Chapter 11

Mortgage Markets & Lenders

Chapter 11 Goals:

- Required preparation before presenting the offer
- Dealing with competing offers
- Countering the seller and how to maximize the odds of closing
- Presenting purchase agreements to owners/sellers
- Dealing with objections from the buyer, seller, or other agent
- Managing the transaction throughout the duration of engagement
- Closing in unfavorable circumstances
- Using checklists to close escrow

Chapter 11: Mortgage Markets & Lenders

Key Terms

annual percentage rate (APR) California Housing Finance Agency (CalHFA) central bank commercial bank conforming loan controlled business arrangement credit union direct lender discount rate Equal Credit Opportunity Act Fannie Mae Fair Credit Reporting Act Federal Reserve Freddie Mac Ginnie Mae	good faith estimate (GFE) government securities Home Affordable Modification Program (HAMP) institutional lender jumbo loan lending institution life insurance companies mortgage mortgage banker mortgage broker Mortgage Loan Disclosure Statement mortgage securities mortgage warehousing nonconforming loan	non-institutional lender non-institutional loan participation loan pension fund portfolio loan predatory lending primary financing primary mortgage market Real Estate Investment Trust (REIT) Real Estate Settlement Procedures Act (RESPA) right of rescission savings association secondary financing secondary mortgage market Truth in Lending Act (TILA)

Chapter Overview

In this chapter, readers will learn about:

- The Federal Reserve and how it affects the mortgage market
- Primary vs. secondary mortgage markets
- The institutions Fannie Mae, Freddie Mac, and Ginnie Mae
- Institutional vs. non-institutional lenders
- Mortgage market regulations

Federal Reserve

The **Federal Reserve** is the **central bank** of the United States that controls the country's money supply and governs its monetary policy. It is a quasi-private, non-public institution that is run independently of the government.

Among the Federal Reserve's primary functions are:

- *Discount Rate.* The Federal Reserve provides loans to member banks that those banks use to lend to borrowers. The interest rate that the Federal Reserve charges for its loans is known as the **discount rate**. The Reserve adjusts the discount rate based on current and forecasted market trends. The discount rate has a ripple effect on the interest rates charged by member banks on their loans to borrowers.

- *Currency Creation.* The Federal Reserve is responsible for creating U.S. currency and dictating the amount of money that is available in the economy at any given time. Population size, average population age, birth and death rates, and employment rates greatly affect the speed at which the Reserve creates new currency.
- *Open Market Transactions*. The Federal Reserve affects the flow of money into the economy based on how many **government securities** it purchases. A government security is bond permitted by the government whose purchase is a promise by the government to repay the debt upon maturation of the bond. Bonds are considered low risk because they are backed by the credit of the United State's which can tax consumers and taxpayers to repay the government security. Government securities are sold in auctions to investors who later buy and sell these securities. The availability of government securities affect the economy, interest rates, the value of stocks, and money supply.
- The more securities the Federal Reserve purchases, the more money there is in the economy. Too much money spent, however, can have an adverse affect and increase inflation. The Federal Reserve must therefore strike a delicate balance between creating sustainable growth and creating inflation.
- *Bank Reserve Requirements***.** The Federal Reserve can alter reserve requirements for member banks. The stricter the requirements, the less money that flows into the market.

The fewer funds available in the economy as a result of the Federal Reserve's discount rate, currency creation, and open market transactions, the higher interest rates become.

The Federal Reserve and the Mortgage Market

The growth of the real estate market and the overall economy is directly connected to the mortgage loan market.

Large industries rely on the capital provided by loans in order to conduct business; without financing from lenders, most residential buyers would not have the ability to purchase homes.

The Federal Reserve has the difficult task of balancing growth and inflation in the mortgage market. The main way it does this is by adjusting the interest rate: the higher the rate, the less likely consumers are to borrow; the lower the rate, the more likely consumers are to borrow.

For example, after the real estate collapse of 2008, the Federal Reserve drastically reduced interest rates to historic lows in order to encourage consumers to borrow.

