# Quinte Financial Technologies | FinTech Solutions

**Assignment on**

**ORIGINATION AND SERVICING OF PERSONAL LOANS,**

**AUTO LOANS AND MORTGAGE LOANS**

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# Personal Loan Origination and Servicing

A personal loan is a type of unsecured loan provided by banks, credit unions, or online lenders, which can be used for various personal expenses.

Unlike secured loans, such as mortgages or auto loans, personal loans do not require collateral. The borrower receives a lump sum of money upfront and repays it in fixed monthly installments over a specified period, usually ranging from one to seven years.

**Usage of Personal Loans:**

1. **Debt Consolidation**: Combine multiple high-interest debts into a single loan with a lower interest rate to simplify payments and reduce overall interest costs.
2. **Home Improvements**: Finance home renovation projects, repairs, or upgrades.
3. **Medical Expenses**: Cover unexpected medical bills or elective procedures not covered by insurance.
4. **Major Purchases**: Pay for significant expenses, such as appliances, furniture, or technology.
5. **Weddings and Events**: Fund weddings, vacations, or other large personal events.
6. **Education Expenses**: Pay for tuition, books, or other education-related costs not covered by student loans.
7. **Emergencies**: Access funds quickly for emergencies or unforeseen financial needs.

## Personal Loan Origination:

The origination process for a personal loan involves several steps:

1. **Application Submission**

* **Online or In-Person**: Applicants can apply for a personal loan through various channels, including bank branches, credit unions, or online lenders.
* **Required Information**: Applicants need to provide personal details, including name, address, Social Security number, employment details, and income information.
* **Supporting Documents**: Documents such as pay stubs, tax returns, bank statements, and identification (e.g., driver’s license or passport) may be required.

1. **Credit Check and Review**

* **Credit Assessment**: Lenders check the applicant’s credit report and score to evaluate creditworthiness. This includes reviewing payment history, outstanding debts, and credit utilization.
* **Income Verification**: Lenders verify the applicant's income to ensure they have the capacity to repay the loan. This can involve checking pay stubs, bank deposits, or tax returns.
* **Debt-to-Income Ratio**: Lenders calculate the debt-to-income (DTI) ratio to assess the applicant's financial stability. A lower DTI ratio typically indicates better financial health.

1. **Loan Approval or Denial**

* **Risk Assessment**: Based on the credit and income review, the lender assesses the risk of lending to the applicant. Factors include credit score, DTI ratio, and employment history.
* **Decision**: The lender either approves or denies the loan application. If approved, the lender will provide details of the loan offer, including the loan amount, interest rate, and repayment terms.

1. **Loan Agreement and Signing**

* **Loan Offer**: The lender provides a formal loan offer, outlining the loan terms and conditions, interest rate, repayment schedule, and any fees.
* **Review**: The applicant reviews the loan agreement carefully, understanding the terms, fees, and penalties.
* **Acceptance**: If the applicant agrees to the terms, they sign the loan agreement. This can be done electronically or in person.

1. **Disbursement of Funds**

* **Funds Transfer**: Once the loan agreement is signed, the lender disburses the loan amount to the borrower's bank account.
* **Disbursement Timing**: The time it takes to receive the funds can vary, but many lenders offer quick disbursement, often within a few business days.

1. **Repayment**

* **Monthly Payments**: The borrower is required to make regular monthly payments according to the agreed-upon schedule. These payments typically include both principal and interest.
* **Payment Methods**: Borrowers can choose from various payment methods, such as automatic withdrawals, online payments, or mailed checks.

1. **Early Repayment**: Some loans may have prepayment penalties, while others allow early repayment without additional fees.

**Fees and Charges**

* **Origination Fee**: A fee charged by the lender for processing the loan application, often deducted from the loan amount before disbursement. Usually ranges from 1% to 8% of the loan amount.

**Example: Lending Club charges** 2% to 6% origination fee.

* **Late Payment Fee**: Penalties for missed or late payments. Varies by lender but is typically between $25 and $50 per missed or late payment. Some lenders may charge a percentage of the missed payment amount.

Example: **Avant charges** $25 late payment fee.

