application.

Handle problems

WHAT HAPPENED

WHAT TO DO ABOUT IT

I have experienced a problem with my loan application or how my loan officer is treating me.

Ask to talk to a supervisor. It may be a good idea to talk to the loan officer first, and if you are not satisfied, ask to speak with a supervisor.

I think I was unlawfully discriminated against when I applied for a loan or when I tried to buy a home.

The Fair Housing Act and Equal Credit Opportunity Act prohibit housing and credit discrimination. If you think you have been discriminated against during any part of the mortgage process, you can submit a complaint and describe what happened. To do so, you can call the Consumer Financial Protection Bureau at (855) 411-2372 or visit consumerfinance.gov/complaint. Submit a complaint to the U.S. Department of Housing and Urban Development (HUD) by calling (800) 669-9777, TTY (800) 927-9275. Or, file a complaint online at HUD.gov.

You can find more information about your rights and how to submit a complaint with the CFPB at consumerfinance.gov/fair-lending.

I have a complaint.

Submit a complaint to the Consumer Financial Protection Bureau if you have problems at any stage of the mortgage application or closing process, or later if you have problems making payments or become unable to pay. You can call (855) 411-2372 or visit consumerfinance.gov/complaint.

I think I may have been the victim of a predatory lender or a loan fraud.

Don't believe anyone who tells you they are your "only chance to get a loan," or that you must "act fast." Learn the warning signs of predatory lending and protect yourself. Find more information at portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hcc/OHC_PREDLEND/OHC_LOANFRAUD.

You could learn more about your loan officer at nmlsconsumeraccess.org.

Your closing



You've chosen a mortgage. Now it's time to select and work with your closing agent.

Once you've applied for a mortgage, you may feel like you're done. But mortgages are complicated and you still have choices to make.

IN THIS SECTION

1. Shop for mortgage closing services
2. Review your revised Loan Estimate
3. Understand and use your Closing Disclosure

1. Shop for mortgage closing services

Once you've decided to move forward with a lender based on the Loan Estimate, you are ready to shop for the **closing agent** who gathers all the legal documents, closes the loan, and handles the money involved in your purchase. After you apply for a loan, your lender gives you a list of companies that provide closing services. You may want to use one of the companies on the list. Or, you may be able to choose companies that are not on the list if your lender agrees to work with your choice. The seller cannot require you to buy a title insurance policy from a particular title company.

Closing agent

In most of the country, a settlement agent does your closing. In other states, particularly several states in the West, the person is known as an escrow agent. And in some states, particularly in the Northeast and South, an attorney may be required.



RESEARCH STARTER

When you compare closing agents, look at both cost and customer service.

- ☐ Ask your real estate professional and your friends. These people may know companies they would recommend. Be sure to ask how that company handled problems and if they have a good reputation.

TIP

Settlement services may feel like a drop in the bucket compared to the cost of the home. But in some states borrowers who shop around may save hundreds of dollars.

- Review the list of companies your lender gave you. Select a few companies on the list and ask for references from people who recently bought a home. Ask those people how the company handled problems that came up during the transaction.

Title insurance

When you purchase your home, you receive a document most often called a deed, which shows the seller transferred their legal ownership, or “title,” to the home to you. **Title insurance** can provide protection if someone later sues and says they have a claim against the home. Common claims come from a previous owner’s failure to pay taxes or from contractors who say they were not paid for work done on the home before you purchased it.

Most lenders require a **Lender’s Title Insurance** policy, which protects the amount they lent. You may want to buy an **Owner’s Title Insurance** policy, which protects your financial investment in the home. The Loan Estimate you receive lists the Owner’s Title Insurance policy as optional if your lender does not require the policy as a condition of the loan.

Depending on the state where you are buying your home, your title insurance company may give you an itemized list of fees at closing. This itemized list may be required under state law and may be different from what you see on your Loan Estimate or Closing Disclosure. That does not mean you are being charged more. If you add up all the title-related costs your title insurance company gives you, it should match the totals of all the title-related costs you see on your Loan Estimate or Closing Disclosure. When comparing costs for title insurance, make sure to compare the bottom line total.

Home inspector and home appraiser

When you are considering buying a home, it is smart to check it out carefully to see if it is in good condition. The person who does this for you is called a **home inspector**. The inspector works for you and should tell you whether the home you want to buy is in good condition and whether you are buying a “money pit” of expensive repairs. Get your inspection before you are finally committed to buy the home.

A home inspector is different from a **home appraiser**. The appraiser is an independent professional whose job is to give the lender an estimate of the home’s market value. You are entitled to a copy of the appraisal prior to your closing. This allows you to see how the price you agreed to pay compares to similar and recent property sales in your area.

2. Review your revised Loan Estimate

When important information changes, your lender is required to give you a new Loan Estimate that shows your new loan offer.

It is illegal for a lender to quote you low fees and costs for its services on your Loan Estimate and then surprise you with much higher costs in a revised Loan Estimate or Closing Disclosure. However, a lender may change the fees it quotes you for its services if the facts on your application were wrong or changed, you asked for a change, your lender found you did not qualify for the original loan offer, or your Loan Estimate expired.

Here are common reasons why your Loan Estimate might change:

- You decided to change loan programs or the amount of your down payment.
- The appraisal on the home you want to buy came in higher or lower than expected.
- You took out a new loan or missed a payment and that has changed your credit.
- Your lender could not document your overtime, bonus, or other income.

THE TALK

If your Loan Estimate is revised you should look it over to see what changed. Ask your lender:

"Can you explain why I received a new Loan Estimate?"

"How is my loan transaction different from what I was originally expecting?"

"How does this change my loan amount, interest rate, monthly payment, cash to close, and other loan features?"

3. Understand and use your Closing Disclosure

You've chosen a home you want to buy and your offer has been accepted. You've also applied for and been approved for a mortgage. Now you are ready to take legal possession of the home and promise to repay your loan.

At least three days before your closing, you should get your official **Closing Disclosure**, which is a five-page document that gives you more details about your loan, its key terms, and how much you are paying in fees and other costs to get your mortgage and buy your home.

Many of the costs you pay at closing are set by the decisions you made when you were shopping for a mortgage. Charges shown under "services you can shop for" may increase at closing, but generally by no more than 10% of the costs listed on your final Loan Estimate.

The Closing Disclosure breaks down your closing costs into two big categories:

YOUR LOAN COSTS

- The lender's **Origination Costs** to make or "originate" the loan, along with application fees and fees to underwrite your loan. **Underwriting** is the lender's term for making sure your credit and financial information is accurate and you meet the lender's requirements for a loan.
- Discount points—that is, additional money you pay up front to reduce your interest rate.
- Services you shopped for, such as your closing or settlement agent and related title costs.
- Services your lender requires for your loan. These include appraisals and credit reports.

OTHER COSTS

- Property taxes.
- Homeowner's insurance premiums. You can shop around for homeowner's insurance from your current insurance company, or many others, until you find the combination of premium, coverage, and customer service that fits your situation. Your lender will ask you for proof you have an insurance policy on your new home.
- Any portion of your total mortgage payment you must make before your first full payment is due.
- Flood insurance, if required.

RESEARCH STARTER

Get tips, a step-by-step checklist, and help with the rest of the documents you'll see at closing at consumerfinance.gov/owning-a-home.

What is your Closing Disclosure?

The five-page Closing Disclosure sums up the terms of your loan and what you pay at closing. You can easily compare the numbers to the Loan Estimate you received earlier. There should not be any significant changes other than those you have already agreed to.

Take out your own Closing Disclosure, or review the example here. Double-check that you clearly understand what you'll be expected to pay—over the life of your loan and at closing.

ON PAGE 1 OF 5

Loan terms

Review your monthly payment. Part of it goes to repay what you borrowed (and may build equity in your new home), and part of it goes to pay interest (which doesn't build equity). Equity is the current market value of your home minus the amount you still owe on your mortgage.

Costs at Closing

Be prepared to bring the full "Cash to Close" amount with you to your closing. This amount includes your down payment and closing costs. The closing costs are itemized on the following pages.

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information		Transaction Information		Loan Information	
Date Issued	4/15/2013	Borrower	Michael Jones and Mary Stone	Loan Term	30 years
Closing Date	4/15/2013		123 Anywhere Street	Purpose	Purchase
Disbursement Date	4/15/2013		Anytown, ST 12345	Product	Fixed Rate
Settlement Agent	Epsilon Title Co.	Seller	Steve Cole and Amy Doe		
File #	12-3456		321 Somewhere Drive	Loan Type	☒ Conventional ☐ FHA
Property	456 Somewhere Ave		Anytown, ST 12345	Loan ID #	123456789
	Anytown, ST 12345	Lender	Ficus Bank	MIC #	000654321
Sale Price	\$180,000				

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest See Projected Payments below for your Estimated Total Monthly Payment	\$761.78	NO

Does the loan have these features?	
Prepayment Penalty	YES • As high as \$3,240 if you pay off the loan during the first 2 years
Balloon Payment	NO

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$761.78	\$761.78
Mortgage Insurance	+ 82.35	+ —
Estimated Escrow Amount can increase over time	+ 206.13	+ 206.13
Estimated Total Monthly Payment	\$1,050.26	\$967.91

Estimated Taxes, Insurance & Assessments Amount can increase over time See page 4 for details	\$356.13 a month	This estimate includes ☒ Property Taxes ☒ Homeowner's Insurance ☒ Other: Homeowner's Association Dues See Escrow Account on page 4 for details. You must pay for other property costs separately.	In escrow? YES YES NO

Costs at Closing	
Closing Costs	\$9,712.10 Includes \$4,694.05 in Loan Costs + \$5,018.05 in Other Costs – \$0 in Lender Credits. See page 2 for details.
Cash to Close	\$14,147.26 Includes Closing Costs. See Calculating Cash to Close on page 3 for details.

CLOSING DISCLOSURE

PAGE 1 OF 5 • LOAN ID # 123456789

Closing Disclosure, page 1. The most important facts about your loan are on the first page.

ON PAGE 2 OF 5

Total Loan Costs

Origination charges are fees your lender charges to make your loan. Some closing costs are fees paid to the providers selected by your lender. Some are fees you pay to providers you chose on your own.

Prepays

Homeowner's insurance is often paid in advance for the first full year. Also, some taxes and other fees need to be paid in advance.

Closing Cost Details

Loan Costs		Borrower-Paid		Seller-Paid		Paid by Others
		At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges		\$1,802.00				
01	0.25 % of Loan Amount (Points)	\$405.00				
02	Application Fee	\$300.00				
03	Underwriting Fee	\$1,097.00				
04						
05						
06						
07						
08						
B. Services Borrower Did Not Shop For		\$236.55				
01	Appraisal Fee to John Smith Appraisers Inc.		\$29.80			\$405.00
02	Credit Report Fee to Information Inc.					
03	Flood Determination Fee to Info Co.	\$20.00				
04	Flood Monitoring Fee to Info Co.	\$31.75				
05	Tax Monitoring Fee to Info Co.	\$75.00				
06	Tax Status Research Fee to Info Co.	\$80.00				
07						
08						
09						
10						
C. Services Borrower Did Shop For		\$2,655.50				
01	Pest Inspection Fee to Pests Co.	\$120.50				
02	Survey Fee to Surveys Co.	\$85.00				
03	Title - Insurance Binder to Epsilon Title Co.	\$650.00				
04	Title - Lender's Title Insurance to Epsilon Title Co.	\$500.00				
05	Title - Settlement Agent Fee to Epsilon Title Co.	\$500.00				
06	Title - Title Search to Epsilon Title Co.	\$800.00				
07						
08						
D. TOTAL LOAN COSTS (Borrower-Paid)		\$4,694.05				
Loan Costs Subtotals (A + B + C)		\$4,664.25	\$29.80			
Other Costs						
E. Taxes and Other Government Fees		\$85.00				
01	Recording Fees Deed: \$40.00 Mortgage: \$45.00	\$85.00				
02	Transfer Tax to Any State			\$950.00		
F. Prepaids		\$2,120.80				
01	Homeowner's Insurance Premium (12 mo.) to Insurance Co.	\$1,209.96				
02	Mortgage Insurance Premium (mo.)					
03	Prepaid Interest (\$17.44 per day from 4/15/13 to 5/1/13)	\$279.04				
04	Property Taxes (6 mo.) to Any County USA	\$631.80				
05						
G. Initial Escrow Payment at Closing		\$412.25				
01	Homeowner's Insurance \$100.83 per month for 2 mo.	\$201.66				
02	Mortgage Insurance per month for mo.					
03	Property Taxes \$105.30 per month for 2 mo.	\$210.60				
04						
05						
06						
07						
08	Aggregate Adjustment	- 0.01				
H. Other		\$2,400.00				
01	HOA Capital Contribution to HOA Acre Inc.	\$500.00				
02	HOA Processing Fee to HOA Acre Inc.	\$150.00				
03	Home Inspection Fee to Engineers Inc.	\$750.00				
04	Home Warranty Fee to XYZ Warranty Inc.			\$450.00	\$750.00	
05	Real Estate Commission to Alpha Real Estate Broker			\$5,700.00		
06	Real Estate Commission to Omega Real Estate Broker			\$5,700.00		
07	Title - Owner's Title Insurance (optional) to Epsilon Title Co.	\$1,000.00				
08						
I. TOTAL OTHER COSTS (Borrower-Paid)		\$5,018.05				
Other Costs Subtotals (E + F + G + H)		\$5,018.05				
J. TOTAL CLOSING COSTS (Borrower-Paid)		\$9,712.10				
Closing Costs Subtotals (D + I)		\$9,682.30	\$29.80	\$12,800.00	\$750.00	\$405.00
Lender Credits						

CLOSING DISCLOSURE

PAGE 2 OF 5 • LOAN ID # 123456789

Escrow

An escrow or impound account is a special account where monthly insurance and tax payments are held until they are paid out each year. You get a statement showing how much money your lender or mortgage servicer plans to require for your escrow or impound account.

You also get an annual analysis showing what happened to the money in your account. Your lender must follow federal rules to make sure they do not end up with a large surplus or shortage in your escrow or impound account.

Details of your closing costs appear on page 2 of the Closing Disclosure.



USE YOUR CLOSING DISCLOSURE TO CONFIRM THE DETAILS OF YOUR LOAN

Circle one. If you answer no, turn to the page indicated for more information:

The interest rate is what I was expecting based on my Loan Estimate. **YES / NO** (see page 10)

I know whether I have a prepayment penalty or balloon payment. **YES / NO** (see page 7)

I know whether or not my payment changes in future years. **YES / NO** (see page 7)

I see whether I am paying points or receiving points at closing. **YES / NO** (see page 9)

I know whether I have an escrow account. **YES / NO** (see above)

Calculating Cash to Close

Closing costs are only a part of the total cash you need to bring to closing.

Summaries of Transactions

The section at the bottom of the page sums up how the money flows among you, the lender, and the seller.

Loan Disclosures

Page 4 breaks down what is and is not included in your escrow or impound account. Make sure you understand what is paid from your escrow account and what you are responsible for paying yourself.

Top image: A summary of important financial information appears on page 3 of the Closing Disclosure.

Bottom image: More details of your loan appear on page 4 of your Closing Disclosure.

Calculating Cash to Close		Use this table to see what has changed from your Loan Estimate.	
	Loan Estimate	Final	Did this change?
Total Closing Costs (J)	\$8,054.00	\$9,712.10	YES - See Total Loan Costs (D) and Total Other Costs (I)
Closing Costs Paid Before Closing	\$0	– \$29.80	YES - You paid these Closing Costs before closing
Closing Costs Financed (Paid from your Loan Amount)	\$0	\$0	NO
Down Payment/Funds from Borrower	\$18,000.00	\$18,000.00	NO
Deposit	– \$10,000.00	– \$10,000.00	NO
Funds for Borrower	\$0	\$0	NO
Seller Credits	\$0	– \$2,500.00	YES - See Seller Credits in Section L
Adjustments and Other Credits	\$0	– \$1,035.04	YES - See details in Sections K and L
Cash to Close	\$16,054.00	\$14,147.26	

Summaries of Transactions		Use this table to see a summary of your transaction.	
BORROWER'S TRANSACTION		SELLER'S TRANSACTION	
K. Due from Borrower at Closing	\$189,762.30	M. Due to Seller at Closing	\$180,080.00
01 Sale Price of Property	\$180,000.00	01 Sale Price of Property	\$180,000.00
02 Sale Price of Any Personal Property Included in Sale		02 Sale Price of Any Personal Property Included in Sale	
03 Closing Costs Paid at Closing (J)	\$9,682.30	03	
04		04	
Adjustments		05	
05		06	
06		07	
07		08	
Adjustments for Items Paid by Seller in Advance		Adjustments for Items Paid by Seller in Advance	
08 City/Town Taxes to		09 City/Town Taxes to	
09 County Taxes to		10 County Taxes to	
10 Assessments to		11 Assessments to	
11 HOA Dues 4/15/13 to 4/30/13	\$80.00	12 HOA Dues 4/15/13 to 4/30/13	\$80.00
12		13	
13		14	
14		15	
15		16	
L. Paid Already by or on Behalf of Borrower at Closing	\$175,615.04	N. Due from Seller at Closing	\$115,665.04
01 Deposit	\$10,000.00	01 Excess Deposit	
02 Loan Amount	\$162,000.00	02 Closing Costs Paid at Closing (J)	\$12,800.00
03 Existing Loan(s) Assumed or Taken Subject to		03 Existing Loan(s) Assumed or Taken Subject to	
04		04 Payoff of First Mortgage Loan	\$100,000.00
05 Seller Credit	\$2,500.00	05 Payoff of Second Mortgage Loan	

Additional Information About This Loan

Loan Disclosures											
Assumption If you sell or transfer this property to another person, your lender ☐ will allow, under certain conditions, this person to assume this loan on the original terms. ☒ will not allow assumption of this loan on the original terms.	Escrow Account For now, your loan ☒ will have an escrow account (also called an "impound" or "trust" account) to pay the property costs listed below. Without an escrow account, you would pay them directly, possibly in one or two large payments a year. Your lender may be liable for penalties and interest for failing to make a payment.										
Demand Feature Your loan ☐ has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details. ☒ does not have a demand feature.	<table><tr><th colspan="2">Escrow</th></tr><tr><td>Escrowed Property Costs over Year 1</td><td>\$2,473.56 Estimated total amount over year 1 for your escrowed property costs: Homeowner's Insurance Property Taxes</td></tr><tr><td>Non-Escrowed Property Costs over Year 1</td><td>\$1,800.00 Estimated total amount over year 1 for your non-escrowed property costs: Homeowner's Association Dues You may have other property costs.</td></tr><tr><td>Initial Escrow Payment</td><td>\$412.25 A cushion for the escrow account you pay at closing. See Section G on page 2.</td></tr><tr><td>Monthly Escrow Payment</td><td>\$206.13 The amount included in your total monthly payment.</td></tr></table>	Escrow		Escrowed Property Costs over Year 1	\$2,473.56 Estimated total amount over year 1 for your escrowed property costs: Homeowner's Insurance Property Taxes	Non-Escrowed Property Costs over Year 1	\$1,800.00 Estimated total amount over year 1 for your non-escrowed property costs: Homeowner's Association Dues You may have other property costs.	Initial Escrow Payment	\$412.25 A cushion for the escrow account you pay at closing. See Section G on page 2.	Monthly Escrow Payment	\$206.13 The amount included in your total monthly payment.
Escrow											
Escrowed Property Costs over Year 1	\$2,473.56 Estimated total amount over year 1 for your escrowed property costs: Homeowner's Insurance Property Taxes										
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Initial Escrow Payment	\$412.25 A cushion for the escrow account you pay at closing. See Section G on page 2.										
Monthly Escrow Payment	\$206.13 The amount included in your total monthly payment.										
Late Payment If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.	☐ will not have an escrow account because ☐ you declined it ☐ your lender does not offer one. You must directly pay your property costs, such as taxes and homeowner's insurance. Contact your lender to ask if your loan can have an escrow account.										
Negative Amortization (Increase in Loan Amount) Under your loan terms, you ☐ are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property. ☐ may have monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property. ☒ do not have a negative amortization feature.	<table><tr><th colspan="2">No Escrow</th></tr><tr><td>Estimated Property Costs over Year 1</td><td>Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.</td></tr><tr><td>Escrow Waiver Fee</td><td></td></tr></table>	No Escrow		Estimated Property Costs over Year 1	Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.	Escrow Waiver Fee					
No Escrow											
Estimated Property Costs over Year 1	Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.										
Escrow Waiver Fee											
Partial Payments Your lender ☒ may accept payments that are less than the full amount due (partial payments) and apply them to your loan. ☐ may hold them in a separate account until you pay the rest of the payment, and then apply the full payment to your loan. ☐ does not accept any partial payments. If this loan is sold, your new lender may have a different policy.	In the future, Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.										
Security Interest You are granting a security interest in 456 Somewhere Ave., Anytown, ST 12345											
You may lose this property if you do not make your payments or satisfy other obligations for this loan.											