The Mortgage Market

A **mortgage** is a loan provided to a borrower by a lender in exchange for the borrower paying back the principal loan amount with interest. Mortgage financing is at the cornerstone of residential real estate purchases.

Primary financing refers to the first mortgage recorded for a property, or the loan that has first priority in the event of a foreclosure. The interest rates for first mortgages are typically lower than the interest rates for other loans.

Secondary financing refers to any loan that does not have first priority in the event of foreclosure. As the loan market is predicated on risk, and being a second loan holder is riskier in the event of foreclosure, second loans generally have higher interest rates than first loans.

The **primary mortgage market** refers to any loans (first or second) that a lender provides directly to a borrower. This includes mortgage brokers, banks, direct lenders, and credit unions.

A **portfolio loan** is a loan that a lender does not sell. Unlike conforming loans, which are often sold to other lenders on the secondary mortgage market, a lender originates a portfolio loan and remains the note holder for the life of the loan.

The **secondary mortgage market** refers to any loans that are sold by one lender to another lender or investor. Such loans can be sold individually or they can be packaged with a bulk of other loans and sold to other lenders. This practice is common throughout the real estate world.

Secondary Mortgage Market

The secondary mortgage market is largely comprised of three entities:

- Fannie Mae
- Freddie Mac
- Ginnie Mae

All three entities play a large role in creating a secondary mortgage marketplace for primary loans to be sold to new buyers. They are also important stabilizing forces in the overall economy.

Fannie Mae

The Federal National Mortgage Association – more commonly known as **Fannie Mae** – is a government-sponsored enterprise that incentivizes growth in the secondary mortgage market.

Fannie Mae was founded in 1938 to increase borrower access to capital and expand home ownership during the Great Depression. Fannie Mae became a privately owned company in 1968 and went public in 1970.

Nowadays, Fannie Mae helps stimulate lending activity by buying government-insured mortgages (such as FHA and VA loans) and guaranteeing their performance. This helps provide stability to an otherwise unstable mortgage market.

Guaranteeing loan performance lessens the level of risk, which incentivizes local and national lenders to provide more loans. If a lender's loan goes into default, Fannie Mae typically subsidizes some or all of the lender's lost investment.

Freddie Mac

The Federal Home Loan Mortgage Corporation – more commonly known as **Freddie Mac** – was created in 1970. A government-sponsored enterprise, its purpose is to buy old mortgages and resell them as mortgage-backed securities to investors.

Freddie Mac directly increases the supply of money into the economy: it provides local and national lenders with more access to capital, which allows them to provide more new loans to borrowers.

Ginnie Mae

The Government National Mortgage Association – more commonly known as **Ginnie Mae** – was created in 1968 to promote home ownership for high-risk borrowers who would otherwise have little access to capital.

Ginnie Mae incentivizes approved banks and lenders to provide riskier loans by guaranteeing that they will receive principal and interest payments on those loans.

Ginnie Mae is a government-owned entity under the Department of Housing and Urban Development (HUD).

Conforming Loans

If a mortgage loan adheres to the guidelines put forth by Fannie Mae and Freddie Mac, it is known as a **conforming loan**. Such guidelines include:

- Must be a single-family residence
- Must be either a 15-year or 30-year fixed loan
- Maximum loan amount of $417,000
- the size of the loan, the type of property being financed (must be a single-family residence), and requirements surrounding a borrower's LTV, credit score, income, and debt-to-income ratio.

Any loan amount above $417,000 is considered a **jumbo loan**. Jumbo loans carry higher interest rates and more qualifications than conforming loans.

If a loan does not meet these guidelines, it is considered a **nonconforming loan**. Nonconforming loans have higher interest rates because of the risk associated with funding them.

Criticism

Although the practice of guaranteeing risky loans is well intentioned, critics argue that it creates an unstable system in which too many borrowers with a high risk of default are approved for loans. These critics cite the 2008 real estate collapse and ensuing recession as evidence. The risky loans approved by Fannie Mae and Freddie Mac created huge losses for taxpayers.