* **Prepayment Penalty**: A fee for paying off the loan early, although not all lenders charge this fee. Varies by lender and can be a flat fee or a percentage of the remaining loan balance. Many lenders do not charge this fee.

## Personal Loan Servicing

Personal loan servicing encompasses all the activities and operations involved in managing a personal loan from the moment it is disbursed until it is fully repaid. Effective servicing ensures that the loan is managed smoothly, payments are tracked accurately, and any borrower issues are promptly addressed.

**Key Components of Personal Loan Servicing:**

1. **Payment Processing**
   * **Payment Methods**: Borrowers can make payments through various channels such as online payments, automatic bank withdrawals (ACH), checks, or in-person payments.
   * **Due Dates**: Servicers ensure payments are received by the due dates and apply them correctly to the loan balance.
   * **Late Fees**: If payments are late, the servicer may apply late fees according to the terms of the loan agreement.
2. **Customer Support**
   * **Inquiries**: Servicers handle borrower inquiries related to their loan, such as balance information, payment history, and payoff amounts.
   * **Dispute Resolution**: Addressing any disputes or discrepancies in the borrower's account.
   * **Assistance Programs**: Providing information on hardship programs, payment deferrals, or modifications if the borrower is experiencing financial difficulties.
3. **Account Management**
   * **Record Keeping**: Maintaining accurate records of all payments, balances, and communications.
   * **Statements**: Issuing regular statements to borrowers, detailing their payment history, outstanding balance, and any fees incurred.
   * **Notifications**: Informing borrowers of important updates, such as changes in interest rates (if applicable), upcoming due dates, or any changes to the loan terms.
4. **Loan Modifications and Adjustments**
   * **Forbearance**: Temporary suspension or reduction of payments for borrowers experiencing financial hardship.
   * **Loan Modifications**: Altering the terms of the loan, such as extending the repayment period or reducing the interest rate, to make payments more manageable for the borrower.
5. **Collections**
   * **Delinquency Management**: Contacting borrowers who miss payments to arrange for payment and avoid further delinquency.
   * **Default Management**: If a borrower defaults, the servicer may initiate collections processes or legal actions to recover the outstanding loan balance.
6. **Credit Reporting**
   * **Credit Bureaus**: Reporting the borrower's payment history to credit bureaus, which impacts their credit score.
   * **Accuracy**: Ensuring that the information reported to credit bureaus is accurate and up to date.
7. **Regulatory Compliance**
   * **Federal and State Laws**: Adhering to all relevant regulations and laws, such as the Fair Debt Collection Practices Act (FDCPA) and Truth in Lending Act (TILA).
   * **Privacy**: Protecting the borrower’s personal and financial information in compliance with privacy laws and regulations.
8. **Customer Education**
   * **Financial Literacy**: Providing resources and information to help borrowers understand their loans and manage their finances effectively.
   * **Repayment Strategies**: Advising borrowers on effective strategies for repaying their loans, such as setting up automatic payments or making extra payments when possible.

# Auto Loans Origination and Servicing

An auto loan is a type of secured loan specifically designed for purchasing a vehicle, where the vehicle itself serves as collateral. The borrower agrees to repay the lender the loan amount plus interest over a specified period, typically through monthly payments.

**Usage of Auto Loans:**

1. **Financing Vehicle Purchases:** Auto loans enable individuals to buy new or used vehicles by providing the necessary funds upfront, which the borrower then repays over time.
2. **Loan Terms:** Auto loans typically have fixed terms ranging from 36 to 72 months, with fixed or variable interest rates. The loan term and interest rate can affect the monthly payment amount and the total cost of the loan.
3. **Interest Rates:** Interest rates on auto loans vary based on factors such as the borrower's credit score, loan term, and whether the vehicle is new or used. Average interest rates can range from around 3% for borrowers with excellent credit to over 10% for those with poor credit.
4. **Down Payment:** A down payment is often required for an auto loan, which reduces the loan amount and can result in lower monthly payments. The down payment amount typically ranges from 10% to 20% of the vehicle's purchase price.
5. **Loan Amounts:** Auto loan amounts can vary widely based on the price of the vehicle and the borrower's creditworthiness. The average auto loan amount in the U.S. was approximately $34,000 for new cars and $21,000 for used cars as of recent data.
6. **Lender Types:** Auto loans can be obtained from various lenders, including banks, credit unions, online lenders, and dealership financing arms. Each lender may offer different terms, rates, and conditions.
7. **Repayment:** Repayment of auto loans typically involves fixed monthly payments over the loan term. Early repayment may be possible, but some loans may include prepayment penalties.
8. **Default and Repossession:** If a borrower defaults on an auto loan, the lender has the right to repossess the vehicle. This serves as a risk mitigation factor for lenders since the loan is secured by the vehicle itself.