Finance Charge

In addition to paying back the amount you are borrowing, you pay a lot of interest over the life of the loan. This is why it is worthwhile to shop carefully for the best loan for your situation.

Annual Percentage Rate (APR)

Your **APR** is your total cost of credit stated as a rate. Your APR is generally higher than your interest rate, because the APR takes into consideration all the costs of your loan, over the full term of the loan.

If anything on the Closing Disclosure is not clear to you, ask your lender or settlement agent, "What does this mean?"

Loan Calculations		Other Disclosures			
Total of Payments. Total you will have paid after you make all payments of principal, interest, mortgage insurance, and loan costs, as scheduled.	\$285,803.36	Appraisal If the property was appraised for your loan, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.			
Finance Charge. The dollar amount the loan will cost you.	\$118,830.27	Contract Details See your note and security instrument for information about • what happens if you fail to make your payments, • what is a default on the loan, • situations in which your lender can require early repayment of the loan, and • the rules for making payments before they are due.			
Amount Financed. The loan amount available after paying your upfront finance charge.	\$162,000.00	Liability after Foreclosure If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan, ☒ state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and have to pay any debt remaining even after foreclosure. You may want to consult a lawyer for more information. ☐ state law does not protect you from liability for the unpaid balance.			
Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your interest rate.	4.174%	Refinance Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.			
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	69.46%	Tax Deductions If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.			

Questions? If you have questions about the loan terms or costs on this form, use the contact information below. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/mortgage-closing

Contact Information					
	Lender	Mortgage Broker	Real Estate Broker (B)	Real Estate Broker (S)	Settlement Agent
Name	Ficus Bank		Omega Real Estate Broker Inc.	Alpha Real Estate Broker Co.	Epsilon Title Co.
Address	4321 Random Blvd. Somecity, ST 12340		789 Local Lane Sometown, ST 12345	987 Suburb Ct. Someplace, ST 12340	123 Commerce Pl. Somecity, ST 12344
NMLS ID					
ST License ID			Z765416	Z61456	Z61616
Contact	Joe Smith		Samuel Green	Joseph Cain	Sarah Arnold
Contact NMLS ID	12345				
Contact ST License ID			P16415	P51461	PT1234
Email	joesmith@ficusbank.com		sam@omegare.biz	joe@alphare.biz	sarah@epsilontitle.com
Phone	123-456-7890		123-555-1717	321-555-7171	987-555-4321

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature _____ Date _____

CLOSING DISCLOSURE

Co-Applicant Signature _____ Date _____

PAGE 5 OF 5 • LOAN ID # 123456789

Loan calculations, disclosures, and contact information for your files are on page 5 of the Closing Disclosure.

NOW

- Now you've spent time understanding what you need to do and what you need to pay, as a new homeowner.
- Now is the time to step back and feel sure you want to proceed with the loan.

IN THE FUTURE

- If you are not comfortable with your mortgage and your responsibility to make payments, you might not be able to keep your home.
- If you've made a careful decision about what you can afford and the mortgage you wanted, you will be able to balance owning your home and meeting your other financial goals.

Owning your home



Now you've closed on your mortgage and the home is yours.

Owning a home is exciting. And your home is also a large investment. Here's how to protect that investment.

1. Act fast if you get behind on your payments

If you fall behind on your mortgage, the company that accepts payments on your mortgage contacts you. This company is your **mortgage servicer**. Your servicer is required to let you know what options are available to avoid foreclosure. Talk to your mortgage servicer if you get into trouble, and call a housing counselor (see [page 12](#) for contact information). HUD-approved counselors are professionals who can help you, often at little or no charge to you.

Homeowners struggling to pay a mortgage should beware of scammers promising to lower mortgage payments. Only your mortgage servicer can evaluate you for a loan modification. If you suspect a scam you can call (855) 411-2372 or visit consumerfinance.gov/complaint.

2. Keep up with ongoing costs

Your mortgage payment is just one part of what it costs to live in your new home. Your escrow account holds your monthly taxes and homeowner's insurance payments—but if you have no escrow account, you need to keep up with these on your own. Your home needs maintenance and repairs, so budget and save for these too.

IN THIS SECTION

1. Act fast if you get behind on your payments
2. Keep up with ongoing costs
3. Determine if you need flood insurance
4. Understand Home Equity Lines of Credit (HELOCs) and refinancing

3. Determine if you need flood insurance

Flooding causes more than \$8 billion in damages in the United States in an average year. You can protect your home and its contents from flood damage. Depending on your property location, your home is considered either at high-risk or at moderate-to-low risk for a flood. Your insurance premium varies accordingly. You can find out more about flood insurance at [FloodSmart.gov](https://www.floodsmart.gov). Private flood insurance could also be available.

Although you may not be required to maintain flood insurance on all structures, you may still wish to do so, and your mortgage lender may still require you to do so to protect the collateral securing the mortgage. If you choose to not maintain flood insurance on a structure, and it floods, you are responsible for all flood losses relating to that structure.

4. Understand Home Equity Lines of Credit (HELOCs) and refinancing

Homeowners sometimes decide they want to borrow against the value of their home to help remodel or pay for other large expenses. One way to do this is with a **Home Equity Line of Credit** (HELOC). You can learn more about HELOCs at files.consumerfinance.gov/f/201401_cfpb_booklet_heloc.pdf.

Financial counselors caution homeowners against using a HELOC to wipe out credit card debt. If you use a HELOC as a quick fix to a serious spending problem, you could end up back in debt and lose your home.

If you decide to take out a HELOC or refinance your mortgage, the Truth in Lending Act (TILA) gives you the **right to rescind**, meaning you can change your mind and cancel the loan. But you can only rescind a refinance or HELOC within three days of receiving a proper notice of the right to rescind from your lender. You cannot rescind if you are using your HELOC to buy a home.

In the case of a refinance, consider how long it will take for the monthly savings to pay for the cost of the refinance. Review the closing costs you paid for your original loan to purchase the home. Refinancing costs can be about the same amount. A common rule of thumb is to proceed only if the new interest rate saves you that amount over about two years (in other words, if you break even in about two years).

★ Congratulations!

You have accomplished a lot. It is not easy—you should feel proud of the work you've done.



Online tools

CFPB website

consumerfinance.gov

Answers to common questions

consumerfinance.gov/askcfpb

Tools and resources for home buyers

consumerfinance.gov/owning-a-home

Talk to a housing counselor

consumerfinance.gov/find-a-housing-counselor



General inquiries

Consumer Financial Protection Bureau

1700 G Street NW

Washington DC 20552



Submit a complaint

Online

consumerfinance.gov/complaint

By phone

855-411-CFPB (2372);

TTY/TDD 855-729-CFPB (2372);

8 a.m. to 8 p.m. Eastern Time, Monday-Friday

By fax

855-237-2392

By mail

Consumer Financial Protection Bureau

P.O. Box 4503

Iowa City, Iowa 52244



Share your thoughts

[Facebook.com/cfpb](https://www.facebook.com/cfpb)

[Twitter.com/cfpb](https://twitter.com/cfpb)

What you should know about home equity lines of credit



Consumer Financial
Protection Bureau

January 2014

This booklet was initially prepared by the Board of Governors of the Federal Reserve System. The Consumer Financial Protection Bureau (CFPB) has made technical updates to the booklet to reflect new mortgage rules under Title XIV of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). A larger update of this booklet is planned in the future to reflect other changes under the Dodd-Frank Act and to align with other CFPB resources and tools for consumers as part of the CFPB's broader mission to educate consumers. Consumers are encouraged to visit the CFPB's website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

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1. Introduction

If you are in the market for credit, a home equity plan is one of several options that might be right for you. Before making a decision, however, you should weigh carefully the costs of a home equity line against the benefits. Shop for the credit terms that best meet your borrowing needs without posing undue financial risks. And remember, failure to repay the amounts you've borrowed, plus interest, could mean the loss of your home.

1.1 Home equity plan checklist

Ask your lender to help you fill out this worksheet.

Basic features for comparison	Plan A	Plan B
Fixed annual percentage rate	%	%
Variable annual percentage rate	%	%
☐ Index used and current value	%	%
☐ Amount of margin		
☐ Frequency of rate adjustments		
☐ Amount/length of discount (if any)		
☐ Interest rate cap and floor		
Length of plan		
Draw period		

Basic features for comparison (continued)	Plan A	Plan B
Repayment period		
Initial fees		
Appraisal fee		
Application fee		
Up-front charges, including points		
Closing costs		
Repayment terms		
During the draw period		
Interest and principal payments		
Interest-only payments		
Fully amortizing payments		
When the draw period ends		
Balloon payment?		
Renewal available?		
Refinancing of balance by lender?		

2. What is a home equity line of credit?

A home equity line of credit is a form of revolving credit in which your home serves as collateral. Because a home often is a consumer's most valuable asset, many homeowners use home equity credit lines only for major items, such as education, home improvements, or medical bills, and choose not to use them for day-to-day expenses.

With a home equity line, you will be approved for a specific amount of credit. Many lenders set the credit limit on a home equity line by taking a percentage (say, 75 percent) of the home's appraised value and subtracting from that the balance owed on the existing mortgage. For example:

Appraised value of home	\$100,000
Percentage	x 75%
Percentage of appraised value	= \$75,000
Less balance owed on mortgage	– \$40,000
Potential line of credit	\$35,000

In determining your actual credit limit, the lender will also consider your ability to repay the loan (principal and interest) by looking at your income, debts, and other financial obligations as well as your credit history.

Many home equity plans set a fixed period during which you can borrow money, such as 10 years. At the end of this “draw period,” you may be allowed to renew the credit line. If your plan

does not allow renewals, you will not be able to borrow additional money once the period has ended. Some plans may call for payment in full of any outstanding balance at the end of the period. Others may allow repayment over a fixed period (the “repayment period”), for example, 10 years.

Once approved for a home equity line of credit, you will most likely be able to borrow up to your credit limit whenever you want. Typically, you will use special checks to draw on your line. Under some plans, borrowers can use a credit card or other means to draw on the line.

There may be other limitations on how you use the line. Some plans may require you to borrow a minimum amount each time you draw on the line (for example, \$300) or keep a minimum amount outstanding. Some plans may also require that you take an initial advance when the line is set up.

2.1 What should you look for when shopping for a plan?

If you decide to apply for a home equity line of credit, look for the plan that best meets your particular needs. Read the credit agreement carefully, and examine the terms and conditions of various plans, including the annual percentage rate (APR) and the costs of establishing the plan. Remember, though, that the APR for a home equity line is based on the interest rate alone and will not reflect closing costs and other fees and charges, so you’ll need to compare these costs, as well as the APRs, among lenders.

2.1.1 Variable interest rates

Home equity lines of credit typically involve variable rather than fixed interest rates. The variable rate must be based on a publicly available index (such as the prime rate published in some major daily newspapers or a U.S. Treasury bill rate). In such cases, the interest rate you pay for the line of credit will change, mirroring changes in the value of the index. Most lenders cite the interest rate you will pay as the value of the index at a particular time, plus a “margin,” such as 2 percentage points. Because the cost of borrowing is tied directly to the value of the index, it is important to find out which index is used, how often the value of the index changes, and how high it has risen in the past. It is also important to note the amount of the margin.

Lenders sometimes offer a temporarily discounted interest rate for home equity lines—an “introductory” rate that is unusually low for a short period, such as six months.

Variable-rate plans secured by a dwelling must, by law, have a ceiling (or cap) on how much your interest rate may increase over the life of the plan. Some variable-rate plans limit how much your payment may increase and how low your interest rate may fall if the index drops.

Some lenders allow you to convert from a variable interest rate to a fixed rate during the life of the plan, or let you convert all or a portion of your line to a fixed-term installment loan.

2.2 Costs of establishing and maintaining a home equity line

Many of the costs of setting up a home equity line of credit are similar to those you pay when you get a mortgage. For example:

- A fee for a property appraisal to estimate the value of your home;
- An application fee, which may not be refunded if you are turned down for credit;
- Up-front charges, such as one or more “points” (one point equals 1 percent of the credit limit); and
- Closing costs, including fees for attorneys, title search, mortgage preparation and filing, property and title insurance, and taxes.

In addition, you may be subject to certain fees during the plan period, such as annual membership or maintenance fees and a transaction fee every time you draw on the credit line.

You could find yourself paying hundreds of dollars to establish the plan. And if you were to draw only a small amount against your credit line, those initial charges would substantially increase the cost of the funds borrowed. On the other hand, because the lender’s risk is lower than for other forms of credit, as your home serves as collateral, annual percentage rates for home equity lines are generally lower than rates for other types of credit. The interest you save could offset the costs of establishing and maintaining the line. Moreover, some lenders waive some or all of the closing costs.

2.3 How will you repay your home equity plan?

Before entering into a plan, consider how you will pay back the money you borrow. Some plans set a minimum monthly payment that includes a portion of the principal (the amount you borrow) plus accrued interest. But, unlike with typical installment loan agreements, the portion of your payment that goes toward principal may not be enough to repay the principal by the end of the term. Other plans may allow payment of only the interest during the life of the plan, which means that you pay nothing toward the principal. If you borrow \$10,000, you will owe that amount when the payment plan ends.

Regardless of the minimum required payment on your home equity line, you may choose to pay more, and many lenders offer a choice of payment options. However, some lenders may require you to pay special fees or penalties if you choose to pay more, so check with your lender. Many consumers choose to pay down the principal regularly as they do with other loans. For example, if you use your line to buy a boat, you may want to pay it off as you would a typical boat loan.

Whatever your payment arrangements during the life of the plan—whether you pay some, a little, or none of the principal amount of the loan—when the plan ends, you may have to pay the entire balance owed, all at once. You must be prepared to make this “balloon payment” by refinancing it with the lender, by obtaining a loan from another lender, or by some other means. If you are unable to make the balloon payment, you could lose your home.

If your plan has a variable interest rate, your monthly payments may change. Assume, for example, that you borrow \$10,000 under a plan that calls for interest-only payments. At a 10 percent interest rate, your monthly payments would be \$83. If the rate rises over time to 15 percent, your monthly payments will increase to \$125. Similarly, if you are making payments that cover interest plus some portion of the principal, your monthly payments may increase, unless your agreement calls for keeping payments the same throughout the plan period.

If you sell your home, you will probably be required to pay off your home equity line in full immediately. If you are likely to sell your home in the near future, consider whether it makes sense to pay the up-front costs of setting up a line of credit. Also keep in mind that renting your home may be prohibited under the terms of your agreement.

2.4 Line of credit vs. traditional second mortgage loans

If you are thinking about a home equity line of credit, you might also want to consider a traditional second mortgage loan. This type of loan provides you with a fixed amount of money, repayable over a fixed period. In most cases, the payment schedule calls for equal payments that pay off the entire loan within the loan period. You might consider a second mortgage instead of a home equity line if, for example, you need a set amount for a specific purpose, such as an addition to your home.

In deciding which type of loan best suits your needs, consider the costs under the two alternatives. Look at both the APR and other charges. Do not, however, simply compare the APRs, because the APRs on the two types of loans are figured differently:

- The APR for a traditional second mortgage loan takes into account the interest rate charged plus points and other finance charges.
- The APR for a home equity line of credit is based on the periodic interest rate alone. It does not include points or other charges.

2.4.1 Disclosures from lenders

The federal Truth in Lending Act requires lenders to disclose the important terms and costs of their home equity plans, including the APR, miscellaneous charges, the payment terms, and information about any variable-rate feature. And in general, neither the lender nor anyone else may charge a fee until after you have received this information. You usually get these disclosures when you receive an application form, and you will get additional disclosures before the plan is opened. If any term (other than a variable-rate feature) changes before the plan is opened, the lender must return all fees if you decide not to enter into the plan because of the change. Lenders are also required to provide you with a list of homeownership counseling organizations in your area.

When you open a home equity line, the transaction puts your home at risk. If the home involved is your principal dwelling, the Truth in Lending Act gives you three days from the day the account was opened to cancel the credit line. This right allows you to change your mind for any reason. You simply inform the lender in writing within the three-day period. The lender must

then cancel its security interest in your home and return all fees— including any application and appraisal fees—paid to open the account.

The Home Ownership and Equity Protection Act of 1994 (HOEPA) addresses certain unfair practices and establishes requirements for certain loans with high rates and fees, including certain additional disclosures. HOEPA now covers some HELOCs. You can find out more information by contacting the CFPB at the website address and phone number listed in the Contact information appendix, below.

2.5 What if the lender freezes or reduces your line of credit?

Plans generally permit lenders to freeze or reduce a credit line if the value of the home “declines significantly” or when the lender “reasonably believes” that you will be unable to make your payments due to a “material change” in your financial circumstances. If this happens, you may want to:

- **Talk with your lender.** Find out what caused the lender to freeze or reduce your credit line and what, if anything, you can do to restore it. You may be able to provide additional information to restore your line of credit, such as documentation showing that your house has retained its value or that there has not been a “material change” in your financial circumstances. You may want to get copies of your credit reports (go to the CFPB’s website at consumerfinance.gov/askcfpb/5/can-i-review-my-credit-report.html for information about how to get free copies of your credit reports) to make sure all the information in them is correct. If your lender suggests getting a new appraisal, be sure you discuss appraisal firms in advance so that you know they will accept the new appraisal as valid.
- **Shop around for another line of credit.** If your lender does not want to restore your line of credit, shop around to see what other lenders have to offer. If another lender is willing to offer you a line of credit, you may be able to pay off your original line of credit and take out another one. Keep in mind, however, that you may need to pay some of the same application fees you paid for your original line of credit.

APPENDIX A:

Defined terms

This glossary provides general definitions for terms commonly used in the real estate market. They may have different legal meanings depending on the context.

DEFINED TERM	
ANNUAL MEMBERSHIP OR MAINTENANCE FEE	An annual charge for access to a financial product such as a line of credit, credit card, or account. The fee is charged regardless of whether or not the product is used.
ANNUAL PERCENTAGE RATE (APR)	The cost of credit, expressed as a yearly rate. For closed-end credit, such as car loans or mortgages, the APR includes the interest rate, points, broker fees, and other credit charges that the borrower is required to pay. An APR, or an equivalent rate, is not used in leasing agreements.
APPLICATION FEE	Fees charged when you apply for a loan or other credit. These fees may include charges for property appraisal and a credit report.
BALLOON PAYMENT	A large extra payment that may be charged at the end of a mortgage loan or lease.
CAP (INTEREST RATE)	A limit on the amount that your interest rate can increase. Two types of interest-rate caps exist. <i>Periodic adjustment caps</i> limit the interest-rate increase from one adjustment period to the next. <i>Lifetime caps</i> limit the interest-rate increase over the life of the loan. By law, all adjustable-rate mortgages have an overall cap.