Lenders

Being well versed in financing allows an agent to better assist his or her clients. Therefore, an agent should be aware of local and national lenders that offer loans to specific buyers.

Various types of lenders provide mortgages to borrowers for home purchases:

- ***Direct Lender***. A group of investors that funds loans based on relative risk measures, such as current or projected equity.

- ***Lending Institution***. Most lending institutions do not use their own money when lending to borrowers; rather, they use private investor's capital in the form of bank or investment deposits to lend money on their behalf.
- ***Mortgage Securities***. Mortgage securities are bought and sold by investors on the open market. Mortgage security buyers purchase loan notes based on the projected risk/reward ratio of lending money to borrowers.

Each lender has specific qualification guidelines. Furthermore, every lender has the ability to offer various loan programs with different interest rates to different buyer types (i.e. primary residence, investment property).

These types of lenders fall under two categories:

- Institutional lenders
- Non-institutional lenders

Traditionally, institutional lenders are best suited for borrowers who meet standard loan qualifications, whereas non-institutional lenders are better suited for borrowers with unique financial circumstances. **Non-institutional loans** are typically creative mortgage programs that give borrowers with subpar credit or low down payments the ability to qualify for a mortgage.

Institutional Lenders

The overwhelming majority of loans originate from institutional lenders.

An **institutional lender** is a large investment group that invests a significant amount of investor capital into purchasing or originating mortgage loans. A group can only become an institutional lender when it has originated such a significant number of loans as to affect the overall health of the economy.

The government regulates institutional lenders. Government officials do not directly approve or reject loans; rather, they create and enforce mortgage rules, regulations, and guidelines that protect the interests of both lenders and consumers.

Institutional lenders include:

- Commercial banks
- Savings associations
- Life insurance companies

Commercial Banks

Commercial banks are institutions that offer a vast network of financial services to the general public. This includes providing savings and checking accounts to servicing credit cards.

Loans originating from commercial banks tend to have lower rates than other institutional lenders.

Commercial banks offer a wide variety of mortgage programs. Having a diverse set of mortgage products allows commercial banks to reach a wide audience of qualified borrowers who need specific programs to best meet their needs.

Commercial bank mortgage programs include:

- First-time homeowner loans
- Investor loans
- Developer loans
- Re-financing loans
- Construction loans

As many prospective borrowers already use a bank for a financial service, the bank is typically the first place they go when applying for a mortgage.

A pre-existing relationship between a borrower and a bank means that the bank is already familiar with the borrower's financial history. This familiarity dramatically reduces a bank's risk of funding a loan and can serve as a major qualification for approving a borrower.

Savings Associations

Savings associations – also known as "thrifts" or "S&Ls" – are financial institutions that fund consumer loans.

Prior to the 1980s, savings associations provided the majority of mortgages in the United States. Between the mid-1980s and mid-1990s, however, many savings associations began shifting away from conservative lending practices. They replaced lower risk, lower yield investments with higher risk, higher yield investments.

Consequently, savings associations lost a significant amount of money. By the late 1990s, almost half of all savings associations nationwide had failed.

Since then, banks have become the primary lender for residential real estate loans.

Life Insurance Companies

Life insurance companies are large institutions that provide commercial lending capital. They contribute roughly 10% of the overall outstanding commercial loan debt in the United States.

Life insurance companies typically provide long-term investments in the form of 20-year or 30-year mortgages. These loans fund large commercial ventures, including hotels, skyscrapers, malls, shopping centers, and large residential complexes.

The vast majority of life insurance companies have a conservative lending strategy. They tend to fund long-term loans at lower rates instead of risky, short-term projects. These relatively low risk investments may not generate lucrative gains, but they provide consistent gains for insurance companies and their shareholders.