* **Common Loan Terms:** Common terms are 36, 48, 60, and 72 months..
* **Average Loan Amounts:** Approximately $34,000 for new cars and $21,000 for used cars.
* **Delinquency Rates:** As of recent reports, the delinquency rate for auto loans was around 2.35%.

## Auto Loan Origination

Auto loan origination is the process through which a borrower applies for and obtains an auto loan. This process involves several steps:

**1. Pre-Qualification**

* **Credit Check:** Before applying, borrowers often check their credit scores to understand their eligibility and potential interest rates.
* **Pre-Qualification Offers:** Many lenders offer pre-qualification, which involves a soft credit check to provide an estimate of the loan amount and interest rate the borrower might qualify for.

**2. Loan Application**

* **Submitting an Application:** Borrowers complete a loan application with details such as personal information, employment status, income, and the desired loan amount.
* **Documentation:** Required documents typically include proof of income (pay stubs, tax returns), proof of residence, and identification.

**3. Loan Approval Process**

* **Credit Evaluation:** The lender performs a hard credit check to assess the borrower’s creditworthiness, looking at credit score, credit history, debt-to-income ratio, and other factors.
* **Loan Terms Determination:** Based on the credit evaluation, the lender determines the loan terms, including the interest rate, loan amount, and repayment period.

**4. Vehicle Selection**

* **Choosing a Vehicle:** Borrowers select a vehicle that meets the lender’s criteria, including new or used vehicles, and sometimes specific age and mileage restrictions.
* **Vehicle Valuation:** Lenders may require an appraisal or use a valuation service like Kelley Blue Book to determine the vehicle’s market value.

**5. Loan Approval and Agreement**

* **Final Approval:** Once the vehicle is selected and its value confirmed, the lender gives final loan approval.
* **Loan Agreement:** The borrower and lender sign a loan agreement outlining the loan amount, interest rate, repayment schedule, and terms and conditions.

**6. Down Payment and Fees**

* **Down Payment:** Borrowers typically make a down payment, which reduces the loan amount. The down payment usually ranges from 10% to 20% of the vehicle’s purchase price.
* **Origination Fees:** Some lenders charge origination fees, which are upfront fees for processing the loan. These fees can vary but are generally a percentage of the loan amount.

**7. Disbursement of Funds**

* **Payment to Dealer:** The lender disburses the loan amount directly to the vehicle dealer. This payment, combined with the borrower’s down payment, completes the vehicle purchase.

**8. Loan Servicing**

* **Repayment Schedule:** The borrower begins making monthly payments as per the loan agreement.
* **Account Management:** The lender or loan servicer manages the loan account, tracks payments, handles inquiries, and provides customer support.
* **Average Loan Amounts:** As of recent data, the average auto loan amount in the U.S. is approximately $34,000 for new cars and $21,000 for used cars.
* **Approval Rates:** According to recent industry reports, auto loan approval rates can vary, with prime borrowers (excellent credit) having approval rates over 90%, while subprime borrowers (poor credit) have approval rates around 50% or lower.

## Auto Loan Servicing

Auto loan servicing involves managing an auto loan from the moment it is disbursed until it is fully repaid. This process includes tracking payments, providing customer support, handling delinquencies, and ensuring regulatory compliance. Here’s a detailed breakdown:

**1. Payment Processing**

* **Payment Methods:** Borrowers can make payments through various channels, such as online payments, automatic bank withdrawals (ACH), checks, or in-person payments at bank branches or affiliated locations.
* **Due Dates:** Servicers ensure that payments are received by the due dates and are applied correctly to the loan balance.
* **Payment Allocation:** Payments are typically allocated to interest, principal, and any fees in a specified order.
* **Late Fees:** If payments are late, servicers apply late fees according to the terms of the loan agreement.