CLOSING OR SETTLEMENT COSTS	Fees paid when you close (or settle) on a loan. These fees may include application fees; title examination, abstract of title, title insurance, and property survey fees; fees for preparing deeds, mortgages, and settlement documents; attorneys' fees; recording fees; estimated costs of taxes and insurance; and notary, appraisal, and credit report fees. Under the Real Estate Settlement Procedures Act, the borrower receives a good faith estimate of closing costs within three days of application. The good faith estimate lists each expected cost as an amount or a range.
CREDIT LIMIT	The maximum amount that may be borrowed on a credit card or under a home equity line of credit plan.
EQUITY	The difference between the fair market value of the home and the outstanding balance on your mortgage plus any outstanding home equity loans.
INDEX	The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. See also Selected index rates for ARMs over an 11-year period (consumerfinance.gov/f/201204_CFPB_ARMs-brochure.pdf) for examples of common indexes that have changed in the past.
INTEREST RATE	The percentage rate used to determine the cost of borrowing money, stated usually as a percentage of the principal loan amount and as an annual rate.
MARGIN	The number of percentage points the lender adds to the index rate to calculate the adjustable-rate-mortgage interest rate at each adjustment.
MINIMUM PAYMENT	The lowest amount that you must pay (usually monthly) to keep your account in good standing. Under some plans, the minimum payment may cover interest only; under others, it may include both principal and interest.

**POINTS (ALSO
CALLED DISCOUNT
POINTS)**

One point is equal to 1 percent of the principal amount of a mortgage loan. For example, if a mortgage is \$200,000, one point equals \$2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. These points usually are paid at closing and may be paid by the borrower or the home seller, or may be split between them. In some cases, the money needed to pay points can be borrowed (incorporated in the loan amount), but doing so will increase the loan amount and the total costs. Discount points (also called discount fees) are points that you voluntarily choose to pay in return for a lower interest rate.

SECURITY INTEREST

If stated in your credit agreement, a creditor, lessor, or assignee's legal right to your property (such as your home, stocks, or bonds) that secures payment of your obligation under the credit agreement. The property that secures payment of your obligation is referred to as "collateral."

TRANSACTION FEE

Fee charged each time a withdrawal or other specified transaction is made on a line of credit, such as a balance transfer fee or a cash advance fee.

VARIABLE RATE

An interest rate that changes periodically in relation to an index, such as the prime rate. Payments may increase or decrease accordingly.

APPENDIX B:

More information

For more information about mortgages, including home equity lines of credit, visit consumerfinance.gov/mortgage. For answers to questions about mortgages and other financial topics, visit consumerfinance.gov/askcfpb. You may also visit the CFPB's website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

Housing counselors can be very helpful, especially for first-time home buyers or if you're having trouble paying your mortgage. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search for HUD-approved housing counseling agencies in your area on the CFPB's web site at consumerfinance.gov/find-a-housing-counselor or by calling HUD's interactive toll-free number at 800-569-4287.

The company that collects your mortgage payments is your loan servicer. This may not be the same company as your lender. If you have concerns about how your loan is being serviced or another aspect of your mortgage, you may wish to submit a complaint to the CFPB at consumerfinance.gov/complaint or by calling (855) 411-CFPB (2372).

When you submit a complaint to the CFPB, the CFPB will forward your complaint to the company and work to get a response. Companies have 15 days to respond to you and the CFPB. You can review the company's response and give feedback to the CFPB.

APPENDIX C:

Contact information

For additional information or to submit a complaint, you can contact the CFPB or one of the other federal agencies listed below, depending on the type of institution. If you are not sure which agency to contact, you can submit a complaint to the CFPB and if the CFPB determines that another agency would be better able to assist you, the CFPB will refer your complaint to that agency and let you know.

Regulatory agency	Regulated entities	Contact information
Consumer Financial Protection Bureau (CFPB) P.O. Box 4503 Iowa City, IA 52244	Insured depository institutions and credit unions with assets greater than \$10 billion (and their affiliates), and non-bank providers of consumer financial products and services, including mortgages, credit cards, debt collection, consumer reports, prepaid cards, private education loans, and payday lending	(855) 411-CFPB (2372) consumerfinance.gov consumerfinance.gov/complaint
Board of Governors of the Federal Reserve System (FRB) Consumer Help P.O. Box 1200 Minneapolis, MN 55480	Federally insured state-chartered bank members of the Federal Reserve System	(888) 851-1920 federalreserveconsumerhelp.gov

Regulatory agency	Regulated entities	Contact information
Office of the Comptroller of the Currency (OCC) Customer Assistance Group 1301 McKinney Street Suite 3450 Houston, TX 77010	National banks and federally chartered savings banks/associations	(800) 613-6743 occ.treas.gov helpwithmybank.gov
Federal Deposit Insurance Corporation (FDIC) Consumer Response Center 1100 Walnut Street, Box #11 Kansas City, MO 64106	Federally insured state-chartered banks that are not members of the Federal Reserve System	(877) ASK-FDIC or (877) 275-3342 fdic.gov fdic.gov/consumers
Federal Housing Finance Agency (FHFA) Consumer Communications Constitution Center 400 7th Street, S.W. Washington, DC 20024	Fannie Mae, Freddie Mac, and the Federal Home Loan Banks	Consumer Helpline (202) 649-3811 fhfa.gov fhfa.gov/Default.aspx?Page=369 ConsumerHelp@fhfa.gov
National Credit Union Administration (NCUA) Consumer Assistance 1775 Duke Street Alexandria, VA 22314	Federally chartered credit unions	(800) 755-1030 ncua.gov mycreditunion.gov
Federal Trade Commission (FTC) Consumer Response Center 600 Pennsylvania Ave, N.W. Washington, DC 20580	Finance companies, retail stores, auto dealers, mortgage companies and other lenders, and credit bureaus	(877) FTC-HELP or (877) 382-4357 ftc.gov ftc.gov/bcp

Regulatory agency	Regulated entities	Contact information
Securities and Exchange Commission (SEC) Complaint Center 100 F Street, N.E. Washington, DC 20549	Brokerage firms, mutual fund companies, and investment advisers	(202) 551-6551 sec.gov sec.gov/complaint/select.shtml
Farm Credit Administration Office of Congressional and Public Affairs 1501 Farm Credit Drive McLean, VA 22102	Agricultural lenders	(703) 883-4056 fca.gov
Small Business Administration (SBA) Consumer Affairs 409 3 rd Street, S.W. Washington, DC 20416	Small business lenders	(800) U-ASK-SBA or (800) 827-5722 sba.gov
Commodity Futures Trading Commission (CFTC) 1155 21 st Street, N.W. Washington, DC 20581	Commodity brokers, commodity trading advisers, commodity pools, and introducing brokers	(866) 366-2382 cftc.gov/ConsumerProtection/index.htm

Regulatory agency	Regulated entities	Contact information
U.S. Department of Justice (DOJ) Civil Rights Division 950 Pennsylvania Ave, N.W. Housing and Civil Enforcement Section Washington DC 20530	Fair lending and housing issues	(202) 514-4713 TTY-(202) 305-1882 FAX-(202) 514-1116 To report an incident of housing discrimination: 1-800-896-7743 fairhousing@usdoj.gov
Department of Housing and Urban Development (HUD) Office of Fair Housing/Equal Opportunity 451 7 th Street, S.W. Washington, DC 20410	Fair lending and housing issues	(800) 669-9777 hud.gov/complaints

Consumer handbook on adjustable-rate mortgages



Consumer Financial
Protection Bureau

January 2014

This booklet was initially prepared by the Board of Governors of the Federal Reserve System and the Office of Thrift Supervision in consultation with the organizations listed below. The Consumer Financial Protection Bureau (CFPB) has made technical updates to the booklet to reflect new mortgage rules under Title XIV of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). A larger update of this booklet is planned in the future to reflect other changes under the Dodd-Frank Act and to align with other CFPB resources and tools for consumers as part of the CFPB's broader mission to educate consumers. Consumers are encouraged to visit the CFPB's website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

- AARP
- American Association of Residential Mortgage Regulators
- America's Community Bankers
- Center for Responsible Lending
- Conference of State Bank Supervisors
- Consumer Federation of America
- Consumer Mortgage Coalition
- Consumers Union
- Credit Union National Association
- Federal Deposit Insurance Corporation
- Federal Reserve Board's Consumer Advisory Council
- Federal Trade Commission
- Financial Services Roundtable
- Independent Community Bankers Association
- Mortgage Bankers Association
- Mortgage Insurance Companies of America
- National Association of Federal Credit Unions
- National Association of Home Builders
- National Association of Mortgage Brokers
- National Association of Realtors
- National Community Reinvestment Coalition
- National Consumer Law Center
- National Credit Union Administration

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1. Introduction

This handbook gives you an overview of adjustable-rate mortgages (ARMs), explains how ARMs work, and discusses some of the issues you might face as a borrower. It includes:

- ways to reduce the risks associated with ARMs;
- pointers about advertising and other sources of information, such as lenders and trusted advisers;
- a glossary of important ARM terms; and
- a worksheet that can help you ask the right questions and figure out whether an ARM is right for you. (Ask lenders to help you fill out the worksheet so you can get the information you need to compare mortgages.)

An ARM is a loan with an interest rate that changes. ARMs may start with lower monthly payments than fixed-rate mortgages, but keep in mind the following:

- Your monthly payments could change. They could go up— sometimes by a lot—even if interest rates don't go up. See page 20.
- Your payments may not go down much, or at all—even if interest rates go down. See page 16.
- You could end up owing more money than you borrowed—even if you make all your payments on time. See page 22.
- If you want to convert your ARM to a fixed-rate mortgage, you might not be able to. See page 28.

You need to compare the features of ARMs to find the one that best fits your needs. The Mortgage Shopping Worksheet on page 6 can help you get started.

1.1 Mortgage shopping worksheet

Ask your lender or broker to help you fill out this worksheet.

Name of lender or broker and contact information	
Mortgage amount	
Loan term (e.g. 15 yr, 30 yr)	
Loan description (e.g. fixed-rate, 3/1 ARM, payment-option ARM, interest-only ARM)	

Basic features for comparison	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
Fixed-rate mortgage interest rate and annual percentage rate (APR) (for graduated-payment or stepped-rate mortgages, use the ARM columns)				
ARM initial interest rate and APR				
How long does the initial rate apply?				

	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
What will the interest rate be after the initial period?				
ARM features				
How often can the interest rate adjust?				
What is the index and what is the current rate? (see chart on page 14)				
What is the margin for this loan?				
Interest-rate caps				
What is the periodic interest-rate cap?				
What is the lifetime interest-rate cap? How high could the rate go?				
How low could the interest rate go on this loan?				
What is the payment cap?				

	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
Can this loan have negative amortization (that is, can the loan amount increase)?				
What is the limit to how much the balance can grow before the loan will be recalculated?				
Is there a prepayment penalty if I pay off this mortgage early?				
How long does that penalty last? How much is it?				
Is there a balloon payment on this mortgage? If so, what is the estimated amount and when would it be due?				
What are the estimated origination fees and charges for this loan?				
Monthly payment amounts	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
What will the monthly payments be for the first year of the loan?				
Does this include taxes and insurance? Condo or homeowner's association fees? If not, what are the estimates for these amounts?				

	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
What will my monthly payment be after 12 months if the index rate...				
▪ stays the same?				
▪ goes up 2%?				
▪ goes down 2%?				
What is the most my minimum monthly payment could be after one year?				
What is the most my minimum monthly payment could be after three years?				
What is the most my minimum monthly payment could be after five years?				

2. What is an ARM?

An adjustable-rate mortgage differs from a fixed-rate mortgage in many ways. Most importantly, with a fixed-rate mortgage, the interest rate and the monthly payment of principal and interest stay the same during the life of the loan. With an ARM, the interest rate changes periodically, usually in relation to an index, and payments may go up or down accordingly.

To compare two ARMs, or to compare an ARM with a fixed-rate mortgage, you need to know about indexes, margins, discounts, caps on rates and payments, negative amortization, payment options, and recasting (recalculating) your loan. You need to consider the maximum amount your monthly payment could increase. Most importantly, you need to know what might happen to your monthly mortgage payment in relation to your future ability to afford higher payments.

Lenders generally charge lower initial interest rates for ARMs than for fixed-rate mortgages. At first, this makes the ARM easier on your pocketbook than a fixed-rate mortgage for the same loan amount. Moreover, your ARM could be less expensive over a long period than a fixed-rate mortgage—for example, if interest rates remain steady or move lower.

Against these advantages, you have to weigh the risk that an increase in interest rates would lead to higher monthly payments in the future. It's a trade-off—you get a lower initial rate with an ARM in exchange for assuming more risk over the long run. Here are some questions you need to consider:

- Is my income enough—or likely to rise enough—to cover higher mortgage payments if interest rates go up?

🗨 **Lenders and brokers:** Mortgage loans are offered by many kinds of lenders—such as banks, mortgage companies, and credit unions. You can also get a loan through a mortgage broker. Brokers “arrange” loans; in other words, they find a lender for you. Brokers generally take your application and contact several lenders, but keep in mind that brokers are not required to find the best deal for you unless they have contracted with you to act as your agent, or have a duty to do so under state law.

- Will I be taking on other sizable debts, such as a loan for a car or school tuition, in the near future?
- How long do I plan to own this home? If you plan to sell soon, rising interest rates may not pose the problem they might if you plan to own the house for a long time.
- Do I plan to make any additional payments or pay the loan off early?

3. How ARMs work: the basic features

3.1 Initial rate and payment

The initial rate and payment amount on an ARM will remain in effect for a limited period—ranging from just one month to five years or more. For some ARMs, the initial rate and payment can vary greatly from the rates and payments later in the loan term. Even if interest rates are stable, your rates and payments could change a lot. If lenders or brokers quote the initial rate and payment on a loan, ask them for the annual percentage rate (APR). If the APR is significantly higher than the initial rate, then it is likely that your rate and payments will be a lot higher when the loan adjusts, even if general interest rates remain the same.

3.2 The adjustment period

Depending on the type of ARM loan, the interest rate and monthly payment will change every month, quarter, year, three years, or five years. The period between rate changes is called the adjustment period. For example, a loan with an adjustment period of one year is called a one-year ARM, because the interest rate and payment change once every year; a loan with a three-year adjustment period is called a three-year ARM.

If you take out an adjustable-rate mortgage, the company that collects your mortgage payments (your servicer) must notify you about the first interest rate adjustment at least seven months before you owe a payment at the adjusted interest rate. The advance notification needs to show:

- An estimate of the new interest rate and payment amount

- Alternatives available to you
- How to contact a HUD-approved housing counselor

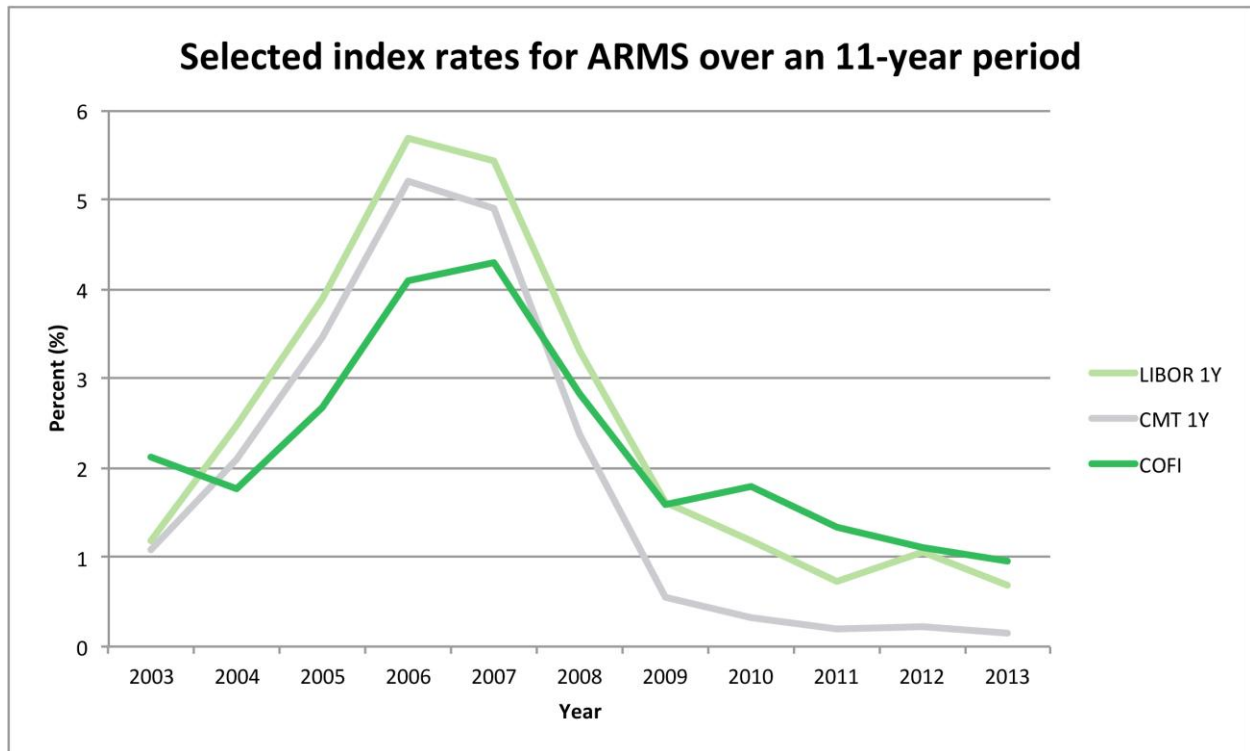
For the first interest rate adjustment, as well as for any adjustments that come later that give you a different payment amount, your servicer must also send you another notice, at least 60 days in advance, telling you what your new payment will be.

3.3 The index

The interest rate on an ARM is made up of two parts: the index and the margin. The index is a measure of interest rates generally, and the margin is an extra amount that the lender adds above the index. Your payments will be affected by any caps, or limits, on how high or low your rate can go. If the index rate moves up, your interest rate will also go up in most circumstances, and you will probably have to make higher monthly payments. On the other hand, if the index rate goes down, your monthly payment could go down. Not all ARMs adjust downward, however—be sure to read the information for the loan you are considering.

Lenders base ARM rates on a variety of indexes. Among the most common indexes are the rates on one-year constant-maturity Treasury (CMT) securities, the Cost of Funds Index (COFI), and the London Interbank Offered Rate (LIBOR). A few lenders use their own cost of funds as an index, rather than using other indexes. You should ask what index will be used, how it has fluctuated in the past, and where it is published—you can find a lot of this information in major newspapers and on the Internet.

To help you get an idea of how to compare different indexes, the following chart shows a few common indexes over an 11-year period (2003–2013). As you can see, some index rates tend to be higher than others, and some change more often than others.



3.4 The margin

To set the interest rate on an ARM, lenders add a few percentage points to the index rate, called the *margin*. The amount of the margin may differ from one lender to another, but it usually stays the same over the life of the loan. The *fully indexed rate* is equal to the margin plus the index. For example, if the lender uses an index that currently is 4 percent and adds a 3 percent margin, the fully indexed rate would be

Index	4%
Margin	3%
Fully indexed rate	7%

If the index on this loan rose to 5 percent, the fully indexed rate at the next adjustment would be 8 percent (5 percent + 3 percent). If the index fell to 2 percent, the fully indexed rate at adjustment would be 5 percent (2 percent + 3 percent).

Some lenders base the amount of the margin on your credit record—the better your credit, the lower the margin they add—and the lower the interest you will have to pay on your mortgage. The amount of the margin could also be based on other factors. In comparing ARMs, look at both the index and margin for each program.

If the initial rate on the loan is less than the fully indexed rate, it is called a discounted (or “teaser”) index rate. Many ARM loans offer a discounted index rate until the first adjustment period, but some ARM loans have an initial rate that is higher than the fully indexed rate.

☐ **Ability to repay:** When you apply for a loan, lenders are generally required to collect and verify enough of your financial information to determine you have the ability to repay the loan. For example, a lender might ask to see copies of your most recent pay stubs, income tax filings, and bank account statements. Lenders are generally required to consider your ability to repay the loan based on the fully indexed rate, or the highest rate you will be expected to pay in the first five years of the loan.