Life insurance companies may also suggest or require a partnership between them and a prospective buyer. In this case, the insurance company becomes acquires a stake in a property for the purpose of long-term investment. In return, buyers have access to a substantial amount of capital to develop expensive projects that would otherwise not have been possible. This is known as a **participation loan**.

The practices guiding life insurance companies are governed by the state in which the property resides.

Non-Institutional Lenders

Non-institutional lenders are private lenders that do not accept deposits from the general public and are not regulated by the government.

With more freedom than institutional lenders, these lenders have the ability to offer innovative or creative mortgage products to borrowers. In many instances, borrowers who have a difficult time proving income or who have bad credit can qualify for loans from non-institutional lenders.

Non-institutional lenders include:

- Credit unions
- Pension funds
- Real estate investment trusts (REITs)
- Mortgage companies

Credit Unions

A **credit union** is a member-owned community bank that provides financial services and competitive loans to its members. They provide loans on primary residences, investment loans, constructions loans, and others.

As the mortgage market has shifted and many banks have gone out of business, credit unions have taken a larger role in the loan origination market. Although they only offer loans to members, credit unions have consistently increased their funding of mortgages and are constantly looking for new strategies to enter the loan market.

Pension Funds

A **pension fund** is a fund into which an employee makes payments during his or her years of employment and later draws payments to support his or her retirement.

Historically, most pension funds invest an employee's money into the purchase of stocks and annuities. However, many pensions funds have expanded into the real estate market. Unlike the volatile stock and annuity markets, the real estate market offers more long-term stability and safer investment growth.

Real Estate Investment Trust (REIT)

A **real estate investment trust (REIT)** is an investment tool that give investors of all income levels the ability to combine their capital investments with other investors to purchase income-generating property or mortgages leveraged by real property.

REITs enable investors to own a percentage of a property without the liability associated with buying, developing, or financing real estate. This allows inexperienced investors of minimal means to invest in an asset that traditionally increases in value over time.

The requirements of a valid REIT are:

- Must have at least 100 investors
- A minimum of 75% of the REIT's assets must be invested into real estate (either real property and real estate mortgages)

Each REIT engages in different types of business.

Some trusts invest capital for the sole purpose of creating long-term income. These long-term investments usually involve the funding of 20-, 30-, or 40-year fixed mortgages or the development of apartment buildings with the intent of collecting rental income.

Short-term REIT business models involve funding high risk/high reward loans or developing land to sell.

Mortgage Companies

Mortgage companies provide more loans in California than any other lending institution.

Unlike banks, which provide many financial services, mortgage companies focus solely on originating, managing, buying, and/or selling mortgages.

This means that mortgage companies are particularly adept at finding creative financing solutions for borrowers who would not be qualified by most commercial lenders or those in specific financial circumstances. For example: first-time home buyers, retirees, borrowers who need help proving income, low down payment situations.

Typically, mortgage companies fund mortgage loans with the intention of selling them on the secondary loan market in the near future. In this case, they do not originate a loan for themselves, but rather, they initiate a loan on behalf of other mortgage professionals. (For this reason, mortgage companies rarely originate loans that do not conform to Freddie Mac or Fannie Mae guidelines. This is because many of the companies to which they sell their loans conform to Freddie Mac and Fannie Mae guidelines.)

Under this situation, a mortgage company makes money by charging points or fees for the cost of originating a loan.

Mortgage companies may also originate and service loans over the long-term and charge interest on the loan. In this case, the mortgage company may have a **mortgage warehousing** partnership with a group of investors or large organizations that provides capital to manage the loans. A mortgage warehouse line of credit is when financial institutions permit mortgage lenders the right to approve borrower's credit on behalf of the financial institution. Its purpose is to increase the amount of loans funded based on the financial institutions approval guidelines. Once loans have been funded, lenders typically sale the mortgages to other lenders to pay off the financial institution.

Mortgage Broker

A **mortgage broker** is a mortgage professional that finds and qualifies borrowers for the most competitive mortgage loans that best meet their needs. They match borrowers with lenders and act as an intermediary between them.