**2. Customer Support**

* **Inquiries:** Servicers handle borrower inquiries related to their loan, such as balance information, payment history, and payoff amounts.
* **Dispute Resolution:** Addressing any disputes or discrepancies in the borrower's account, such as incorrect payment postings or charges.
* **Assistance Programs:** Providing information on hardship programs, payment deferrals, or modifications if the borrower is experiencing financial difficulties.

**3. Account Management**

* **Record Keeping:** Maintaining accurate records of all payments, balances, and communications.
* **Statements:** Issuing regular statements to borrowers, detailing their payment history, outstanding balance, and any fees incurred.
* **Notifications:** Informing borrowers of important updates, such as changes in interest rates (if applicable), upcoming due dates, or any changes to the loan terms.

**4. Loan Modifications and Adjustments**

* **Forbearance:** Temporary suspension or reduction of payments for borrowers experiencing financial hardship.
* **Loan Modifications:** Altering the terms of the loan, such as extending the repayment period or reducing the interest rate, to make payments more manageable for the borrower.

**5. Collections**

* **Delinquency Management:** Contacting borrowers who miss payments to arrange for payment and avoid further delinquency.
* **Default Management:** If a borrower defaults, the servicer may initiate collections processes or legal actions to recover the outstanding loan balance.
* **Repossession:** In case of default, the servicer may repossess the vehicle, which serves as collateral for the loan.

**6. Credit Reporting**

* **Credit Bureaus:** Reporting the borrower’s payment history to credit bureaus, which impacts their credit score.
* **Accuracy:** Ensuring that the information reported to credit bureaus is accurate and up to date.

**7. Regulatory Compliance**

* **Federal and State Laws:** Adhering to all relevant regulations and laws, such as the Fair Debt Collection Practices Act (FDCPA) and Truth in Lending Act (TILA).
* **Privacy:** Protecting the borrower’s personal and financial information in compliance with privacy laws and regulations.

**8. Customer Education**

* **Financial Literacy:** Providing resources and information to help borrowers understand their loans and manage their finances effectively.
* **Repayment Strategies:** Advising borrowers on effective strategies for repaying their loans, such as setting up automatic payments or making extra payments when possible.
* **Repossession Rates:** The annual auto loan repossession rate varies but typically ranges between 0.5% to 1%.
* **Average Loan Term:** The average loan term for auto loans is approximately 69 months for new cars and 65 months for used cars.
* **Interest Rates:** Average interest rates for auto loans vary based on credit scores, with prime borrowers seeing rates around 3%-5%, while subprime borrowers may face rates of 10% or higher.
* **Average Loan Balance:** The average auto loan balance was about $18,000 to $30,000, depending on whether the loan is for a new or used vehicle.

# Mortgage Loans

A mortgage loan is a type of secured loan specifically used to purchase or refinance real estate, where the property itself serves as collateral. The borrower agrees to repay the lender the loan amount plus interest over a specified period, typically through monthly payments. If the borrower defaults, the lender has the right to foreclose on the property.

**Usage:**

1. **Home Purchases:** Mortgage loans enable individuals to buy residential properties without paying the full purchase price upfront.
2. **Refinancing:** Homeowners can refinance existing mortgage loans to:
   * Take advantage of lower interest rates.
   * Reduce monthly payments.
   * Shorten the loan term.
   * Access home equity for other financial needs.
3. **Home Equity Loans:** Homeowners can leverage the equity built in their properties to obtain home equity loans or lines of credit (HELOCs) for:
   * Home improvements.
   * Debt consolidation.
   * Education expenses.
   * Other financial needs.
4. **Commercial Real Estate:** Businesses use commercial mortgage loans to:
   * Purchase commercial properties.
   * Refinance existing commercial real estate loans.
   * Develop new commercial properties.
5. **Investment Properties:** Individuals and companies can obtain mortgage loans to buy investment properties for:
   * Generating rental income.
   * Achieving capital gains through property appreciation.
6. **Government-Backed Loans:**
   * FHA Loans: Provide options for low-to-moderate income borrowers to purchase homes with lower down payments and credit score requirements.
   * VA Loans: Offer eligible veterans, active-duty service members, and certain National Guard and Reserve members favorable loan terms with no down payment requirements.
7. **Conventional Loans:** Non-government-insured loans typically requiring higher credit scores and larger down payments, used for both primary residences and investment properties.