3.5 Interest-rate caps

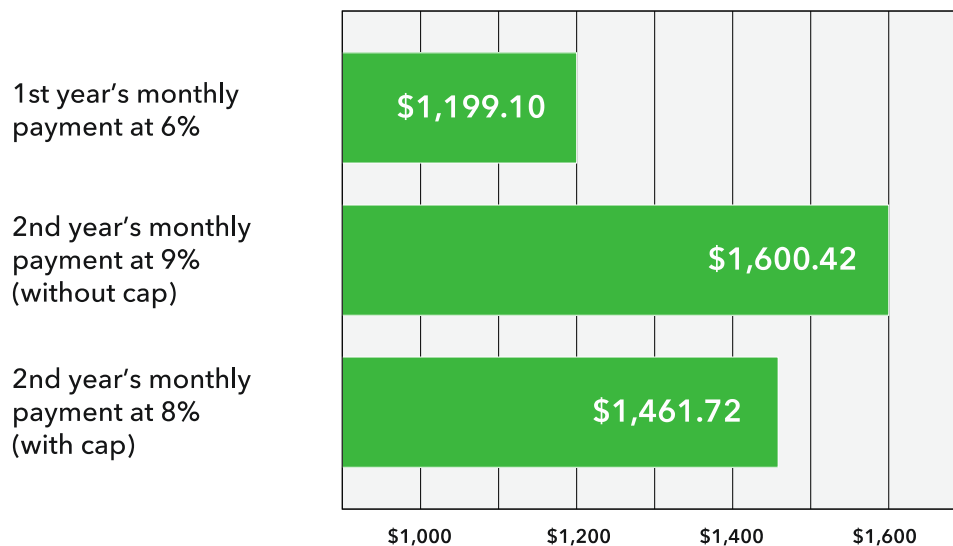
An interest-rate cap places a limit on the amount your interest rate can increase. Interest-rate caps come in two versions:

- *A periodic adjustment cap*, which limits the amount the interest rate can adjust up or down from one adjustment period to the next after the first adjustment, and
- *A lifetime cap*, which limits the interest-rate increase over the life of the loan. By law, virtually all ARMs must have a lifetime cap.

3.5.1 Periodic adjustment caps

Let's suppose you have an ARM with a periodic adjustment interest-rate cap of 2 percent. However, at the first adjustment, the index rate has risen 3 percent. The following example shows what happens.

Examples in this handbook: All examples in this handbook are based on a \$200,000 loan amount and a 30-year term. Payment amounts in the examples do not include taxes, insurance, condominium or homeowner association fees, or similar items. These amounts can be a significant part of your monthly payment.



Difference in 2nd year between payment with cap and payment without = \$138.70 per month

In this example, because of the cap on your loan, your monthly payment in year two is \$138.70 per month lower than it would be without the cap, saving you \$1,664.40 over the year.

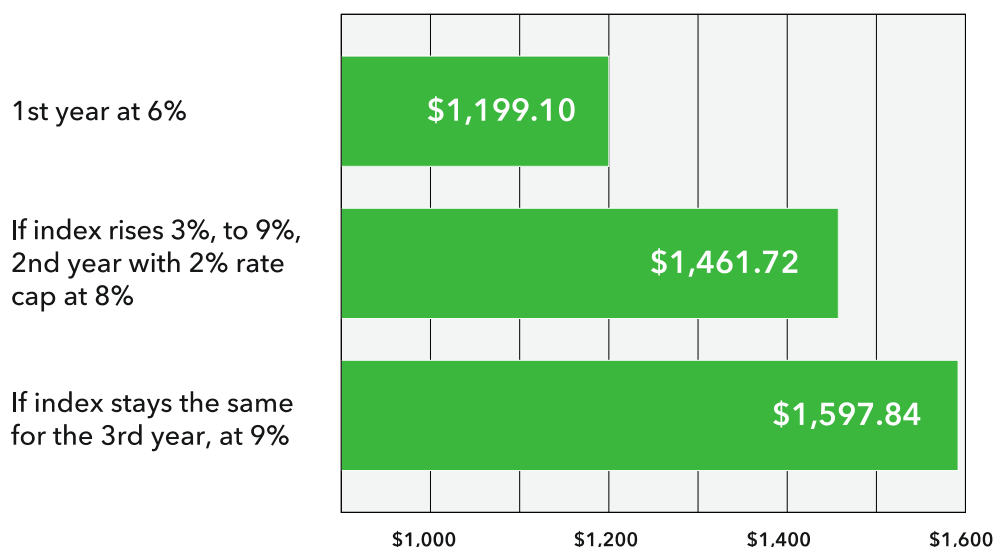
Some ARMs allow a larger rate change at the first adjustment and then apply a periodic adjustment cap to all future adjustments.

A drop in interest rates does not always lead to a drop in your monthly payments. With some ARMs that have interest-rate caps, the cap may hold your rate and payment below what it would

have been if the change in the index rate had been fully applied. The increase in the interest that was not imposed because of the rate cap might carry over to future rate adjustments. This is called *carryover*. So, at the next adjustment date, your payment might increase even though the index rate has stayed the same or declined.

The following example shows how carryovers work. Suppose the index on your ARM increased 3 percent during the first year.

Because this ARM loan limits rate increases to 2 percent at any one time, the rate is adjusted by only 2 percent, to 8 percent for the second year. However, the remaining 1 percent increase in the index carries over to the next time the lender can adjust rates. So, when the lender adjusts the interest rate for the third year, even if there has been no change in the index during the second year, the rate still increases by 1 percent, to 9 percent.

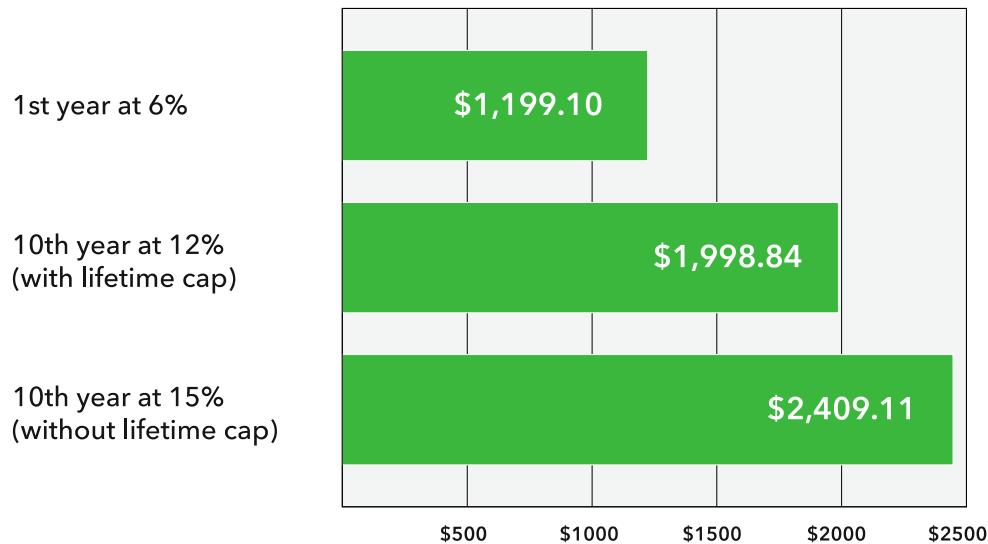


In general, the rate on your loan can go up at any scheduled adjustment date when the lender's standard ARM rate (the index plus the margin) is higher than the rate you are paying before that adjustment.

3.5.2 Lifetime caps

The next example shows how a lifetime rate cap would affect your loan. Let's say that your ARM starts out with a 6 percent rate and the loan has a 6 percent lifetime cap—that is, the rate can

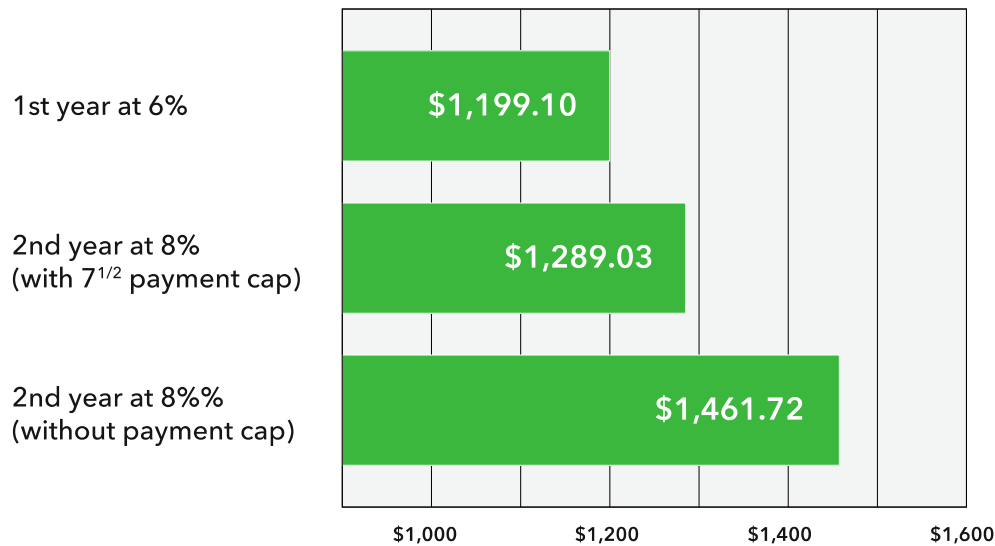
never exceed 12 percent. Suppose the index rate increases 1 percent in each of the next nine years. With a 6 percent overall cap, your payment would never exceed \$1,998.84—compared with the \$2,409.11 that it would have reached in the tenth year without a cap.



3.6 Payment caps

In addition to interest-rate caps, many ARMs—including payment-option ARMs (discussed on page 21)—limit, or cap, the amount your monthly payment may increase at the time of each adjustment. For example, if your loan has a payment cap of 7½ percent, your monthly payment won’t increase more than 7½ percent over your previous payment, even if interest rates rise more. For example, if your monthly payment in year 1 of your mortgage was \$1,000, it could only go up to \$1,075 in year 2 (7½ percent of \$1,000 is an additional \$75). Any interest you don’t pay because of the payment cap will be added to the balance of your loan. A payment cap can limit the increase to your monthly payments but also can add to the amount you owe on the loan. This is called negative amortization, a term explained on page 27.

Let’s assume that your rate changes in the first year by two percentage points, but your payments can increase no more than 7½ percent in any one year. The following graph shows what your monthly payments would look like.



Difference in monthly payment = \$172.69

While your monthly payment will be only \$1,289.03 for the second year, the difference of \$172.69 each month will be added to the balance of your loan and will lead to negative amortization.

Some ARMs with payment caps do not have periodic interest-rate caps. In addition, as explained below, most payment-option ARMs have a built-in recalculation period, usually every five years. At that point, your payment will be recalculated (lenders use the term recast) based on the remaining term of the loan. If you have a 30-year loan and you are at the end of year five, your payment will be recalculated for the remaining 25 years. The payment cap does not apply to this adjustment. If your loan balance has increased, or if interest rates have risen faster than your payments, your payments could go up a lot.

4. Types of ARMs

4.1 Hybrid ARMs

Hybrid ARMs often are advertised as 3/1 or 5/1 ARMs—you might also see ads for 7/1 or 10/1 ARMs. These loans are a mix— or a hybrid—of a fixed-rate period and an adjustable-rate period. The interest rate is fixed for the first few years of these loans—for example, for five years in a 5/1 ARM. After that, the rate may adjust annually (the 1 in the 5/1 example), until the loan is paid off. In the case of 3/1, 5/1, 7/1 or 10/1 ARMs:

- the first number tells you how long the fixed interest-rate period will be, and
- the second number tells you how often the rate will adjust after the initial period.

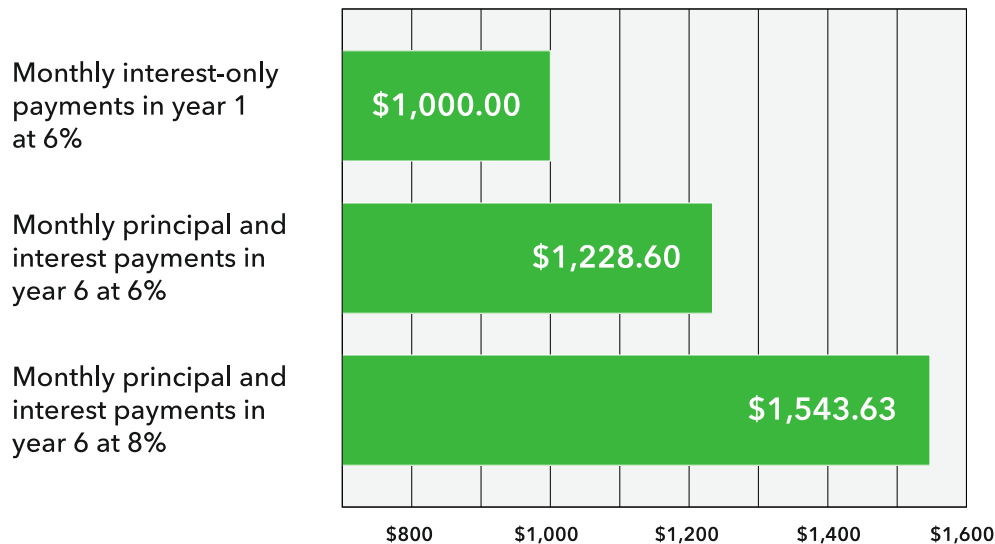
You may also see ads for 2/28 or 3/27 ARMs—the first number tells you how many years the fixed interest-rate period will be, and the second number tells you the number of years the rates on the loan will be adjustable. Some 2/28 and 3/27 mortgages adjust every six months, not annually.

4.2 Interest-only ARMs

An interest-only (I-O) ARM payment plan allows you to pay only the interest for a specified number of years, typically for three to 10 years. This allows you to have smaller monthly payments for a period. After that, your monthly payment will increase—even if interest rates stay the same—because you must start paying back the principal as well as the interest each month.

For some I-O loans, the interest rate adjusts during the I-O period as well.

For example, if you take out a 30-year mortgage loan with a five-year I-O payment period, you can pay only interest for five years and then you must pay both the principal and interest over the next 25 years. Because you begin to pay back the principal, your payments increase after year five, even if the rate stays the same. Keep in mind that the longer the I-O period, the higher your monthly payments will be after the I-O period ends.



4.3 Payment-option ARMs

A payment-option ARM is an adjustable-rate mortgage that allows you to choose among several payment options each month. The options typically include the following:

- *A traditional payment of principal and interest*, which reduces the amount you owe on your mortgage. These payments are based on a set loan term, such as a 15-, 30-, or 40-year payment schedule.
- *An interest-only payment*, which pays the interest but does not reduce the amount you owe on your mortgage as you make your payments.

- A *minimum (or limited) payment*, which may be less than the amount of interest due that month and may not reduce the amount you owe on your mortgage. If you choose this option, the amount of any interest you do not pay will be added to the principal of the loan, increasing the amount you owe and your future monthly payments, and increasing the amount of interest you will pay over the life of the loan. In addition, if you pay only the minimum payment in the last few years of the loan, you may owe a larger payment at the end of the loan term, called a *balloon payment*.

In addition to these options, in most cases you can choose to pay any amount over the required minimum payment.

The interest rate on a payment-option ARM is typically very low for the first few months (for example, 2 percent for the first one to three months). After that, the interest rate usually rises to a rate closer to that of other mortgage loans. Your payments during the first year are based on the initial low rate, meaning that if you only make the minimum payment each month, it will not reduce the amount you owe and it may not cover the interest due. The unpaid interest is added to the amount you owe on the mortgage, and your loan balance increases. This is called *negative amortization*. This means that even after making many payments, you could owe more than you did at the beginning of the loan. See a further caution about negative amortization in the “Consumer Cautions” section below. Also, as interest rates go up, your payments are likely to go up.

Payment-option ARMs have a built-in recalculation period, usually every five years. At this point, your payment will be recalculated (or “recast”) based on the remaining term of the loan. If you have a 30-year loan and you are at the end of year five, your payment will be recalculated for the remaining 25 years. If your loan balance has increased because you have made only minimum payments, or if interest rates have risen faster than your payments, your payments will increase each time your loan is recast. At each recast, your new minimum payment will be a fully amortizing payment and any payment cap will not apply. This means that your monthly payment can increase a lot at each recast.

Lenders may recalculate your loan payments before the recast period if the amount of principal you owe grows beyond a set limit, say 110 percent or 125 percent of your original mortgage amount. For example, suppose you made only minimum payments on your \$200,000 mortgage and had any unpaid interest added to your balance. If the balance grew to \$250,000 (125 percent of \$200,000), your lender would recalculate your payments so that you would pay off the loan over the remaining term. It is likely that your payments would go up substantially.

More information on interest-only and payment-option ARMs is available in a Federal Reserve Board brochure, *Interest-Only Mortgage Payments and Payment-Option ARMs—Are They for You?* (available online at [fdic.gov/consumers/consumer/interest-only](https://www.fdic.gov/consumers/consumer/interest-only/)).

5. Consumer cautions

5.1 Discounted interest rates

Many lenders offer more than one type of ARM. Some lenders offer an ARM with an initial rate that is lower than their fully indexed ARM rate (that is, lower than the sum of the index plus the margin). Such rates—called discounted rates, start rates, or teaser rates—are often combined with large initial loan fees, sometimes called *points*, and with higher rates after the initial discounted rate expires.

Your lender or broker may offer you a choice of loans that may include “discount points” or a “discount fee.” You may choose to pay these points or fees in return for a lower interest rate. But keep in mind that the lower interest rate may only last until the first adjustment.

If a lender offers you a loan with a discount rate, don’t assume that means the loan is a good one for you. You should carefully consider whether you will be able to afford higher payments in later years when the discount expires and the rate is adjusted.

Here is an example of how a discounted initial rate might work. Let’s assume that the lender’s fully indexed 1-year ARM rate (index rate plus margin) is currently 6 percent; the monthly payment for the first year would be \$1,199.10. But your lender is offering an ARM with a discounted initial rate of 4 percent for the first year. With the 4 percent rate, your first-year’s monthly payment would be \$954.83.

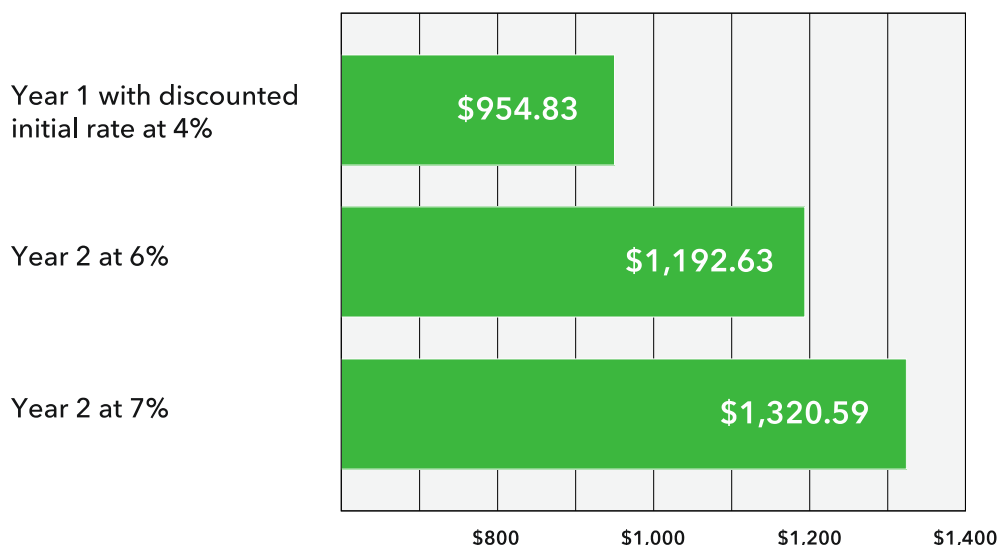
With a discounted ARM, your initial payment will probably remain at \$954.83 for only a limited time—and any savings during the discount period may be offset by higher payments over the remaining life of the mortgage. If you are considering a discount ARM, be sure to compare future payments with those for a fully indexed ARM. Lenders are generally required to consider your ability to repay the loan based on the fully indexed rate, or the highest rate you will be

expected to pay in the first five years of the loan. Even so, if you buy a home or refinance using a deeply discounted initial rate, you run the risk of payment shock, negative amortization, or conversion fees. You should always look at your own budget to see how high of a payment and how big of a home loan you feel you can afford.