Mortgage brokers are not tied to any one lender. They have access to all lender programs and are experts in comparing them. Their unique insights into various banks, programs, and qualifications give them the ability to procure borrowers the best loan and interest rate.

Mortgage brokers typically specialize in a particular type of mortgage.

- *Retail Lending*. Mortgage brokers assist individuals and small businesses with their mortgage needs. Most loan brokers fall under this category.
- *Business Lending*. Mortgage brokers assist in finding loans for mid-sized businesses, typically developers, contractors, and other real estate development companies.
- *Corporate Lending*. Mortgage brokers assist large companies and corporations. The structures of large loans are typically much more complex than standard loans and often require a mortgage broker to understand them.
- *Land Loans*. Mortgage brokers assist in finding loans that provide capital to individuals or developers for the purchase of land.
- *Private Loans*. Private loans are intended for high net worth individuals whose financing requirements are different from most individuals. Very few mortgage brokers have the adequate knowledge and access to capital to be able to provide such loans.

A mortgage broker makes money by charging a borrower and/or a lender points, fees, or closing costs. This commission typically ranges between 1-3% of the principal loan amount. The maximum commission a broker can make is 5% of the principal loan amount for a first position loan of three years or less or 10% for programs that are three or more years.

Mortgage bankers locate and bring together prospective borrowers and lenders to originate and/or fund mortgages. A mortgage banker is an individual investor or group of investors that fund mortgages, either through the use of their own funds of the funds of a warehouse lender. Mortgage bankers typically sell the mortgage they funded, however in many instances will retain them with the intent of collecting interest on the loan. Mortgage banker's typically make most of their money from funding the loan through loan origination fees and points.

California Housing Finance Agency

Established in 1975, the **California Housing Finance Agency (CalHFA)** is an agency that provides a variety of affordable loan rates and programs to borrowers, including conventional and government-insured loans. It offers lower interest rates than standard loans and down payment assistance.

CalHFA provides assistance in the following ways:

- Loans to low-income families, first-time homebuyers, and minorities
- Insurance for single-family home purchases
- Down payment assistance for qualified borrowers
- Down payment assistance for borrowers in high-cost counties
- Down payment and loan assistance for eligible teachers, administrators, and staff members working in high priority schools
- Programs may be combined with grants for energy efficient homes
- Lower interest rates for disabled, low-income borrowers

Mortgage Market Regulations

Various regulations have been enacted to protect consumers and real estate professionals in the mortgage market.

Truth in Lending Act (TILA)

The **Truth in Lending Act (TILA)** is a federal law passed in 1968 that created a uniform system for calculating and disclosing loan interest rates. It also requires lenders to provide borrowers with documentation about the specific loan they are receiving.

Prior to TILA, the ways lenders calculated and advertised their loan rates were not standardized. Consequently, consumers were unable to accurately compare loan products from different lenders. The creation of a standardized system allows consumers to better understand and compare available loan products.

One of TILA's main provisions requires lenders to use an annual percentage rate as the standard mortgage description term for mortgage products. An **annual percentage rate (APR)** is the cost of credit expressed as a yearly rate in a percentage. It factors in the down payment, monthly payment, and the terms and conditions of a mortgage product.

TILA also grants borrowers the right of rescission. The **right of rescission** gives a borrower the right to cancel a loan or line of credit within three days of closing.

Real Estate Settlement Procedures Act (RESPA)

Because each mortgage typically contains hundreds of pages of difficult to understand paperwork, the federal government passed the **Real Estate Settlement Procedures Act (RESPA)** in 1974.

RESPA is a federal consumer protection law that requires lenders to disclose all pertinent loan information and mortgage costs during the loan process. RESPA also restricts the types of fees that lenders may impose on borrowers.

Lenders must provide the following:

- *Mortgage servicing disclosure.* Indicates whether a lender will continue to service a loan, or transfer it to another lender.

- *Special HUD information booklet.* Provides the rights of borrowers and the various settlement services.

