Mortgage Basics

Overview

This document provides a brief introduction, at a high level, to the basic mortgage process and terminology.

What is a Mortgage Loan?

A residential mortgage loan is a loan to help individuals or families purchase a home. The lender advances a certain amount of money, which is then expected to be repaid within an agreed-up time frame.

Typically this is done through monthly mortgage payments. The payments are for more than the actual amount borrowed. The payment includes principal, interest, taxes, and insurance (PITI).

Term	Definition
Principal	The balance of the loan, excluding interest.
Interest	A fee charged to the borrower for the borrowing the money.
Taxes	Money collected to pay property tax.
Insurance	Money collected to pay insurance premium.

**PITI may also include Homeowners Association Dues, if applicable. These fees are generally not escrowed by the servicing lender but must be included in the Housing Expense Ratio when qualifying your borrower. You will see Association dues on these types of properties. Attached or Detached Condominiums, Attached or Detached Planned Unit Developments (PUD's).

Mortgage Banker

A mortgage banker is an individual, firm, or corporation that originates, sells, and/or services loans secured by mortgages on property.

Wells Fargo Home Lending is considered a mortgage banker.

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Mortgage Basics, Continued

How We Make Our Money

Mortgage companies, including Wells Fargo, make the majority of their money through three primary avenues, described in the table below.

Avenue	Description
Primary Market/ Retail	The primary market, sometimes called retail, makes money for mortgage companies by charging the borrower a fee known as an origination fee. The fee is charged for processing the loan. The fees range from 1 to 3 percent of the loan amount. The origination fee includes: ▪ Preparing documents ▪ Completing credit checks ▪ Paying for recording fees ▪ Appraising property
Secondary Market	When mortgage companies package and sell pools of loans to an investor, they are conducting business in the secondary market. When these pooled loans are sold at prices greater than the price at the time of origination, the mortgage company makes a profit. The secondary market exists because mortgage lenders would eventually run out of money by strictly lending money. Mortgage lenders sell loans to generate funds, which allows them to continue lending money to new borrowers. Some key investors in the secondary market are: ▪ Ginnie Mae ▪ Fannie Mae ▪ Freddie Mac ▪ Private Investors
Loan Servicing	The loan servicing division charges a fee for their services. This fee is charged for providing all of the services necessary to maintain the loan. The services include processing payments, paying taxes, delinquent accounts, investor reports, and many others. Another way in which the servicing division makes money is the sale of servicing rights. This happens when a company or investor is looking to buy a group or pool of loans. The company or investor contacts the mortgage company with their request. The prices to sell the group of loans are established in order for the mortgage company to make a profit.

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