**Mortgage Loan Types:**

* **Fixed-Rate Mortgages:** The interest rate remains constant throughout the life of the loan, providing predictable monthly payments.
* **Adjustable-Rate Mortgages (ARMs):** The interest rate can change periodically based on an index, leading to variable monthly payments.
* **FHA Loans:** Government-backed loans insured by the Federal Housing Administration, designed for low-to-moderate income borrowers.
* **VA Loans:** Loans guaranteed by the Department of Veterans Affairs, available to eligible veterans, active-duty service members, and certain members of the National Guard and Reserves.
* **Conventional Loans:** Loans that are not insured or guaranteed by the government, typically requiring higher credit scores and larger down payments.

**Mortgage Loan Statistics:**

* **Average Loan Amount:** As of recent data, the average mortgage loan amount in the U.S. is approximately $350,000.
* **Interest Rates:** Average interest rates for 30-year fixed-rate mortgages have been around 3% to 4% in recent years, though rates can vary based on economic conditions and borrower creditworthiness.
* **Down Payment:** Typical down payments range from 3% for FHA loans to 20% for conventional loans. Some programs, such as VA loans, offer no down payment options.
* **Homeownership Rate:** The homeownership rate in the U.S. was approximately 65% as of the latest census data.

## Mortgage Loan Origination

Mortgage loan origination is the process by which a borrower applies for and secures a mortgage to purchase or refinance a property. This process involves several steps:

**1. Pre-Qualification and Pre-Approval**

* **Pre-Qualification:**
  + **Initial Assessment:** Borrowers provide basic financial information to get an estimate of how much they might be able to borrow.
  + **Soft Credit Check:** Lenders may perform a soft credit check to provide preliminary loan terms.
* **Pre-Approval:**
  + **Detailed Application:** Borrowers submit a more detailed application with information on income, assets, debts, and employment history.
  + **Credit Check:** Lenders perform a hard credit check to assess creditworthiness.
  + **Conditional Approval:** Based on the evaluation, lenders provide a pre-approval letter stating the loan amount the borrower is likely to qualify for, subject to certain conditions.

**2. Loan Application**

* **Formal Application:** Borrowers complete a formal mortgage application, often using a standardized form like the Uniform Residential Loan Application (URLA).
* **Documentation:** Required documents typically include:
  + Proof of income (pay stubs, tax returns, W-2 forms).
  + Bank statements.
  + Employment verification.
  + Identification.
  + Details of the property being purchased or refinanced.

**3. Processing**

* **Document Verification:** Lenders verify the accuracy of the submitted documents and information.
* **Appraisal:** An independent appraisal of the property is conducted to determine its market value.
* **Title Search:** A title company or attorney conducts a title search to ensure there are no liens or issues with the property’s title.

**4. Underwriting**

* **Risk Assessment:** Underwriters evaluate the borrower’s creditworthiness and the property’s value to determine if the loan should be approved.
* **Debt-to-Income Ratio:** Lenders assess the borrower’s debt-to-income (DTI) ratio to ensure they can afford the mortgage payments.
* **Conditions:** The underwriter may issue conditions that need to be met before final approval, such as additional documentation or debt repayment.

**5. Approval and Commitment**

* **Loan Approval:** Once underwriting is complete and any conditions are met, the loan is approved.
* **Commitment Letter:** The lender issues a commitment letter outlining the terms of the loan, including the interest rate, loan amount, repayment schedule, and any closing conditions.

**6. Closing**

* **Closing Disclosure:** Borrowers receive a Closing Disclosure at least three days before closing, detailing the final loan terms and costs.
* **Closing Meeting:** Borrowers, lenders, and other parties meet to sign the final loan documents.
* **Funds Disbursement:** The lender disburses the loan funds to the seller or existing lender, and the borrower takes possession of the property.
* **Recording:** The mortgage and property deed are recorded with the appropriate government office to finalize the transaction.