- *Good faith estimate.* A **good faith estimate (GFE)** provides an estimation of a borrower's loan settlement costs, or the costs a borrower will pay at the closing of a mortgage loan. This document allows borrowers to easily compare various lenders' mortgage loan costs and terms in order to select the best one.

- *Mortgage loan disclosure.* A **mortgage loan disclosure statement** indicates all of a mortgage's terms, including costs, fees, rates, estimated payments, and conditions of the mortgage. A lender must get the potential borrower's signature on the disclosure statement in order to proceed with the loan.

Under RESPA, brokers have the ability to create a controlled business arrangement. A **controlled business arrangement (CBA)** allows a mortgage broker to offer multiple services – such as financial products, hazard insurance, title insurance, and other services or products – through various subsidiary companies that act under the umbrella of that broker.

However, a CBA must disclose that it is connected to other service providers.

CALIFORNIA ASSOCIATION OF REALTORS®

MORTGAGE LOAN DISCLOSURE STATEMENT (BORROWER)

(As required by the Business and Professions Code §10241 and Title 10, California Administrative Code, §2840) (C.A.R. Form MS, Revised 08/08)

(Name of Broker/Arranger of Credit)

(Business Address of Broker)

I. **SUMMARY OF LOAN TERMS**
   A. PRINCIPAL AMOUNT . . . . $
   B. ESTIMATED DEDUCTIONS FROM PRINCIPAL AMOUNT
      1. Costs and Expenses (See Paragraph III-A) . . . . $
      2. Broker Commission/Origination Fee (See Paragraph III-B) . . . . $
      3. Lender Origination Fee/Discounts (See Paragraph III-B) . . . . $
      4. Additional compensation will/may be received from lender not deducted from loan proceeds.
         YES $ (if known) or NO
      5. Amount to be Paid on Authorization of Borrower (See Paragraph III-C) . . . . $
   C. ESTIMATED CASH PAYABLE TO BORROWER (A less B) . . . . $

II. **GENERAL INFORMATION ABOUT LOAN**
   A. PROPOSED LOAN INFORMATION
      1. Proposed loan term Years Months

FIXED RATE LOAN Fixed rate loan % payable at $ month	ADJUSTABLE RATE LOAN (EXAMPLE 6-MONTH ARM; 1-YEAR ARM) Proposed interest rate % Fully indexed rate % Proposed monthly payment: $ Maximum interest rate % Interest rate can increase % each months Maximum loan payment can be $ after months
INITIAL FIXED RATE LOAN (EXAMPLE 2/28; 3/1; 5/1) Proposed initial fixed interest rate % Initial fixed interest rate in effect for months Proposed initial monthly payment: $ Adjustable interest rate of % will begin after fixed rate period ends Monthly payment can increase to $ after fixed rate period ends Fully indexed rate % Maximum interest rate % Interest rate can increase % each months Maximum loan payment can be $ after months	INITIAL ADJUSTABLE RATE LOAN (EXAMPLE LOW ENTRY RATE ARM) Proposed initial adjustable interest rate % Initial fixed interest rate in effect for months Proposed initial monthly payment: $ Fully indexed rate % Maximum interest rate % Interest rate can increase % each months Monthly payment can increase to $ after initial adjustable rate period ends Maximum loan payment can be $ after months

2. This loan is based on limited or no documentation of your income and/or assets and may have a higher interest rate, or more points or fees than other products requiring documentation: No Yes.
3. The loan is subject to a balloon payment: No Yes. If Yes, the following paragraph applies and a final balloon payment of $ will be due on [estimated date (month/day/year)].