Another way you may get a discounted interest rate is through a “buydown.” This is when the house seller pays an amount to the lender so the lender can give you a lower rate and lower payments, usually for an initial period in an ARM. The seller may increase the sales price to cover the cost of the buydown.

5.2 Payment shock

Payment shock may occur if your mortgage payment rises sharply at a rate adjustment. Let’s see what would happen in the second year if the rate on your discounted 4 percent ARM were to rise to the 6 percent fully indexed rate.



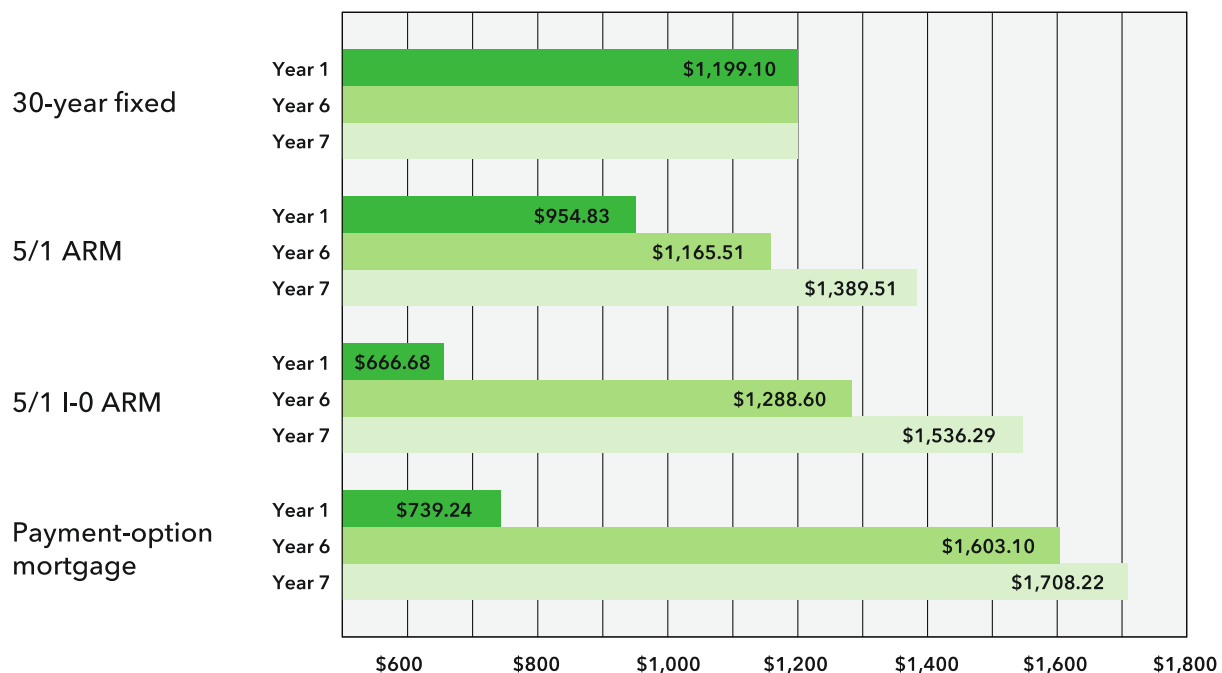
As the example shows, even if the index rate were to stay the same, your monthly payment would go up from \$954.83 to \$1,192.63 in the second year.

Suppose that the index rate increases 1 percent in one year and the ARM rate rises to 7 percent. Your payment in the second year would be \$1,320.59.

That's an increase of \$365.76 in your monthly payment. You can see what might happen if you choose an ARM because of a low initial rate. While your lender generally needs to consider this indexed rate in determining your ability to repay the loan, you also need to consider whether you will be able to afford future payments.

If you have an interest-only ARM, payment shock can also occur when the interest-only period ends. Or, if you have a payment-option ARM, payment shock can happen when the loan is recast.

The following example compares several different loans over the first seven years of their terms; the payments shown are for years one, six, and seven of the mortgage, assuming you make interest-only payments or minimum payments. The main point is that, depending on the terms and conditions of your mortgage and changes in interest rates, ARM payments can change quite a bit over the life of the loan—so while you could save money in the first few years of an ARM, you could also face much higher payments in the future.



5.3 Negative amortization

Negative amortization means that the amount you owe increases even when you make all your required payments on time. It occurs whenever your monthly mortgage payments are not large enough to pay all of the interest due on your mortgage—meaning the unpaid interest is added to the principal on your mortgage and you will owe more than you originally borrowed. This can happen because you are making only minimum payments on a payment-option mortgage or because your loan has a payment cap.

For example, suppose you have a \$200,000, 30-year payment-option ARM with a 2 percent rate for the first three months and a 6 percent rate for the remaining nine months of the year. Your minimum payment for the year is \$739.24, as shown in the previous graph. However, once the 6 percent rate is applied to your loan balance, you are no longer covering the interest costs. If you continue to make minimum payments on this loan, your loan balance at the end of the first year of your mortgage would be \$201,118—or \$1,118 more than you originally borrowed.

Because payment caps limit only the amount of payment increases, and not interest-rate increases, payments sometimes do not cover all the interest due on your loan. This means that the unpaid interest is automatically added to your debt, and interest may be charged on that amount. You might owe more later in the loan term than you did at the beginning.

A payment cap limits the increase in your monthly payment by deferring some of the interest. Eventually, you would have to repay the higher remaining loan balance at the interest rate then in effect. When this happens, there may be a substantial increase in your monthly payment.

Some mortgages include a cap on negative amortization. The cap typically limits the

💡 **Home prices, home equity, and ARMs:**

Sometimes home prices rise rapidly, allowing people to quickly build equity in their homes. This can make some people think that even if the rate and payments on their ARM get too high, they can avoid those higher payments by refinancing their loan or, in the worst case, selling their home. It's important to remember that home prices do not always go up quickly—they may increase a little or remain the same, and sometimes they fall. If housing prices fall, your home may not be worth as much as you owe on the mortgage. Also, you may find it difficult to refinance your loan to get a lower monthly payment or rate. Even if home prices stay the same, if your loan lets you make minimum payments (see payment-option ARMs above), you may owe your lender more on your mortgage than you could get from selling your home.

total amount you can owe to 110 percent to 125 percent of the original loan amount. When you reach that point, the lender will set the monthly payment amounts to fully repay the loan over the remaining term. Your payment cap will not apply, and your payments could be substantially higher. You may limit negative amortization by voluntarily increasing your monthly payment.

Be sure you know whether the ARM you are considering can have negative amortization. If so, and if you are a first-time borrower, your lender is required to make sure you get homeownership counseling before the lender can lend you the money.

5.4 Prepayment penalties and conversion

If you get an ARM, you may decide later that you don't want to risk any increases in the interest rate and payment amount. When you are considering an ARM, ask whether you would be able to convert your ARM to a fixed-rate mortgage.

5.4.1 Prepayment penalties

Some mortgage loans can require you to pay special fees or penalties if you refinance or pay off the loan early (usually within the first three years of the loan). These are called prepayment penalties, and they are not allowed on ARMs.

5.4.2 Conversion fees

Your agreement with the lender may include a clause that lets you convert the ARM to a fixed-rate mortgage at designated times. When you convert, the new rate is generally set using a formula given in your loan documents.

The interest rate or up-front fees may be somewhat higher for a convertible ARM. Also, a convertible ARM may require a fee at the time of conversion.

5.5 Graduated-payment or stepped-rate loans

Some fixed-rate loans start with one rate for one or two years and then change to another rate for the remaining term of the loan. While these are not ARMs, your payment will go up according to the terms of your contract. Talk with your lender or broker and read the information provided to you to make sure you understand when and by how much the payment will change.

6. Where to get information

6.1 Disclosures from lenders

You should receive information in writing about each ARM program you are interested in before you have paid a nonrefundable fee. It is important that you read this information and ask the lender or broker about anything you don't understand—index rates, margins, caps, and other features such as negative amortization. After you have applied for a loan, you will get more information from the lender about your loan, including the annual percentage rate (APR) and a rate and payment summary table.

The APR is the cost of your credit as a yearly rate. It takes into account interest, points paid on the loan, any fees paid to the lender for making the loan, and any mortgage insurance premiums you may have to pay. You can compare APRs on similar ARMs (for example, compare APRs on a 5/1 and a 3/1 ARM) to determine which loan will cost you less in the long term, but you should keep in mind that because the interest rate for an ARM can change, APRs on ARMs cannot be compared directly to APRs for fixed-rate mortgages.

You may want to talk with financial advisers, housing counselors, and other trusted advisers. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search for HUD-approved housing counseling agencies in your area on the Consumer Financial Protection Bureau's website at consumerfinance.gov/find-a-housing-counselor or by calling HUD's interactive toll-free number at 800-569-4287.

Also, see the *More information* and *Contact information* appendices below for more information available from the CFPB and a list of other federal agencies that can provide more information and assistance.

6.2 Newspapers and the Internet

When buying a home or refinancing your existing mortgage, remember to shop around. Compare costs and terms, and negotiate for the best deal. Your local newspaper and the Internet are good places to start shopping for a loan. You can usually find information on interest rates and points for several lenders. Since rates and points can change daily, you'll want to check information sources often when shopping for a home loan.

The Mortgage Shopping Worksheet at the beginning of this booklet may also help you. Take it with you when you speak to each lender or broker, and write down the information you obtain. Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you are shopping for the best deal.

6.3 Advertisements

Any initial information you receive about mortgages probably will come from advertisements or mail solicitations from builders, real estate brokers, mortgage brokers, and lenders. Although this information can be helpful, keep in mind that these are marketing materials—the ads and mailings are designed to make the mortgage look as attractive as possible. These ads may play up low initial interest rates and monthly payments, without emphasizing that those rates and payments could increase substantially later. So, get all the facts.

Any ad for an ARM that shows an initial interest rate should also show how long the rate is in effect and the APR on the loan. If the APR is much higher than the initial rate, your payments may increase a lot after the introductory period, even if interest rates stay the same.

Choosing a mortgage may be the most important financial decision you will make. You are entitled to have all the information you need to make the right decision. Don't hesitate to ask questions about ARM features when you talk to lenders, mortgage brokers, real estate agents, sellers, and your attorney, and keep asking until you get clear and complete answers.

APPENDIX A:

Defined terms

This glossary provides general definitions for terms commonly used in the real estate market. They may have different legal meanings depending on the context.

DEFINED TERM

ADJUSTABLE-RATE MORTGAGE (ARM)

A mortgage that does not have a fixed interest rate. The rate changes during the life of the loan based on movements in an index rate, such as the rate for Treasury securities or the Cost of Funds Index. ARMs usually offer a lower initial interest rate than fixed-rate loans. The interest rate fluctuates over the life of the loan based on market conditions, but the loan agreement generally sets maximum and minimum rates. When interest rates increase, generally your loan payments increase; and when interest rates decrease, your monthly payments may decrease.

ANNUAL PERCENTAGE RATE (APR)

The cost of credit expressed as a yearly rate. For closed-end credit, such as car loans or mortgages, the APR includes the interest rate, points, broker fees, and other credit charges that the borrower is required to pay. An APR, or an equivalent rate, is not used in leasing agreements.

BALLOON PAYMENT

A large extra payment that may be charged at the end of a mortgage loan or lease.

BUYDOWN

When the seller pays an amount to the lender so that the lender can give you a lower rate and lower payments, usually for an initial period in an ARM. The seller may increase the sales price to cover the cost of the buydown. Buydowns can occur in all types of mortgages, not just ARMs.

CAP, INTEREST RATE	A limit on the amount that your interest rate can increase. The two types of interest rate caps are periodic adjustment caps and life-time caps. Periodic adjustment caps limit the interest-rate increase from one adjustment period to the next. Lifetime caps limit the interest-rate increase over the life of the loan. All adjustable-rate mortgages have an overall cap.
CAP, PAYMENT	A limit on the amount that your monthly mortgage payment on a loan may change, usually a percentage of the loan. The limit can be applied each time the payment changes or during the life of the mortgage. Payment caps may lead to negative amortization because they do not limit the amount of interest the lender is earning.
CONVERSION CLAUSE	A provision in some ARMs that allows you to change the ARM to a fixed-rate loan at some point during the term. Conversion is usually 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. The conversion feature may be available at extra cost.
DISCOUNTED INITIAL RATE (ALSO KNOWN AS A START RATE OR TEASER RATE)	In an ARM with a discounted initial rate, the lender offers you a lower rate and lower payments for part of the mortgage term (usually for 1, 3, or 5 years). After the discount period, the ARM rate will probably go up depending on the index rate. Discounts can occur in all types of mortgages, not just ARMs.
EQUITY	In housing markets, equity is the difference between the fair market value of the home and the outstanding balance on your mortgage plus any outstanding home equity loans.

HYBRID ARM	These ARMs are a mix—or a hybrid—of a fixed-rate period and an adjustable-rate period. The interest rate is fixed for the first several years of the loan; after that period, the rate can adjust annually. For example, hybrid ARMs can be advertised as 3/1 or 5/1—the first number tells you how long the fixed interest-rate period will be and the second number tells you how often the rate will adjust after the initial period. For example, a 3/1 loan has a fixed rate for the first 3 years and then the rate adjusts once each year beginning in year 4.
INDEX	The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. See also the chart on page 14, Selected index rates for ARMs over an 11-year period, for examples of common indexes that have changed in the past.
INTEREST	The rate used to determine the cost of borrowing money, usually stated as a percentage and as an annual rate.
INTEREST-ONLY (I-O) ARM	Interest-only ARMs allow you to pay only the interest for a specified number of years, typically between three and 10 years. This arrangement allows you to have smaller monthly payments for a prescribed period. After that period, your monthly payment will increase— even if interest rates stay the same—because you must start paying back the principal and the interest each month. For some I-O loans, the interest rate adjusts during the I-O period as well.
MARGIN	The number of percentage points the lender adds to the index rate to calculate the interest rate of an adjustable-rate mortgage (ARM) at each adjustment.

**NEGATIVE
AMORTIZATION**

Occurs when the monthly payments in an adjustable-rate mortgage loan do not cover all the interest owed. The interest that is not paid in the monthly payment is added to the loan 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 that are not high enough to cover the interest due or when the minimum payments are set at an amount lower than the amount you owe in interest.

PAYMENT-OPTION ARM

An ARM that allows the borrower to choose among several payment options each month. The options typically include (1) a traditional amortizing payment of principal and interest, (2) an interest-only payment, or (3) a minimum (or limited) payment that may be less than the amount of interest due that month. If the borrower chooses the minimum-payment option, the amount of any interest that is not paid will be added to the principal of the loan. See also the definition of negative amortization, above.

**POINTS (ALSO CALLED
DISCOUNT POINTS)**

One point is equal to 1 percent of the principal amount of a mortgage loan. For example, if the mortgage is \$200,000, one point equals \$2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. These points usually are paid at closing and may be paid by the borrower or the home seller, or may be split between them. In some cases, the money needed to pay points can be borrowed (incorporated in the loan amount), but doing so will increase the loan amount and the total costs. Discount points (also called discount fees) are points that the borrower voluntarily chooses to pay in return for a lower interest rate.

PREPAYMENT PENALTY

Extra fees that may be due if you pay off your loan early by refinancing the loan or by selling the home. These fees are not allowed for ARMs or for high-cost mortgages. For mortgages where they are allowed, the penalty cannot go beyond the first three years of the loan's term.

PRINCIPAL

The amount of money borrowed or the amount still owed on a loan.

APPENDIX B:

More information

For more information about mortgages, visit consumerfinance.gov/mortgage. For answers to questions about mortgages and other financial topics, visit consumerfinance.gov/askcfpb. You may also visit the CFPB's website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

Housing counselors can be very helpful, especially for first-time home buyers or if you're having trouble paying your mortgage. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search for HUD-approved housing counseling agencies in your area on the CFPB's website at consumerfinance.gov/find-a-housing-counselor or by calling HUD's interactive toll-free number at 800-569-4287.

The company that collects your mortgage payments is your loan servicer. This may not be the same company as your lender. If you have concerns about how your loan is being serviced, or another aspect of your mortgage, you may wish to submit a complaint to the CFPB at consumerfinance.gov/complaint or by calling (855) 411-CFPB (2372).

When you submit a complaint to the CFPB, the CFPB will forward your complaint to the company and work to get a response. Companies have 15 days to respond to you and the CFPB. You can review the company's response and give feedback to the CFPB.

APPENDIX C:

Contact information

For additional information or to submit a complaint, you can contact the CFPB or one of the other federal agencies listed below, depending on the type of institution. If you are not sure which agency to contact, you can submit a complaint to the CFPB and if the CFPB determines that another agency would be better able to assist you, the CFPB will refer your complaint to that agency and let you know.

