

Mortgage Lending Principles and Practices (4th Edition)

Exercise / Activity Solutions

Module 2: Loan Origination

Mortgage Exercise 3-1 (Chapter 3)

1. $\$18 \text{ hourly wage} \times 40 \text{ hours in a week} \times 52 \text{ weeks} = \$37,440 \text{ annual income}$
 $\$37,440 \text{ annual income} \div 12 \text{ months} = \$3,120 \text{ Mrs. Zorn's monthly income}$
 $\$625 \text{ weekly income} \times 52 \text{ weeks} = \$32,500 \text{ annual income}$
 $\$32,500 \text{ annual income} \div 12 \text{ months} = \$2,708.33 \text{ Mr. Zorn's monthly income}$
 $\$3,120 + \$2,708.33 = \$5,828.33 \text{ total stable monthly income}$
 $\$5,828.33 \times 0.28 = \$1,631.93 \text{ maximum housing expense}$
2. $\$5,828.33 \times 0.36 = \$2,098.20 \text{ maximum debt-to-income allowed}$
 $\$2,098.20 - \$400 \text{ (car loan)} = \$1,698.20 \text{ maximum housing expenses allowed}$
Remember to use the lower monthly payment allowable, which is \$1,631.93.
3. Yes, although Lisa and Dave have only been at their jobs a short time, Lisa had special training in the Air Force, and Dave is a vocational nurse, which also implies special training.

Mortgage Exercise 3-2 (Chapter 3)

1. $\$700 \text{ weekly income} \times 52 \text{ weeks} = \$36,400 \text{ annual income}$
 $\$36,400 \text{ annual income} \div 12 \text{ months} = \$3,033.33 \text{ monthly income}$
 $\$878 \text{ mortgage payment} \div \$3,033.33 \text{ monthly income} = 0.29 \text{ (29\% housing expense ratio)}$
2. $\$878 \text{ mortgage payment} + \$212 \text{ auto payment} = \$1,090 \text{ total debt service}$
 $\$1,090 \text{ total debt-to-income} \div \$3,033.33 \text{ monthly income} = 0.36 \text{ (36\% total debt-to-income ratio)}$
3. Yes, Mr. Able will have a few problems closing this transaction. The equity in his home (\$14,000) plus money in the bank (\$3,600) equals only \$17,600, but his down payment plus estimated closing costs = \$18,400. He must be able to provide documentation that he has two additional months of cash reserves available, and his housing expense ratio of 29% exceeds guidelines.
4. Yes, Mr. Able's Verification of Deposit is a problem because his current balance of \$3,600 is significantly higher than his average balance of \$1,000. He will need to have a good explanation of where the funds came from so the lender knows that he did not borrow the down payment.

Chapter 3 Quiz

1. a
2. d
3. d
4. c
5. c
6. b
7. a
8. b
9. b
10. a