NOTICE TO BORROWER: IF YOU DO NOT HAVE THE FUNDS TO PAY THE BALLOON PAYMENT WHEN IT COMES DUE,YOU MAY HAVE TO OBTAIN A NEW LOAN AGAINST YOUR PROPERTY TO MAKE THE BALLOON PAYMENT. IN THAT CASE, YOU MAY AGAIN HAVE TO PAY COMMISSIONS, FEES AND EXPENSES FOR THE ARRANGING OF THE NEW LOAN. IN ADDITION, IF YOU ARE UNABLE TO MAKE THE MONTHLY PAYMENTS OR THE BALLOON PAYMENT, YOU MAY LOSE THE PROPERTY AND ALL OF YOUR EQUITY THROUGH FORECLOSURE. KEEP THIS IN MIND IN DECIDING UPON THE AMOUNT AND TERMS OF THIS LOAN.

   B. This loan will be evidenced by a promissory note and secured by a deed of trust on property identified as (street address or legal description):

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Buyer's Initials (________)(________)

Seller's Initials (________)(________)

Reviewed by Date

Phone: Fax:

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SAMPLE

C. 1. Liens presently against this property (do not include loan being applied for):

Nature of Lien	Priority	Lienholder's Name	Amount Owing

2. Liens that will remain against this property after the loan being applied for is made or arranged (include loan being applied for):

Nature of Lien	Priority	Lienholder's Name	Amount Owing

NOTICE TO BORROWER: Be sure that you state the amount of all liens as accurately as possible. If you contract with the broker to arrange this loan, but it cannot be arranged because you did not state these liens correctly, you may be liable to pay commissions, fees and expenses even though you do not obtain the loan.

D. Prepayments: The proposed loan has the following prepayment provisions:

No prepayment penalty (you will not be charged a penalty to pay off or refinance the loan before maturity)

You will have to pay a prepayment penalty if the loan is paid off or refinanced in the first years. The prepayment penalty could be as much as $. Any prepayment of principal in excess of 20% of the

original loan balance or

unpaid balance

for the first years will include a penalty not to exceed months interest at the note interest rate but not more than the interest you would be charged if the loan were paid to maturity.

Other - you will have to pay a prepayment penalty if the loan is paid off or refinanced in the first years as follows:

E. Taxes and Insurance:

There will be an impound (escrow) account which will collect approximately $ a month in addition to your principal and interest payments for the payment of county property taxes** hazard insurance mortgage insurance flood insurance other .

If there is no impound (escrow) account or if your escrow (impound) account does not include one or more of the payments described above, you will have to plan for the payment of county property taxes** hazard insurance of approximately $ per year.

****In a purchase transaction, county property taxes are calculated based on the sales price of the property and may require the payment of an additional (supplemental) tax bill from the county tax authority by your lender (if escrowed) or you (if not escrowed).**

F. Late Charges: YES, see loan documents or NO

G. The purchase of credit life and/or credit disability insurance by a borrower is not required as a condition of making this loan.

III. DEDUCTIONS FROM LOAN PROCEEDS

A. Estimated Maximum Costs and Expenses of Arranging the Loan to be Paid Out of Loan Principal:

	PAYABLE TO Broker	Others
1. Appraisal fee		
2. Escrow fee		
3. Title insurance policy		
4. Notary fees		
5. Recording fees		
6. Credit investigation fees		
7. Other costs and expenses:		
Total Costs and Expenses	$	
B. Compensation	$	
1. Brokerage Commission/Origination Fee	$	

Buyer's Initials (________)(________)

Seller's Initials (________)(________)

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2. Lender Origination Fee/Discounts. . . . . $

C. Estimated Payment to be Made out of Loan Principal on Authorization of Borrower

	PAYABLE TO	
	Broker	Others
1. Fire or other hazard insurance premiums		
2. Credit life or disability insurance premiums (See Paragraph II-G)		
3. Beneficiary statement fees		
4. Reconveyance and similar fees		
5. Discharge of existing liens against property:		
6. Other:		

Total to be Paid on Authorization of Borrower . . . . $

Article 7 Compliance: If this loan is secured by a first deed of trust on dwellings in a principal amount of less than $30,000 or secured by a junior lien on dwellings in a principal amount of less than $20,000, the undersigned licensee certifies that the loan will be made in compliance with Article 7 of Chapter 3 of the Real Estate Law.