Regulatory agency	Regulated entities	Contact information
Consumer Financial Protection Bureau (CFPB) P.O. Box 4503 Iowa City, IA 52244	Insured depository institutions and credit unions with assets greater than \$10 billion (and their affiliates), and non-bank providers of consumer financial products and services, including mortgages, credit cards, debt collection, consumer reports, prepaid cards, private education loans, and payday lending	(855) 411-CFPB (2372) consumerfinance.gov/consumerfinance.gov/complaint
Board of Governors of the Federal Reserve System (FRB) Consumer Help P.O. Box 1200 Minneapolis, MN 55480	Federally insured state-chartered bank members of the Federal Reserve System	(888) 851-1920 federalreserveconsumerhelp.gov

Regulatory agency	Regulated entities	Contact information
Office of the Comptroller of the Currency (OCC) Customer Assistance Group 1301 McKinney Street Suite 3450 Houston, TX 77010	National banks and federally chartered savings banks/associations	(800) 613-6743 occ.treas.gov helpwithmybank.gov
Federal Deposit Insurance Corporation (FDIC) Consumer Response Center 1100 Walnut Street, Box #11 Kansas City, MO 64106	Federally insured state-chartered banks that are not members of the Federal Reserve System	(877) ASK-FDIC or (877) 275-3342 fdic.gov fdic.gov/consumers
Federal Housing Finance Agency (FHFA) Consumer Communications Constitution Center 400 7th Street, S.W. Washington, DC 20024	Fannie Mae, Freddie Mac, and the Federal Home Loan Banks	Consumer Helpline (202) 649-3811 fhfa.gov fhfa.gov/Default.aspx?Page=369 ConsumerHelp@fhfa.gov
National Credit Union Administration (NCUA) Consumer Assistance 1775 Duke Street Alexandria, VA 22314	Federally chartered credit unions	(800) 755-1030 ncua.gov mycreditunion.gov
Federal Trade Commission (FTC) Consumer Response Center 600 Pennsylvania Ave, N.W. Washington, DC 20580	Finance companies, retail stores, auto dealers, mortgage companies and other lenders, and credit bureaus	(877) FTC-HELP or (877) 382-4357 ftc.gov ftc.gov/bcp

Regulatory agency	Regulated entities	Contact information
Securities and Exchange Commission (SEC) Complaint Center 100 F Street, N.E. Washington, DC 20549	Brokerage firms, mutual fund companies, and investment advisers	(202) 551-6551 sec.gov sec.gov/complaint/select.shtml
Farm Credit Administration Office of Congressional and Public Affairs 1501 Farm Credit Drive McLean, VA 22102	Agricultural lenders	(703) 883-4056 fca.gov
Small Business Administration (SBA) Consumer Affairs 409 3 rd Street, S.W. Washington, DC 20416	Small business lenders	(800) U-ASK-SBA or (800) 827-5722 sba.gov
Commodity Futures Trading Commission (CFTC) 1155 21 st Street, N.W. Washington, DC 20581	Commodity brokers, commodity trading advisers, commodity pools, and introducing brokers	(866) 366-2382 cftc.gov/ConsumerProtection/index.htm

Regulatory agency	Regulated entities	Contact information
U.S. Department of Justice (DOJ) Civil Rights Division 950 Pennsylvania Ave, N.W. Housing and Civil Enforcement Section Washington DC 20530	Fair lending and housing issues	(202) 514-4713 TTY–(202) 305-1882 FAX–(202) 514-1116 To report an incident of housing discrimination: 1-800-896-7743 fairhousing@usdoj.gov
Department of Housing and Urban Development (HUD) Office of Fair Housing/Equal Opportunity 451 7 th Street, S.W. Washington, DC 20410	Fair lending and housing issues	(800) 669-9777 hud.gov/complaints

APPENDIX D:

More resources

Looking for the Best Mortgage—Shop, Compare, Negotiate
hud.gov/buying/booklet.pdf

*Interest-Only Mortgage Payments and Payment-Option
ARMs—Are They for You?*
fdic.gov/consumers/consumer/interest-only/

A Consumer's Guide to Mortgage Lock-Ins
federalreserve.gov/pubs/lockins/

A Consumer's Guide to Mortgage Settlement Costs
federalreserve.gov/pubs/lockins/

*Know Before You Go . . . To Get a Mortgage: A Guide to Mortgage Products and a Glossary of
Lending Terms*
bos.frb.org/consumer/knowbeforeyougo/mortgage/mortgage.pdf

Online Mortgage Calculator
mortgagecalculator.org/

Loan Estimate

DATE ISSUED 2/15/2013
APPLICANTS Michael Jones and Mary Stone
 123 Anywhere Street
 Anytown, ST 12345
PROPERTY 456 Somewhere Avenue
 Anytown, ST 12345
SALE PRICE \$180,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA ☐ VA ☐ _____
LOAN ID # 123456789
RATE LOCK ☐ NO ☒ YES, until 4/16/2013 at 5:00 p.m. EDT
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	NO
Prepayment Penalty	Does the loan have these features? YES • As high as \$3,240 if you pay off the loan during the first 2 years	
Balloon Payment	NO	

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$761.78	\$761.78
Mortgage Insurance	+ 82	+ —
Estimated Escrow <i>Amount can increase over time</i>	+ 206	+ 206
Estimated Total Monthly Payment	\$1,050	\$968
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$206 a month	This estimate includes ☒ Property Taxes ☒ Homeowner's Insurance ☐ Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>
		In escrow? YES YES

Costs at Closing		
Estimated Closing Costs	\$8,054	Includes \$5,672 in Loan Costs + \$2,382 in Other Costs – \$0 in Lender Credits. <i>See page 2 for details.</i>
Estimated Cash to Close	\$16,054	Includes Closing Costs. <i>See Calculating Cash to Close on page 2 for details.</i>

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.

Closing Cost Details

Loan Costs

A. Origination Charges	\$1,802
.25 % of Loan Amount (Points)	\$405
Application Fee	\$300
Underwriting Fee	\$1,097

B. Services You Cannot Shop For

Appraisal Fee	\$405
Credit Report Fee	\$30
Flood Determination Fee	\$20
Flood Monitoring Fee	\$32
Tax Monitoring Fee	\$75
Tax Status Research Fee	\$110

C. Services You Can Shop For

Pest Inspection Fee	\$135
Survey Fee	\$65
Title – Insurance Binder	\$700
Title – Lender's Title Policy	\$535
Title – Settlement Agent Fee	\$502
Title – Title Search	\$1,261

D. TOTAL LOAN COSTS (A + B + C)

Other Costs

E. Taxes and Other Government Fees

Recording Fees and Other Taxes	\$85
Transfer Taxes	

F. Prepaids

Homeowner's Insurance Premium (6 months)	\$605
Mortgage Insurance Premium (months)	
Prepaid Interest (\$17.44 per day for 15 days @ 3.875%)	\$262
Property Taxes (months)	

G. Initial Escrow Payment at Closing

Homeowner's Insurance	\$100.83	per month for 2 mo.	\$202
Mortgage Insurance		per month for mo.	
Property Taxes	\$105.30	per month for 2 mo.	\$211

H. Other

Title – Owner's Title Policy (optional)	\$1,017

I. TOTAL OTHER COSTS (E + F + G + H)

J. TOTAL CLOSING COSTS

D + I	\$8,054
Lender Credits	

Calculating Cash to Close

Total Closing Costs (J)	\$8,054
Closing Costs Financed (Paid from your Loan Amount)	\$0
Down Payment/Funds from Borrower	\$18,000
Deposit	– \$10,000
Funds for Borrower	\$0
Seller Credits	\$0
Adjustments and Other Credits	\$0

Estimated Cash to Close

Additional Information About This Loan

LENDER Ficus Bank
NMLS/___ LICENSE ID
LOAN OFFICER Joe Smith
NMLS/___ LICENSE ID 12345
EMAIL joesmith@ficusbank.com
PHONE 123-456-7890

MORTGAGE BROKER
NMLS/___ LICENSE ID
LOAN OFFICER
NMLS/___ LICENSE ID
EMAIL
PHONE

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$56,582	Total you will have paid in principal, interest, mortgage insurance, and loan costs.
	\$15,773	Principal you will have paid off.
Annual Percentage Rate (APR)	4.274%	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	69.45%	The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations	
Appraisal	We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.
Assumption	If you sell or transfer this property to another person, we ☐ will allow, under certain conditions, this person to assume this loan on the original terms. ☒ will not allow assumption of this loan on the original terms.
Homeowner's Insurance	This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Refinance	Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.
Servicing	We intend ☐ to service your loan. If so, you will make your payments to us. ☒ to transfer servicing of your loan.

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature	Date	Co-Applicant Signature	Date

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information		Transaction Information		Loan Information	
Date Issued	4/15/2013	Borrower	Michael Jones and Mary Stone	Loan Term	30 years
Closing Date	4/15/2013		123 Anywhere Street	Purpose	Purchase
Disbursement Date	4/15/2013		Anytown, ST 12345	Product	Fixed Rate
Settlement Agent	Epsilon Title Co.	Seller	Steve Cole and Amy Doe	Loan Type	☒ Conventional ☐ FHA
File #	12-3456		321 Somewhere Drive		☐ VA ☐ _____
Property	456 Somewhere Ave		Anytown, ST 12345	Loan ID #	123456789
	Anytown, ST 12345	Lender	Ficus Bank	MIC #	000654321
Sale Price	\$180,000				

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	NO
Prepayment Penalty	Does the loan have these features?	
	YES	• As high as \$3,240 if you pay off the loan during the first 2 years
Balloon Payment	NO	

Projected Payments			
Payment Calculation	Years 1-7		Years 8-30
Principal & Interest	\$761.78		\$761.78
Mortgage Insurance	+	82.35	+ —
Estimated Escrow <i>Amount can increase over time</i>	+	206.13	+ 206.13
Estimated Total Monthly Payment	\$1,050.26		\$967.91
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time See page 4 for details</i>	This estimate includes		In escrow?
	\$356.13 a month		YES YES NO
	☒ Property Taxes ☒ Homeowner's Insurance ☒ Other: Homeowner's Association Dues <i>See Escrow Account on page 4 for details. You must pay for other property costs separately.</i>		

Costs at Closing	
Closing Costs	\$9,712.10 Includes \$4,694.05 in Loan Costs + \$5,018.05 in Other Costs – \$0 in Lender Credits. <i>See page 2 for details.</i>
Cash to Close	\$14,147.26 Includes Closing Costs. <i>See Calculating Cash to Close on page 3 for details.</i>

Closing Cost Details

Loan Costs		Borrower-Paid		Seller-Paid		Paid by Others
		At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges		\$1,802.00				
01	0.25 % of Loan Amount (Points)	\$405.00				
02	Application Fee	\$300.00				
03	Underwriting Fee	\$1,097.00				
04						
05						
06						
07						
08						
B. Services Borrower Did Not Shop For		\$236.55				
01	Appraisal Fee to John Smith Appraisers Inc.					\$405.00
02	Credit Report Fee to Information Inc.		\$29.80			
03	Flood Determination Fee to Info Co.	\$20.00				
04	Flood Monitoring Fee to Info Co.	\$31.75				
05	Tax Monitoring Fee to Info Co.	\$75.00				
06	Tax Status Research Fee to Info Co.	\$80.00				
07						
08						
09						
10						
C. Services Borrower Did Shop For		\$2,655.50				
01	Pest Inspection Fee to Pests Co.	\$120.50				
02	Survey Fee to Surveys Co.	\$85.00				
03	Title – Insurance Binder to Epsilon Title Co.	\$650.00				
04	Title – Lender’s Title Insurance to Epsilon Title Co.	\$500.00				
05	Title – Settlement Agent Fee to Epsilon Title Co.	\$500.00				
06	Title – Title Search to Epsilon Title Co.	\$800.00				
07						
08						
D. TOTAL LOAN COSTS (Borrower-Paid)		\$4,694.05				
Loan Costs Subtotals (A + B + C)		\$4,664.25	\$29.80			
Other Costs						
E. Taxes and Other Government Fees		\$85.00				
01	Recording Fees Deed: \$40.00 Mortgage: \$45.00	\$85.00				
02	Transfer Tax to Any State			\$950.00		
F. Prepays		\$2,120.80				
01	Homeowner’s Insurance Premium (12 mo.) to Insurance Co.	\$1,209.96				
02	Mortgage Insurance Premium (mo.)					
03	Prepaid Interest (\$17.44 per day from 4/15/13 to 5/1/13)	\$279.04				
04	Property Taxes (6 mo.) to Any County USA	\$631.80				
05						
G. Initial Escrow Payment at Closing		\$412.25				
01	Homeowner’s Insurance \$100.83 per month for 2 mo.	\$201.66				
02	Mortgage Insurance per month for mo.					
03	Property Taxes \$105.30 per month for 2 mo.	\$210.60				
04						
05						
06						
07						
08	Aggregate Adjustment	– 0.01				
H. Other		\$2,400.00				
01	HOA Capital Contribution to HOA Acre Inc.	\$500.00				
02	HOA Processing Fee to HOA Acre Inc.	\$150.00				
03	Home Inspection Fee to Engineers Inc.	\$750.00			\$750.00	
04	Home Warranty Fee to XYZ Warranty Inc.			\$450.00		
05	Real Estate Commission to Alpha Real Estate Broker			\$5,700.00		
06	Real Estate Commission to Omega Real Estate Broker			\$5,700.00		
07	Title – Owner’s Title Insurance (optional) to Epsilon Title Co.	\$1,000.00				
08						
I. TOTAL OTHER COSTS (Borrower-Paid)		\$5,018.05				
Other Costs Subtotals (E + F + G + H)		\$5,018.05				
J. TOTAL CLOSING COSTS (Borrower-Paid)		\$9,712.10				
Closing Costs Subtotals (D + I)		\$9,682.30	\$29.80	\$12,800.00	\$750.00	\$405.00
Lender Credits						

Calculating Cash to Close

Use this table to see what has changed from your Loan Estimate.

	Loan Estimate	Final	Did this change?
Total Closing Costs (J)	\$8,054.00	\$9,712.10	YES • See Total Loan Costs (D) and Total Other Costs (I)
Closing Costs Paid Before Closing	\$0	– \$29.80	YES • You paid these Closing Costs before closing
Closing Costs Financed (Paid from your Loan Amount)	\$0	\$0	NO
Down Payment/Funds from Borrower	\$18,000.00	\$18,000.00	NO
Deposit	– \$10,000.00	– \$10,000.00	NO
Funds for Borrower	\$0	\$0	NO
Seller Credits	\$0	– \$2,500.00	YES • See Seller Credits in Section L
Adjustments and Other Credits	\$0	– \$1,035.04	YES • See details in Sections K and L
Cash to Close	\$16,054.00	\$14,147.26	

Summaries of Transactions

Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION

K. Due from Borrower at Closing **\$189,762.30**

01	Sale Price of Property	\$180,000.00
02	Sale Price of Any Personal Property Included in Sale	
03	Closing Costs Paid at Closing (J)	\$9,682.30
04		

Adjustments

05		
06		
07		

Adjustments for Items Paid by Seller in Advance

08	City/Town Taxes	to	
09	County Taxes	to	
10	Assessments	to	
11	HOA Dues	4/15/13 to 4/30/13	\$80.00
12			
13			
14			
15			

L. Paid Already by or on Behalf of Borrower at Closing **\$175,615.04**

01	Deposit	\$10,000.00
02	Loan Amount	\$162,000.00
03	Existing Loan(s) Assumed or Taken Subject to	
04		
05	Seller Credit	\$2,500.00

Other Credits

06	Rebate from Epsilon Title Co.	\$750.00
07		

Adjustments

08		
09		
10		
11		

Adjustments for Items Unpaid by Seller

12	City/Town Taxes	1/1/13 to 4/14/13	\$365.04
13	County Taxes	to	
14	Assessments	to	
15			
16			
17			

CALCULATION

Total Due from Borrower at Closing (K)	\$189,762.30
Total Paid Already by or on Behalf of Borrower at Closing (L)	– \$175,615.04

Cash to Close ☒ **From** ☐ **To Borrower** **\$14,147.26**

SELLER'S TRANSACTION

M. Due to Seller at Closing **\$180,080.00**

01	Sale Price of Property	\$180,000.00
02	Sale Price of Any Personal Property Included in Sale	
03		
04		

05		
06		
07		
08		

Adjustments for Items Paid by Seller in Advance

09	City/Town Taxes	to	
10	County Taxes	to	
11	Assessments	to	
12	HOA Dues	4/15/13 to 4/30/13	\$80.00
13			
14			
15			
16			

N. Due from Seller at Closing **\$115,665.04**

01	Excess Deposit	
02	Closing Costs Paid at Closing (J)	\$12,800.00
03	Existing Loan(s) Assumed or Taken Subject to	
04	Payoff of First Mortgage Loan	\$100,000.00
05	Payoff of Second Mortgage Loan	

06		
07		
08	Seller Credit	\$2,500.00
09		

10		
11		
12		
13		

Adjustments for Items Unpaid by Seller

14	City/Town Taxes	1/1/13 to 4/14/13	\$365.04
15	County Taxes	to	
16	Assessments	to	
17			
18			
19			

CALCULATION

Total Due to Seller at Closing (M)	\$180,080.00
Total Due from Seller at Closing (N)	– \$115,665.04

Cash ☐ **From** ☒ **To Seller** **\$64,414.96**

Additional Information About This Loan

Loan Disclosures

Assumption

- If you sell or transfer this property to another person, your lender
- ☐ will allow, under certain conditions, this person to assume this loan on the original terms.
 - ☒ will not allow assumption of this loan on the original terms.

Demand Feature

- Your loan
- ☐ has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.
 - ☒ does not have a demand feature.

Late Payment

If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

- Under your loan terms, you
- ☐ are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
 - ☐ may have monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
 - ☒ do not have a negative amortization feature.

Partial Payments

- Your lender
- ☒ may accept payments that are less than the full amount due (partial payments) and apply them to your loan.
 - ☐ may hold them in a separate account until you pay the rest of the payment, and then apply the full payment to your loan.
 - ☐ does not accept any partial payments.
- If this loan is sold, your new lender may have a different policy.

Security Interest

You are granting a security interest in
456 Somewhere Ave., Anytown, ST 12345

You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Escrow Account

- For now,** your loan
- ☒ will have an escrow account (also called an “impound” or “trust” account) to pay the property costs listed below. Without an escrow account, you would pay them directly, possibly in one or two large payments a year. Your lender may be liable for penalties and interest for failing to make a payment.

Escrow		
Escrowed Property Costs over Year 1	\$2,473.56	Estimated total amount over year 1 for your escrowed property costs: <i>Homeowner’s Insurance</i> <i>Property Taxes</i>
Non-Escrowed Property Costs over Year 1	\$1,800.00	Estimated total amount over year 1 for your non-escrowed property costs: <i>Homeowner’s Association Dues</i> You may have other property costs.
Initial Escrow Payment	\$412.25	A cushion for the escrow account you pay at closing. See Section G on page 2.
Monthly Escrow Payment	\$206.13	The amount included in your total monthly payment.

- ☐ will not have an escrow account because ☐ you declined it ☐ your lender does not offer one. You must directly pay your property costs, such as taxes and homeowner’s insurance. Contact your lender to ask if your loan can have an escrow account.

No Escrow		
Estimated Property Costs over Year 1		Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.
Escrow Waiver Fee		

In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.

Loan Calculations

Total of Payments. Total you will have paid after you make all payments of principal, interest, mortgage insurance, and loan costs, as scheduled.	\$285,803.36
Finance Charge. The dollar amount the loan will cost you.	\$118,830.27
Amount Financed. The loan amount available after paying your upfront finance charge.	\$162,000.00
Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your interest rate.	4.174%
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	69.46%



Questions? If you have questions about the loan terms or costs on this form, use the contact information below. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/mortgage-closing

Other Disclosures

Appraisal

If the property was appraised for your loan, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- what is a default on the loan,
- situations in which your lender can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- ☒ state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and have to pay any debt remaining even after foreclosure. You may want to consult a lawyer for more information.
- ☐ state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker (B)	Real Estate Broker (S)	Settlement Agent
Name	Ficus Bank		Omega Real Estate Broker Inc.	Alpha Real Estate Broker Co.	Epsilon Title Co.
Address	4321 Random Blvd. Somecity, ST 12340		789 Local Lane Sometown, ST 12345	987 Suburb Ct. Someplace, ST 12340	123 Commerce Pl. Somecity, ST 12344
NMLS ID					
ST License ID			Z765416	Z61456	Z61616
Contact	Joe Smith		Samuel Green	Joseph Cain	Sarah Arnold
Contact NMLS ID	12345				
Contact ST License ID			P16415	P51461	PT1234
Email	joesmith@ficusbank.com		sam@omegare.biz	joe@alphare.biz	sarah@epsilontitle.com
Phone	123-456-7890		123-555-1717	321-555-7171	987-555-4321

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature

Date

Co-Applicant Signature

Date



Online Personal Credit Report from Experian for

Experian credit report prepared for

JOHN Q. CONSUMER

Your report number is

1562064065

Report date:

04/24/2012

Index:

- [Potentially negative items](#)
- [Accounts in good standing](#)
- [Requests for your credit history](#)
- [Personal information](#)
- [Important message from Experian](#)
- [Contact us](#)

Report number:

You will need your report number to contact Experian online, by phone or by mail.

Index:

Navigate through the sections of your credit report using these links.

Experian collects and organizes information about you and your credit history from public records, your creditors and other reliable sources. Experian makes your credit history available to your current and prospective creditors, employers and others as allowed by law, which can expedite your ability to obtain credit and can make offers of credit available to you. We do not grant or deny credit; each credit grantor makes that decision based on its own guidelines.

To return to your report in the near future, log on to www.experian.com/consumer and select "View your report again" or "Dispute" and then enter your report number.

If you disagree with information in this report, return to the Report Summary page and follow the instructions for disputing.

Potentially negative items:

Items that creditors may view less favorably. It includes the creditor's name and address, your account number (shortened for security), account status, type and terms of the account and any other information reported to Experian by the creditor. Also includes any bankruptcy, lien and judgment information obtained directly from the courts.

Potentially Negative Items

Public Records

Credit grantors may carefully review the items listed below when they check your credit history. Please note that the account information connected with some public records, such as bankruptcy, also may appear with your credit items listed later in this report.

MAIN COUNTY CLERK

Address:

123 MAINTOWN S
BUFFALO, NY 10000

Identification Number:

1

Plaintiff:

ANY COMMISSIONER O.