**7. Post-Closing**

* **Servicing:** The lender or a third-party servicer manages the loan, including processing payments, handling inquiries, and managing escrow accounts.
* **Escrow Accounts:** Escrow accounts may be set up to manage property taxes and insurance payments.
* **Credit Scores:** The average credit score for approved mortgage applicants is typically above 720.
* **Loan Approval Rate:** Approximately 70-80% of mortgage applications are approved, though this varies by lender and borrower profile.

## Mortgage Loan Servicing

Mortgage loan servicing involves managing a mortgage loan from the time it is disbursed until it is fully repaid. This process includes collecting payments, managing escrow accounts, providing customer service, handling delinquencies, and ensuring compliance with regulatory requirements. Here’s a detailed breakdown:

**1. Payment Processing**

* **Payment Methods:** Borrowers can make payments through various channels such as online banking, automatic bank withdrawals (ACH), checks, or in-person payments at bank branches.
* **Payment Allocation:** Payments are allocated to interest, principal, and any escrow accounts for taxes and insurance.
* **Due Dates:** Ensuring payments are received by the due date specified in the loan agreement.
* **Late Fees:** If payments are late, late fees are assessed according to the terms of the loan agreement.

**2. Escrow Account Management**

* **Property Taxes:** Servicers collect a portion of the mortgage payment to cover property taxes and make payments to the taxing authorities on behalf of the borrower.
* **Homeowner’s Insurance:** Servicers also collect funds for homeowner’s insurance and pay the insurance premiums.
* **Escrow Analysis:** Conducting periodic analyses to ensure enough funds are being collected and making adjustments as necessary.

**3. Customer Support**

* **Inquiries:** Handling borrower inquiries related to their mortgage, such as payment history, account balance, and escrow account details.
* **Dispute Resolution:** Addressing any disputes or discrepancies in the borrower’s account, such as incorrect payment postings or charges.
* **Assistance Programs:** Providing information on hardship programs, payment deferrals, or modifications if the borrower is experiencing financial difficulties.

**4. Account Management**

* **Record Keeping:** Maintaining accurate records of all payments, balances, escrow transactions, and communications.
* **Statements:** Issuing regular statements to borrowers detailing their payment history, outstanding balance, and any fees incurred.
* **Notifications:** Informing borrowers of important updates, such as changes in interest rates (if applicable), upcoming due dates, or changes to loan terms.

**5. Delinquency Management**

* **Contacting Borrowers:** Reaching out to borrowers who miss payments to arrange for payment and avoid further delinquency.
* **Loan Workout Options:** Offering solutions such as forbearance, repayment plans, or loan modifications to help borrowers get back on track.
* **Foreclosure:** If the borrower cannot make payments, the servicer may initiate foreclosure proceedings to recover the loan balance.

**6. Credit Reporting**

* **Credit Bureaus:** Reporting the borrower’s payment history to credit bureaus, which impacts their credit score.
* **Accuracy:** Ensuring that the information reported to credit bureaus is accurate and up to date.

**7. Regulatory Compliance**

* **Federal and State Laws:** Adhering to all relevant regulations and laws, such as the Real Estate Settlement Procedures Act (RESPA), the Fair Debt Collection Practices Act (FDCPA), and the Truth in Lending Act (TILA).
* **Privacy:** Protecting the borrower’s personal and financial information in compliance with privacy laws and regulations.
* **Consumer Protection:** Complying with regulations set by the Consumer Financial Protection Bureau (CFPB) and other regulatory bodies to ensure fair treatment of borrowers.

**8. Customer Education**

* **Financial Literacy:** Providing resources and information to help borrowers understand their mortgages and manage their finances effectively.
* **Repayment Strategies:** Advising borrowers on effective strategies for repaying their loans, such as setting up automatic payments or making extra payments when possible.
* **Processing Time:** The average time to close a mortgage loan is about 30 to 45 days, depending on various factors such as lender efficiency and borrower preparedness.
* **Foreclosure Rates:** The foreclosure rate has been around 0.5% to 1%, varying with economic conditions.
* **Escrow Accounts:** Around 80% of U.S. mortgages include escrow accounts for taxes and insurance.

Thank You