This loan **may / will / will not** (delete two) be made wholly or in part from broker-controlled funds as defined in Section 10241(j) of the Business and Professions Code.

IV. NOTICES TO BORROWER:

1. This disclosure statement may be used if the Broker is acting as an agent in arranging the loan by a third person or if the loan will be made with funds owned or controlled by the broker. If the Broker indicates in the Article 7 Compliance immediately above, that the loan "may" be made out of Broker-controlled funds, the Broker must notify the borrower prior to the close of escrow if the funds to be received by the Borrower are in fact Broker-controlled funds.

2. THIS IS NOT A LOAN COMMITMENT. Do not sign this statement until you have read and understood all of the information in it. All parts of this form must be completed before you sign. Borrower hereby acknowledges the receipt of a copy of this statement.

Name of Broker　　License Number　　Broker Representative　　License Number

Broker's Address

OR

Signature of Broker　　Date　　Signature of Representative　　Date

Borrower　　Date　　Borrower　　Date

The Department of Real Estate License Information phone number is 916-227-0931, or check license status at http://www.bre.ca.gov/.

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Fair Credit Reporting Act

Credit is one of the most significant factors in determining a borrower's loan qualification. A consumer's **credit report** determines their eligibility for financial products.

The **Fair Credit Reporting Act** was passed to promote a full and accurate disclosure of a borrower's credit information. This helps borrowers verify the status of their credit and allows them check for inaccuracies.

The Fair Credit Reporting Act requires the following:

- A lender must respond to a borrower's request regarding why he or she was denied credit, including any aspects of the borrower's credit that may have affected approval
- A borrower has the right to verify the copy of the credit score used by a lender to determine the borrower's loan eligibility
- A borrower has the right to dispute inaccurate or incomplete information

Under the Act, consumers can receive up to one free credit report per year.

Equal Credit Opportunity Act

The **Equal Credit Opportunity Act** promotes fair and equal credit opportunities for borrowers by prohibiting lenders from engaging in discrimination.

Lenders cannot base their decision to provide a loan on a borrower's race, origin, sex, age, marital status, or the source of the borrower's income (i.e. alimony, government welfare); they can only use a borrower's credit, income, and ability to repay the debt.

The Act applies to every entity involved in extending credit, including: banks, lenders, finance companies, credit card companies, and auto financiers.

Home Affordable Modification Program (HAMP)

Following the real estate collapse of 2008, the government created the Home Affordable Modification Program. The **Home Affordable Modification Program (HAMP)** was designed to help financially struggling homeowners avoid foreclosure by temporarily or permanently modifying the terms of their loans to a more manageable, sustainable level.

Borrowers must display some form of financial hardship to qualify for the program.

Predatory Lending

Predatory lending is the illegal process of purposefully selling expensive and/or unfair mortgage programs to borrowers who cannot afford them. This results in borrowers making costly mistakes that reduce a property's equity or significantly affect the borrower's ability to afford a property.

It is illegal for lenders to engage in the following predatory lending practices:

- Recommending unnecessary mortgage products, such as an excessively expensive title report
- Directing a borrower towards a bad mortgage decision, such as purchasing mortgage products with higher interest rates and/or fees
- Misleading a borrower about negative amortization programs
- Refinancing a borrower's loan when the costs outweigh the benefit
- Increasing a borrower's interest rate after the borrower defaults on mortgage payments
- Approving a borrower based on the equity of his or her property, rather than considering the borrower's financial ability to repay a loan (as this allows a lender to lend with the intention of foreclosing on a borrower with significant equity)

Lenders that engage in predatory lending typically do so for short-term financial gain. They approve unqualified borrowers for mortgages, and then sell the mortgage notes to smaller lenders before the borrowers default.

Predatory lending is one of the most common defenses for victims of foreclosure. A borrower must prove that a lender willingly misled the borrower about the benefits of a mortgage product.