Status:

Civil claim paid.

Status Details:

This item was verified and updated in Apr 2012.

Date Filed:

10/15/2012

Claim Amount:

\$200

Date Resolved:

03/04/2012

Liability

Amount:

NA

Responsibility:

INDIVIDUAL

Status:

Indicates the current status of the account.

Credit Items

For your protection, the last few digits of your account numbers do not display.

ABCD BANKS

Address:

100 CENTER RD
BUFFALO, NY 10000
(555) 555-5555

Account Number:

1000000....

Status: Paid/Past due 60 days.

Date Opened:

10/2012

Type:

Installment

Reported Since:

11/2012

Terms:

12 Months

Date of Status:

04/2012

Monthly

Payment:

\$0

Last Reported:

04/2012

Responsibility:

Individual

Credit Limit/Original Amount:

\$523

High Balance:

NA

Recent Balance:

\$0 as of 04/2012

Recent Payment:

\$0

Account History:

60 days as of 12-2012

30 days as of 11-2012



If you believe information in your report is inaccurate, you can dispute that item quickly, effectively and cost free by using Experian's online dispute service located at:

www.experian.com/disputes

Disputing online is the fastest way to address any concern you may have about the information in your credit report.

MAIN COLL AGENCIES

Address: PO BOX 123 ANYTOWN, PA 10000 (555) 555-5555	Account Number: 0123456789	Original Creditor: TELEWISE CABLE COMM.

Status: Collection account. \$95 past due as of 4-2012.

Date Opened: 01/2005	Type: Installment	Credit Limit/Original Amount: \$95
Reported Since: 04/2012	Terms: NA	High Balance: NA
Date of Status: 04/2012	Monthly Payment: \$0	Recent Balance: \$95 as of 04/2012
Last Reported: 04/2012	Responsibility: Individual	Recent Payment: \$0

Your statement: ITEM DISPUTED BY CONSUMER

Account History:
Collection as of 4-2012

Accounts in good standing:

Lists accounts that have a positive status and may be viewed favorably by creditors. Some creditors do not report to us, so some of your accounts may not be listed.

Accounts in Good Standing**5****AUTOMOBILE AUTO FINANCE**

Address: 100 MAIN ST E SMALLTOWN, MD 90001 (555) 555-5555	Account Number: 12345678998....

Status: Open/Never late.

Type:

Account type indicates whether your account is a revolving or an installment account.

Date Opened: 01/2006	Type: Installment	Credit Limit/Original Amount: \$10,355
Reported Since: 01/2012	Terms: 65 Months	High Balance: NA
Date of Status: 04/2012	Monthly Payment: \$210	Recent Balance: \$7,984 as of 04/2012
Last Reported: 04/2012	Responsibility: Individual	Recent Payment: \$0

6**MAIN**

Address: PO BOX 1234 FORT LAUDERDALE, FL 10009	Account Number: 1234567899876

Status: Closed/Never late.

Date Opened: 03/1997	Type: Revolving	Credit Limit/Original Amount: NA
Reported Since: 03/2012	Terms: 1 Months	High Balance: \$3,228
Date of Status: 08/2012	Monthly Payment: \$0	Recent Balance: \$0 /paid as of 08/2012
Last Reported: 08/2012	Responsibility: Individual	Recent Payment: \$0

Your statement:
Account closed at consumer's request

Requests Viewed By Others

We make your credit history available to your current and prospective creditors and employers as allowed by law. Personal data about you may be made available to companies whose products and services may interest you.

The section below lists all who have requested in the recent past to review your credit history as a result of actions involving you, such as the completion of a credit application or the transfer of an account to a collection agency, application for insurance, mortgage or loan application, etc. Creditors may view these requests when evaluating your creditworthiness.

HOMESALE REALTY CO**Address:**

2000 S MAINROAD BLVD STE
ANYTOWN CA 11111
(555) 555-5555

Date of Request:

07/16/2012

Comments:

Real estate loan on behalf of 3903 MERCHANTS EXPRESS M. This inquiry is scheduled to continue on record until 8-2014.

M & T BANK**Address:**

PO BOX 100
BUFFALO NY 10000
(555) 555-5555

Date of Request:

02/23/2006

Comments:

Permissible purpose. This inquiry is scheduled to continue on record until 3-2008.

WESTERN FUNDING INC**Address:**

191 W MAIN AVE STE 100
INTOWN CA 10000
(559) 555-5555

Date of Request:

01/25/2006

Comments:

Permissible purpose. This inquiry is scheduled to continue on record until 2-2008.

Requests Viewed Only By You

The section below lists all who have a permissible purpose by law and have requested in the recent past to review your information. You may not have initiated these requests, so you may not recognize each source. We offer information about you to those with a permissible purpose, for example, to:

- other creditors who want to offer you preapproved credit;
- an employer who wishes to extend an offer of employment;
- a potential investor in assessing the risk of a current obligation;
- Experian or other credit reporting agencies to process a report for you;
- your existing creditors to monitor your credit activity (date listed may reflect only the most recent request).

We report these requests **only to you** as a record of activities. We **do not** provide this information to other creditors who evaluate your creditworthiness.

MAIN BANK USA**Address:**

1 MAIN CTR AA 11
BUFFALO NY 14203

Date of Request:

08/10/2012

MYTOWN BANK**Address:**

PO BOX 825
MYTOWN DE 10000
(555) 555-5555

Date of Request:

08/05/2006

INTOWN DATA CORPS**Address:**

2000 S MAINTOWN BLVD STE
INTOWN CO 11111
(555) 555-5555

Date of Request:

07/16/2006

Requests for your credit history:

Also called "inquiries," requests for your credit history are logged on your report whenever anyone reviews your credit information. There are two types of inquiries.

i. Inquiries resulting from a transaction initiated by you. These include inquiries from your applications for credit, insurance, housing or other loans. They also include transfer of an account to a collection agency. Creditors may view these items when evaluating your creditworthiness.

ii. Inquiries resulting from transactions you may not have initiated but that are allowed under the FCRA. These include preapproved offers, as well as for employment, investment review, account monitoring by existing creditors, and requests by you for your own report. These items are shown only to you and have no impact on your creditworthiness or risk scores.

Personal Information 8

The following information is reported to us by you, your creditors and other sources. Each source may report your personal information differently, which may result in variations of your name, address, Social Security number, etc. As part of our fraud prevention efforts, a notice with additional information may appear. As a security precaution, the Social Security number that you used to obtain this report is not displayed. The Name identification number and Address identification number are how our system identifies variations of your name and address that may appear on your report. The Geographical Code shown with each address identifies the state, county, census tract, block group and Metropolitan Statistical Area associated with each address.

Names:
JOHN Q CONSUMER
Name identification number: 15621

JONATHON Q CONSUMER
Name identification number: 15622

J Q CONSUMER
Name identification number: 15623

Social Security number variations:
999999999

Year of birth:
1959

Spouse or co-applicant:
JANE

Employers:
ABCDE ENGINEERING CORP

Telephone numbers:
(555) 555 5555 Residential

Address: 123 MAIN STREET
ANYTOWN, MD 90001-9999
Address identification number:
0277741504
Type of Residence: Multifamily
Geographical Code: 0-156510-31-8840

Address: 555 SIMPLE PLACE
ANYTOWN, MD 90002-7777
Address identification number:
0170086050
Type of Residence: Single family
Geographical Code: 0-176510-33-8840

Address: 999 HIGH DRIVE APT 15B
ANYTOWN, MD 90003-5555
Address identification number:
0170129301
Type of Residence: Apartment complex
Geographical Code: 0-156510-31-8840

9

Personal information:
Personal information associated with your history that has been reported to Experian by you, your creditors and other sources.

May include name and Social Security number variations, employers, telephone numbers, etc. Experian lists all variations so you know what is being reported to us as belonging to you.

Address information:
Your current address and previous address(es)

Personal statement:
Any personal statement that you added to your report appears here.

Note - statements remain as part of the report for two years and display to anyone who has permission to review your report.

Your Personal Statement 10

No general personal statements appear on your report.

Important Message From Experian

By law, we cannot disclose certain medical information (relating to physical, mental, or behavioral health or condition). Although we do not generally collect such information, it could appear in the name of a data furnisher (i.e., "Cancer Center") that reports your payment history to us. If so, those names display in your report, but in reports to others they display only as MEDICAL PAYMENT DATA. Consumer statements included on your report at your request that contain medical information are disclosed to others.

Contacting Us

Contact address and phone number for your area will display here.

Uniform Residential Appraisal Report

File #

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.

Property AddressCityStateZip Code

BorrowerOwner of Public RecordCounty

Legal Description

Assessor's Parcel #Tax YearR.E. Taxes \$

Neighborhood NameMap ReferenceCensus Tract

Occupant ☐ Owner ☐ Tenant ☐ VacantSpecial Assessments \$☐ PUDHOA \$☐ per year☐ per month

Property Rights Appraised ☐ Fee Simple ☐ Leasehold ☐ Other (describe)

Assignment Type ☐ Purchase Transaction ☐ Refinance Transaction ☐ Other (describe)

Lender/ClientAddress

Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? ☐ Yes ☐ No

Report data source(s) used, offering price(s), and date(s).

I ☐ did ☐ did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.

Contract Price \$Date of ContractIs the property seller the owner of public record? ☐ Yes ☐ NoData Source(s)

Is there any financial assistance (loan charges, sale concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower? ☐ Yes ☐ No

If Yes, report the total dollar amount and describe the items to be paid.

Note: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics				One-Unit Housing Trends				One-Unit Housing		Present Land Use %	
Location	☐ Urban	☐ Suburban	☐ Rural	Property Values	☐ Increasing	☐ Stable	☐ Declining	PRICE	AGE	One-Unit	%
Built-Up	☐ Over 75%	☐ 25–75%	☐ Under 25%	Demand/Supply	☐ Shortage	☐ In Balance	☐ Over Supply	\$ (000)	(yrs)	2-4 Unit	%
Growth	☐ Rapid	☐ Stable	☐ Slow	Marketing Time	☐ Under 3 mths	☐ 3–6 mths	☐ Over 6 mths	Low		Multi-Family	%
Neighborhood Boundaries								High		Commercial	%
								Pred.		Other	%
Neighborhood Description											
Market Conditions (including support for the above conclusions)											

DimensionsAreaShapeView

Specific Zoning ClassificationZoning Description

Zoning Compliance ☐ Legal ☐ Legal Nonconforming (Grandfathered Use) ☐ No Zoning ☐ Illegal (describe)

Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? ☐ Yes ☐ NoIf No, describe

Utilities	Public	Other (describe)	Public	Other (describe)	Off-site Improvements—Type	Public	Private
Electricity	☐	☐	Water	☐	Street	☐	☐
Gas	☐	☐	Sanitary Sewer	☐	Alley	☐	☐
FEMA Special Flood Hazard Area		☐ Yes ☐ No	FEMA Flood Zone		FEMA Map #	FEMA Map Date	
Are the utilities and off-site improvements typical for the market area? ☐ Yes ☐ NoIf No, describe							
Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? ☐ Yes ☐ NoIf Yes, describe							

General Description		Foundation		Exterior Description		materials/condition	Interior	materials/condition	
Units	☐ One ☐ One with Accessory Unit	☐ Concrete Slab	☐ Crawl Space	Foundation Walls			Floors		
# of Stories		☐ Full Basement	☐ Partial Basement	Exterior Walls			Walls		
Type	☐ Det. ☐ Att. ☐ S-Det./End Unit	Basement Area		sq. ft.	Roof Surface		Trim/Finish		
	☐ Existing ☐ Proposed ☐ Under Const.	Basement Finish		%	Gutters & Downspouts		Bath Floor		
Design (Style)		☐ Outside Entry/Exit		☐ Sump Pump	Window Type		Bath Wainscot		
Year Built		Evidence of			☐ Infestation	Storm Sash/Insulated		Car Storage	☐ None
Effective Age (Yrs)		☐ Dampness			☐ Settlement	Screens		☐ Driveway	# of Cars
Attic	☐ None	Heating	☐ FWA	☐ HWBB	☐ Radiant	Amenities	☐ Woodstove(s) #	Driveway Surface	
☐ Drop Stair	☐ Stairs	☐ Other	Fuel		☐ Fireplace(s) #	☐ Fence	☐ Garage	# of Cars	
☐ Floor	☐ Scuttle	Cooling	☐ Central Air Conditioning		☐ Patio/Deck	☐ Porch	☐ Carport	# of Cars	
☐ Finished	☐ Heated	☐ Individual	☐ Other		☐ Pool	☐ Other	☐ Att.	☐ Det.	☐ Built-in
Appliances ☐ Refrigerator ☐ Range/Oven ☐ Dishwasher ☐ Disposal ☐ Microwave ☐ Washer/Dryer ☐ Other (describe)									
Finished area above grade contains:		Rooms	Bedrooms	Bath(s)	Square Feet of Gross Living Area Above Grade				
Additional features (special energy efficient items, etc.)									
Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.).									
Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? ☐ Yes ☐ NoIf Yes, describe									
Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? ☐ Yes ☐ NoIf No, describe									

Freddie Mac Form 70March 2005

Page 1 of 6

Fannie Mae Form 1004March 2005

Uniform Residential Appraisal Report

File #

There are comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ to \$																
There are comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$ to \$																
FEATURE		SUBJECT			COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3					
Address																
Proximity to Subject																
Sale Price		\$			\$			\$			\$					
Sale Price/Gross Liv. Area		\$ sq. ft.			\$ sq. ft.			\$ sq. ft.			\$ sq. ft.					
Data Source(s)																
Verification Source(s)																
VALUE ADJUSTMENTS		DESCRIPTION			DESCRIPTION			+(-) \$ Adjustment			DESCRIPTION			+(-) \$ Adjustment		
Sale or Financing Concessions																
Date of Sale/Time																
Location																
Leasehold/Fee Simple																
Site																
View																
Design (Style)																
Quality of Construction																
Actual Age																
Condition																
Above Grade		Total	Bdrms.	Baths	Total	Bdrms.	Baths				Total	Bdrms.	Baths			
Room Count																
Gross Living Area		sq. ft.			sq. ft.						sq. ft.			sq. ft.		
Basement & Finished Rooms Below Grade																
Functional Utility																
Heating/Cooling																
Energy Efficient Items																
Garage/Carport																
Porch/Patio/Deck																
Net Adjustment (Total)					+ -			\$			+ -			\$		
Adjusted Sale Price of Comparables					Net Adj. %						Net Adj. %					
					Gross Adj. %			\$			Gross Adj. %			\$		
I ☐ did ☐ did not research the sale or transfer history of the subject property and comparable sales. If not, explain																
My research ☐ did ☐ did not reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.																
Data source(s)																
My research ☐ did ☐ did not reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.																
Data source(s)																
Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales on page 3).																
ITEM		SUBJECT			COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3					
Date of Prior Sale/Transfer																
Price of Prior Sale/Transfer																
Data Source(s)																
Effective Date of Data Source(s)																
Analysis of prior sale or transfer history of the subject property and comparable sales																
Summary of Sales Comparison Approach																
Indicated Value by Sales Comparison Approach \$																

RECONCILIATION

Indicated Value by: Sales Comparison Approach \$ Cost Approach (if developed) \$ Income Approach (if developed) \$

This appraisal is made ☐ "as is", ☐ subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, ☐ subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or ☐ subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair:

Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$, as of , which is the date of inspection and the effective date of this appraisal.

Freddie Mac Form 70 March 2005Page 2 of 6Fannie Mae Form 1004 March 2005

File

ADDITIONAL COMMENTS

COST APPROACH

INCOME

P U D I N F O R M A T I O N

[illegible]

This report form is designed to report an appraisal of a one-unit property or a one-unit property with an accessory unit; including a unit in a planned unit development (PUD). This report form is not designed to report an appraisal of a manufactured home or a unit in a condominium or cooperative project.

This appraisal report is subject to the following scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and certifications. Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

SCOPE OF WORK: The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum: (1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) inspect each of the comparable sales from at least the street, (4) research, verify, and analyze data from reliable public and/or private sources, and (5) report his or her analysis, opinions, and conclusions in this appraisal report.

INTENDED USE: The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.

INTENDED USER: The intended user of this appraisal report is the lender/client.

DEFINITION OF MARKET VALUE: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions* granted by anyone associated with the sale.

*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS: The appraiser's certification in this report is subject to the following assumptions and limiting conditions:

1. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it, except for information that he or she became aware of during the research involved in performing this appraisal. The appraiser assumes that the title is good and marketable and will not render any opinions about the title.
2. The appraiser has provided a sketch in this appraisal report to show the approximate dimensions of the improvements. The sketch is included only to assist the reader in visualizing the property and understanding the appraiser's determination of its size.
3. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in this appraisal report whether any portion of the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.
4. The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand, or as otherwise required by law.
5. The appraiser has noted in this appraisal report any adverse conditions (such as needed repairs, deterioration, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property or that he or she became aware of during the research involved in performing this appraisal. Unless otherwise stated in this appraisal report, the appraiser has no knowledge of any hidden or unapparent physical deficiencies or adverse conditions of the property (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, this appraisal report must not be considered as an environmental assessment of the property.
6. The appraiser has based his or her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that the completion, repairs, or alterations of the subject property will be performed in a professional manner.

APPRAISER'S CERTIFICATION: The Appraiser certifies and agrees that:

1. I have, at a minimum, developed and reported this appraisal in accordance with the scope of work requirements stated in this appraisal report.
2. I performed a complete visual inspection of the interior and exterior areas of the subject property. I reported the condition of the improvements in factual, specific terms. I identified and reported the physical deficiencies that could affect the livability, soundness, or structural integrity of the property.
3. I performed this appraisal in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.
4. I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison approach to value. I have adequate comparable market data to develop a reliable sales comparison approach for this appraisal assignment. I further certify that I considered the cost and income approaches to value but did not develop them, unless otherwise indicated in this report.
5. I researched, verified, analyzed, and reported on any current agreement for sale for the subject property, any offering for sale of the subject property in the twelve months prior to the effective date of this appraisal, and the prior sales of the subject property for a minimum of three years prior to the effective date of this appraisal, unless otherwise indicated in this report.
6. I researched, verified, analyzed, and reported on the prior sales of the comparable sales for a minimum of one year prior to the date of sale of the comparable sale, unless otherwise indicated in this report.
7. I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.
8. I have not used comparable sales that were the result of combining a land sale with the contract purchase price of a home that has been built or will be built on the land.
9. I have reported adjustments to the comparable sales that reflect the market's reaction to the differences between the subject property and the comparable sales.
10. I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.
11. I have knowledge and experience in appraising this type of property in this market area.
12. I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located.
13. I obtained the information, estimates, and opinions furnished by other parties and expressed in this appraisal report from reliable sources that I believe to be true and correct.
14. I have taken into consideration the factors that have an impact on value with respect to the subject neighborhood, subject property, and the proximity of the subject property to adverse influences in the development of my opinion of market value. I have noted in this appraisal report any adverse conditions (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing this appraisal. I have considered these adverse conditions in my analysis of the property value, and have reported on the effect of the conditions on the value and marketability of the subject property.
15. I have not knowingly withheld any significant information from this appraisal report and, to the best of my knowledge, all statements and information in this appraisal report are true and correct.
16. I stated in this appraisal report my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the assumptions and limiting conditions in this appraisal report.
17. I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in this appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
18. My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or present analysis supporting) a predetermined specific value, a predetermined minimum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific subsequent event (such as approval of a pending mortgage loan application).
19. I personally prepared all conclusions and opinions about the real estate that were set forth in this appraisal report. If I relied on significant real property appraisal assistance from any individual or individuals in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report; therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.
20. I identified the lender/client in this appraisal report who is the individual, organization, or agent for the organization that ordered and will receive this appraisal report.

21. The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States; and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser’s or supervisory appraiser’s (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).

22. I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.

23. The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.

24. If this appraisal report was transmitted as an “electronic record” containing my “electronic signature,” as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

25. Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.

SUPERVISORY APPRAISER’S CERTIFICATION: The Supervisory Appraiser certifies and agrees that:

1. I directly supervised the appraiser for this appraisal assignment, have read the appraisal report, and agree with the appraiser’s analysis, opinions, statements, conclusions, and the appraiser’s certification.
2. I accept full responsibility for the contents of this appraisal report including, but not limited to, the appraiser’s analysis, opinions, statements, conclusions, and the appraiser’s certification.
3. The appraiser identified in this appraisal report is either a sub-contractor or an employee of the supervisory appraiser (or the appraisal firm), is qualified to perform this appraisal, and is acceptable to perform this appraisal under the applicable state law.
4. This appraisal report complies with the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.
5. If this appraisal report was transmitted as an “electronic record” containing my “electronic signature,” as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

APPRAISER

Signature _____

Name _____

Company Name _____

Company Address _____

Telephone Number _____

Email Address _____

Date of Signature and Report _____

Effective Date of Appraisal _____

State Certification # _____

or State License # _____

or Other (describe) _____ State # _____

State _____

Expiration Date of Certification or License _____

ADDRESS OF PROPERTY APPRAISED

APPRAISED VALUE OF SUBJECT PROPERTY \$ _____

LENDER/CLIENT

Name _____

Company Name _____

Company Address _____

Email Address _____

SUPERVISORY APPRAISER (ONLY IF REQUIRED)

Signature _____

Name _____

Company Name _____

Company Address _____

Telephone Number _____

Email Address _____

Date of Signature _____

State Certification # _____

or State License # _____

State _____

Expiration Date of Certification or License _____

SUBJECT PROPERTY

☐ Did not inspect subject property

☐ Did inspect exterior of subject property from street

Date of Inspection _____

☐ Did inspect interior and exterior of subject property

Date of Inspection _____

COMPARABLE SALES

☐ Did not inspect exterior of comparable sales from street

☐ Did inspect exterior of comparable sales from street

Date of Inspection _____

Instructions

Uniform Residential Appraisal Report

This report form is designed to report an appraisal of a one-unit property or a one-unit property with an accessory unit; including a unit in a planned unit development (PUD), based on an interior and exterior inspection of the subject property. This report form is not designed to report an appraisal of a manufactured home or a unit in a condominium or cooperative project.

Use

This report form is designed to report an appraisal of a one-unit property or a one-unit property with an accessory unit; including a unit in a planned unit development (PUD), based on an interior and exterior inspection of the subject property. This report form is not designed to report an appraisal of a manufactured home or a unit in a condominium or cooperative project.

Modifications, Additions, or Deletions

This appraisal report is subject to the scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and certifications contained in the report form. Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization are permitted.

Scope of Work

The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum: (1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) inspect each of the comparable sales from at least the street, (4) research, verify, and analyze data from reliable public and/or private sources, and (5) report his or her analysis, opinions, and conclusions in this appraisal report.

Required Exhibits

- A street map that shows the location of the subject property and of all comparables that the appraiser used;
- An exterior building sketch of the improvements that indicates the dimensions. The appraiser must also include calculations to show how he or she arrived at the estimate for gross living area. A floor plan sketch that indicates the dimensions is required instead of the exterior building or unit sketch if the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood;
- Clear, descriptive photographs (either in black and white or color) that show the front, back, and a street scene of the subject property, and that are appropriately identified. (Photographs must be originals that are produced either by photography or electronic imaging.);
- Clear, descriptive photographs (either in black and white or color) that show the front of each comparable sale and that are appropriately identified. Generally, photographs should be originals that are produced by photography or electronic imaging; however, copies of photographs from a multiple listing service or from the appraiser's files are acceptable if they are clear and descriptive;
- Any other data--as an attachment or addendum to the appraisal report form--that are necessary to provide an adequately supported opinion of market value.

H-3. Model form for credit score disclosure exception for loans secured by one to four units of residential real property

**[Name of Entity Providing the Notice]
Your Credit Score and the Price You Pay for Credit**

Your Credit Score	
Your credit score	[Insert credit score] Source: [Insert source] Date: [Insert date score was created]

Understanding Your Credit Score															
What you should know about credit scores	Your credit score is a number that reflects the information in your credit report. Your credit report is a record of your credit history. It includes information about whether you pay your bills on time and how much you owe to creditors. Your credit score can change, depending on how your credit history changes.														
How we use your credit score	Your credit score can affect whether you can get a loan and how much you will have to pay for that loan.														
The range of scores	Scores range from a low of [Insert bottom number in the range] to a high of [Insert top number in the range]. Generally, the higher your score, the more likely you are to be offered better credit terms.														
How your score compares to the scores of other consumers	<table border="1"><caption>Percentage of Consumers by Score Range</caption><thead><tr><th>Score Range</th><th>% of Consumers</th></tr></thead><tbody><tr><td>[0-100]</td><td>10%</td></tr><tr><td>[101-200]</td><td>15%</td></tr><tr><td>[201-300]</td><td>20%</td></tr><tr><td>[301-400]</td><td>30%</td></tr><tr><td>[401-500]</td><td>15%</td></tr><tr><td>[501-600]</td><td>10%</td></tr></tbody></table> [or] [Your credit score ranks higher than [X] percent of U.S. consumers.]	Score Range	% of Consumers	[0-100]	10%	[101-200]	15%	[201-300]	20%	[301-400]	30%	[401-500]	15%	[501-600]	10%
Score Range	% of Consumers														
[0-100]	10%														
[101-200]	15%														
[201-300]	20%														
[301-400]	30%														
[401-500]	15%														
[501-600]	10%														

Understanding Your Credit Score (continued)

Key factors that adversely affected your credit score

[Insert first factor]
[Insert second factor]
[Insert third factor]
[Insert fourth factor]
[Insert fifth factor, if applicable]

Checking Your Credit Report

What if there are mistakes in your credit report?

You have a right to dispute any inaccurate information in your credit report. If you find mistakes on your credit report, contact the consumer reporting agency.

It is a good idea to check your credit report to make sure the information it contains is accurate.

How can you obtain a copy of your credit report?

Under federal law, you have the right to obtain a free copy of your credit report from each of the nationwide consumer reporting agencies once a year.

To order your free annual credit report—

By telephone: Call toll-free: 1-877-322-8228

On the web: Visit www.annualcreditreport.com

By mail: Mail your completed Annual Credit Report Request Form (which you can obtain from the Federal Trade Commission's web site at <http://www.ftc.gov/bcp/online/include/requestformfinal.pdf>) to:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

How can you get more information?

For more information about credit reports and your rights under federal law, visit the Federal Reserve Board's web site at www.federalreserve.gov, or the Federal Trade Commission's web site at www.ftc.gov.

Notice to the Home Loan Applicant

In connection with your application for a home loan, the lender must disclose to you the score that a consumer reporting agency distributed to users and the lender used in connection with your home loan, and the key factors affecting your credit scores.

The credit score is a computer generated summary calculated at the time of the request and based on information that a consumer reporting agency or lender has on file. The scores are based on data about your credit history and payment patterns. Credit scores are important because they are used to assist the lender in determining whether you will obtain a loan. They may also be used to determine what interest rate you may be offered on the mortgage. Credit scores can change over time, depending on your conduct, how your credit history and payment patterns change, and how credit scoring technologies change.

Because the score is based on information in your credit history, it is very important that you review the credit-related information that is being furnished to make sure it is accurate. Credit records may vary from one company to another.

If you have questions about your credit score or the credit information that is furnished to you, contact the consumer reporting agency at the address and telephone number provided with this notice, or contact the lender, if the lender developed or generated the credit score. The consumer reporting agency plays no part in the decision to take any action on the loan application and is unable to provide you with specific reasons for the decision on a loan application.

If you have questions concerning the terms of the loan, contact the lender.

Para información en español, visite www.consumerfinance.gov/learnmore o escribe a la Consumer Financial Protection Bureau, 1700 G Street N.W., Washington, DC 20552.

A Summary of Your Rights Under the Fair Credit Reporting Act

The federal Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies. There are many types of consumer reporting agencies, including credit bureaus and specialty agencies (such as agencies that sell information about check writing histories, medical records, and rental history records). Here is a summary of your major rights under FCRA. **For more information, including information about additional rights, go to www.consumerfinance.gov/learnmore or write to: Consumer Financial Protection Bureau, 1700 G Street N.W., Washington, DC 20552.**

- **You must be told if information in your file has been used against you.** Anyone who uses a credit report or another type of consumer report to deny your application for credit, insurance, or employment – or to take another adverse action against you – must tell you, and must give you the name, address, and phone number of the agency that provided the information.
- **You have the right to know what is in your file.** You may request and obtain all the information about you in the files of a consumer reporting agency (your “file disclosure”). You will be required to provide proper identification, which may include your Social Security number. In many cases, the disclosure will be free. You are entitled to a free file disclosure if:
 - a person has taken adverse action against you because of information in your credit report;
 - you are the victim of identity theft and place a fraud alert in your file;
 - your file contains inaccurate information as a result of fraud;
 - you are on public assistance;
 - you are unemployed but expect to apply for employment within 60 days.

In addition, all consumers are entitled to one free disclosure every 12 months upon request from each nationwide credit bureau and from nationwide specialty consumer reporting agencies. See www.consumerfinance.gov/learnmore for additional information.

- **You have the right to ask for a credit score.** Credit scores are numerical summaries of your credit-worthiness based on information from credit bureaus. You may request a credit score from consumer reporting agencies that create scores or distribute scores used in residential real property loans, but you will have to pay for it. In some mortgage transactions, you will receive credit score information for free from the mortgage lender.
- **You have the right to dispute incomplete or inaccurate information.** If you identify information in your file that is incomplete or inaccurate, and report it to the consumer

reporting agency, the agency must investigate unless your dispute is frivolous. See www.consumerfinance.gov/learnmore for an explanation of dispute procedures.

- **Consumer reporting agencies must correct or delete inaccurate, incomplete, or unverifiable information.** Inaccurate, incomplete, or unverifiable information must be removed or corrected, usually within 30 days. However, a consumer reporting agency may continue to report information it has verified as accurate.
- **Consumer reporting agencies may not report outdated negative information.** In most cases, a consumer reporting agency may not report negative information that is more than seven years old, or bankruptcies that are more than 10 years old.
- **Access to your file is limited.** A consumer reporting agency may provide information about you only to people with a valid need – usually to consider an application with a creditor, insurer, employer, landlord, or other business. The FCRA specifies those with a valid need for access.
- **You must give your consent for reports to be provided to employers.** A consumer reporting agency may not give out information about you to your employer, or a potential employer, without your written consent given to the employer. Written consent generally is not required in the trucking industry. For more information, go to www.consumerfinance.gov/learnmore.
- **You may limit “prescreened” offers of credit and insurance you get based on information in your credit report.** Unsolicited “prescreened” offers for credit and insurance must include a toll-free phone number you can call if you choose to remove your name and address from the lists these offers are based on. You may opt out with the nationwide credit bureaus at 1-888-5-OPTOUT (1-888-567-8688).
- The following FCRA right applies with respect to nationwide consumer reporting agencies:

CONSUMERS HAVE THE RIGHT TO OBTAIN A SECURITY FREEZE

You have a right to place a “security freeze” on your credit report, which will prohibit a consumer reporting agency from releasing information in your credit report without your express authorization. The security freeze is designed to prevent credit, loans, and services from being approved in your name without your consent. However, you should be aware that using a security freeze to take control over who gets access to the personal and financial information in your credit report may delay, interfere with, or prohibit the timely approval of any subsequent request or application you make regarding a new loan, credit, mortgage, or any other account involving the extension of credit.

As an alternative to a security freeze, you have the right to place an initial or extended fraud alert on your credit file at no cost. An initial fraud alert is a 1-year alert that is

placed on a consumer's credit file. Upon seeing a fraud alert display on a consumer's credit file, a business is required to take steps to verify the consumer's identity before extending new credit. If you are a victim of identity theft, you are entitled to an extended fraud alert, which is a fraud alert lasting 7 years.

A security freeze does not apply to a person or entity, or its affiliates, or collection agencies acting on behalf of the person or entity, with which you have an existing account that requests information in your credit report for the purposes of reviewing or collecting the account. Reviewing the account includes activities related to account maintenance, monitoring, credit line increases, and account upgrades and enhancements.

- **You may seek damages from violators.** If a consumer reporting agency, or, in some cases, a user of consumer reports or a furnisher of information to a consumer reporting agency violates the FCRA, you may be able to sue in state or federal court.
- **Identity theft victims and active duty military personnel have additional rights.** For more information, visit www.consumerfinance.gov/learnmore.

States may enforce the FCRA, and many states have their own consumer reporting laws. In some cases, you may have more rights under state law. For more information, contact your state or local consumer protection agency or your state Attorney General. For information about your federal rights, contact:

TYPE OF BUSINESS:	CONTACT:
1.a. Banks, savings associations, and credit unions with total assets of over \$10 billion and their affiliates b. Such affiliates that are not banks, savings associations, or credit unions also should list, in addition to the CFPB:	a. Consumer Financial Protection Bureau 1700 G Street, N.W. Washington, DC 20552 b. Federal Trade Commission Consumer Response Center 600 Pennsylvania Avenue, N.W. Washington, DC 20580 (877) 382-4357
2. To the extent not included in item 1 above: a. National banks, federal savings associations, and federal branches and federal agencies of foreign banks b. State member banks, branches and agencies of foreign banks (other than federal branches, federal agencies, and Insured State Branches of Foreign Banks), commercial lending companies owned or controlled by foreign banks, and organizations operating under section 25 or 25A of the Federal Reserve Act. c. Nonmember Insured Banks, Insured State Branches of Foreign Banks, and insured state savings associations d. Federal Credit Unions	a. Office of the Comptroller of the Currency Customer Assistance Group 1301 McKinney Street, Suite 3450 Houston, TX 77010-9050 b. Federal Reserve Consumer Help Center P.O. Box 1200 Minneapolis, MN 55480 c. FDIC Consumer Response Center 1100 Walnut Street, Box #11 Kansas City, MO 64106 d. National Credit Union Administration Office of Consumer Financial Protection (OCFP) Division of Consumer Compliance Policy and Outreach 1775 Duke Street Alexandria, VA 22314
3. Air carriers	Asst. General Counsel for Aviation Enforcement & Proceedings Aviation Consumer Protection Division Department of Transportation 1200 New Jersey Avenue, S.E. Washington, DC 20590
4. Creditors Subject to the Surface Transportation Board	Office of Proceedings, Surface Transportation Board Department of Transportation 395 E Street, S.W. Washington, DC 20423
5. Creditors Subject to the Packers and Stockyards Act, 1921	Nearest Packers and Stockyards Administration area supervisor
6. Small Business Investment Companies	Associate Deputy Administrator for Capital Access United States Small Business Administration 409 Third Street, S.W., Suite 8200 Washington, DC 20416
7. Brokers and Dealers	Securities and Exchange Commission 100 F Street, N.E. Washington, DC 20549
8. Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks, and Production Credit Associations	Farm Credit Administration 1501 Farm Credit Drive McLean, VA 22102-5090
9. Retailers, Finance Companies, and All Other Creditors Not Listed Above	Federal Trade Commission Consumer Response Center 600 Pennsylvania Avenue, N.W. Washington, DC 20580 (877) 382-4357

SUMMARY OF RIGHTS UNDER THE FCRA OF VICTIMS OF IDENTITY THEFT

Para informacion en espanol, visite www.consumerfinance.gov/learnmore o escribe a la Consumer Financial Protection Bureau, 1700 G Street N.W., Washington, DC 20552.

Remedying the Effects of Identity Theft

You are receiving this information because you have notified a consumer reporting agency that you believe that you are a victim of identity theft. Identity theft occurs when someone uses your name, Social Security Number, date of birth, or other identifying information, without authority, to commit fraud. For example, someone may have committed identity theft by using your personal information to open a credit card account or get a loan in your name. For more information, visit www.consumerfinance.gov/learnmore or write to: Consumer Financial Protection Bureau, 1700 G Street N.W., Washington, DC 20552.

The Fair Credit Reporting Act (FCRA) gives you specific rights when you are, or believe that you are, the victim of identity theft. Here is a brief summary of the rights designed to help you recover from identity theft.

- 1. You have the right to ask the nationwide consumer reporting agencies place "fraud alerts" in your file to let potential creditors and others know that you may be a victim of identity theft.** A fraud alert can make it more difficult for someone to get credit in your name because it tells creditors to follow certain procedures to protect you. It also may delay your ability to obtain credit. You may place a fraud alert in your file by calling just one of the three nationwide consumer reporting agencies. As soon as that agency processes your fraud alert, it will notify the other two, which then also must place fraud alerts in your file.

- Equifax: 1-800-525-6285; www.equifax.com
- Experian: 1-888-397-3742; www.experian.com
- TransUnion: 1-800-680-7289; www.transunion.com

An initial fraud alert stays in your file for at least 90 days. An extended alert stays in your file for seven years. To place either of these alerts, a consumer reporting agency will require you to provide appropriate proof of your identity, which may include your Social Security Number. If you ask for an extended alert, you will have to provide an identity theft report. An identity theft report includes a copy of a report you have filed with a federal, state, or local law enforcement agency, and additional information a consumer reporting agency may require you to submit. For more detailed information about the identity theft report, visit www.consumerfinance.gov/learnmore.

- 2. You have the right to free copies of the information in your file (your "file disclosure").** An initial fraud alert entitles you to a copy of all information in your file at each of the three nationwide agencies, and an extended alert entitles you to two free file disclosures in a 12-month period following the placing of the alert. These additional disclosures may help you detect signs of fraud, for example, whether fraudulent accounts have been opened in your name or whether someone has reported a change in your address. Once a year, you also have the right to a free copy of the information in your file at any consumer reporting agency, if you believe it has inaccurate information due to fraud, such as identity theft. You also have the ability to obtain additional free file disclosures under other provisions of the FCRA. See www.consumerfinance.gov/learnmore.
- 3. You have the right to obtain documents relating to fraudulent transactions made or accounts opened using your personal information.** A creditor or other business must give you copies of applications and other business records relating to transactions and accounts that resulted from the theft of your identity, if you ask for them in writing. A business may ask you for proof of your identity, a police report, and an affidavit before giving you the documents. It also may specify an address for you to send your request. Under certain circumstances, a business can refuse to provide you with these documents. See www.consumerfinance.gov/learnmore.

4. **You have the right to obtain information from a debt collector.** If you ask, a debt collector must provide you with certain information about the debt you believe was incurred in your name by an identity thief - like the name of the creditor and the amount of the debt.
5. **If you believe information in your file results from identity theft, you have the right to ask that a consumer reporting agency block that information from your file.** An identity thief may run up bills in your name and not pay them. Information about the unpaid bills may appear on your consumer report. Should you decide to ask a consumer reporting agency to block the reporting of this information, you must identify the information to block, and provide the consumer reporting agency with proof of your identity and a copy of your identity theft report. The consumer reporting agency can refuse or cancel your request for a block if, for example, you don't provide the necessary documentation, or where the block results from an error or a material misrepresentation of fact made by you. If the agency declines or rescinds the block, it must notify you. Once a debt resulting from identity theft has been blocked, a person or business with notice of the block may not sell, transfer, or place the debt for collection.
6. **You also may prevent businesses from reporting information about you to consumer reporting agencies if you believe the information is a result of identity theft.** To do so, you must send your request to the address specified by the business that reports the information to the consumer reporting agency. The business will expect you to identify what information you do not want reported and to provide an identity theft report.

To learn more about identity theft and how to deal with its consequences, visit www.consumerfinance.gov/learnmore, or write to the Consumer Financial Protection Bureau. You may have additional rights under state law. For more information, contact your local consumer protection agency or your state Attorney General.

In addition to the new rights and procedures to help consumers deal with the effects of identity theft, the FCRA has many other important consumer protections. They are described in more detail at www.consumerfinance.gov/learnmore.