**Mortgage Market Overview:**

In the US, many consider real estate to be the most valuable asset of all tangible assets. As a result, there is a vast and bustling economy that revolves around the purchase, sale, transfer, ownership, or leveraging of real estate assets. In general, the specific financial vehicle used to access the equity of a real estate asset is a real estate mortgage.

The mortgage market itself is a very vast and complex financial market. Much of the overall greater banking industry is fueled by the writing of new mortgage loans written against various different types of real estate assets, commonly referred to as property or properties.

If a banking consumer (borrower) wants to purchase a property, they can apply for a purchase mortgage loan to help them purchase said property by using some of a lender's money, combined with some of their own money, to pay for the real estate.

If a banking consumer (borrower) wants to access equity in their property without having to sell said property, they can apply for a refinance mortgage loan where they can get a lender to loan them money against said property.

There are two major distinctions between the types of mortgage loans, and another major distinction within each major distinction type. Distinction 1 - Is the mortgage loan against a residential 1 - 4 unit property, or against a commercial and/or multifamily property. Distinction 2 - Is the mortgage an income qualified loan or an asset-based loan. If a mortgage loan is income qualified, it is commonly referred to as a Qualified Mortgage (QM). If a mortgage loan is asset-based, it is commonly referred to as a non-QM loan. There are many federal and state regulations in regard to QM mortgage loans, and less in regard to non-QM mortgage loans.

No matter what type of loan, a lender typically analyzes a few areas when underwriting an application for a mortgage loan. They are:

* The creditworthiness of a borrower - Typically determined by pulling a tri-merge credit report and using the middle of the three credit scores, as reported by the major credit bureaus.
  + Often this is referred to as a borrower’s FICO score, or mid-FICO score
  + The range of FICO scores goes from 300 to 850, with 300 being the worst and 850 being the best
  + Typically, FICO scores below 650 are considered on the worse end of the spectrum, and a lender would assume there are some credit challenges
  + FICO Scores between 650 and 700 are considered decent credit
  + FICO scores above 700 are considered good credit
  + FICO scores above 750 are considered stellar credit scores
* A borrower’s ability to repay the mortgage - Typically determined by analyzing the income and expenses of a prospective borrower
* The real estate ownership experience of a borrower - Typically determined by the borrower’s current, or past, real estate ownership experience
* The type of property being mortgaged, and whether or not that property qualifies for the specific mortgage product being offered
* The overall value and or condition of the property being mortgaged
* The geographic area the property is located in with more urban areas having more liquidity in the real estate market, and thus being easier to mortgage, and more rural properties having less liquidity in their prospective markets, and thus being harder to mortgage.
* The leverage position of the lender’s mortgage loan - Typically referred to as loan-to-value (LTV), and expressed as a percentage of the mortgage loans total amount vs. the total value of the property.

Often, representatives for lenders (typically referred to as loan officers) will ask a series of qualifying questions in an effort to pre-qualify a prospective client for the type, or types, of mortgages they might be able to offer.

The specific subtype of mortgage product being offered by a lender depends on:

* The type of mortgage loan being written,
* whether that mortgage loan is being used for a purchase or a refinance,
* the type of borrower who is taking out the mortgage loan,
* whether or not the mortgage loan is an income qualified loan or an asset-based loan,
* and the type of property that mortgage loan is being written against.

The most common types of mortgage loans typically offered by lenders:

* **Conventional Real Estate Mortgages** (Residential) - These are the most common and prolific types of mortgages. They are commonly referred to as A-paper home loans. These loans are typically backed by large underwriting institutions like Freddie Mac, Fannie Mae, the Veterans Affairs (VA), and/or the Federal Housing Administration. Typically, conventional real estate mortgages are available on 1 - 4 unit residential properties, and are completely income qualified in accordance with strict federal and/or state guidelines. There are far greater conventional real estate mortgages written than any other mortgage loan subtype and the market is considered one of the largest global financial markets in existence. Almost all major banking institutions participate in, and/or offer conventional real estate mortgages. Almost all conventional real estate mortgages have some sort of federal protections in place in case of a borrower default. Conventional real estate mortgages are always QM loans.
* **Alt-A or Light Income Doc Mortgages** - In general, Alt-A, or Light Income Doc Mortgages are an extension of the greater conventional real estate mortgage market in that their primary aim is to offer terms similar to conventional real estate mortgages, and to be marketed to a similar type of consumer as to those typically trying to qualify for a conventional real estate mortgage. The primary difference being that Alt-A or Light Income Doc Mortgages will allow borrowers to offer alternative types of income proof when presenting their income docs to the lender. Typically, conventional real estate mortgages use strict income guidelines, often requiring things like current pay stubs and filed tax-returns, with a strict adherence to any tax-deductions being taken by the borrower. Whereas Alt-A or Light Income Doc Mortgages typically allow borrowers to present bank statements, and or to use gross, pre-tax, income amounts when qualifying their income for a mortgage loan. As a result, the terms and fees associated with Alt-A or Light Income Doc Mortgages tend to be higher than those found in the conventional real estate mortgage market. Similarly, the terms are often tighter, and/or less favorable for the borrower as the lender typically considers these loans higher risk than conventional real estate loans. Also, many of the federal protections or backings are not in place in case of borrower default. Alt-A or Light DOC mortgages can be either QM or non-QM loans, depending on the specific type of mortgage product being offered and/or the income qualifying guidelines used by a lender to determine the income qualifications of a borrower.
* **Conventional Real Estate Mortgages (Commercial)** - Commonly referred to as CMBS Loans, conventional real estate mortgages for commercial properties are the most common subtype of mortgage loans written specifically against commercially-zoned properties and residential investment properties. Similar to their residential counterparts, conventional real estate mortgages for commercial properties are typically backed by large institutions like the Federal Housing Administration (HUD), the Small Business Administration (SBA), or other large-scale institutional lender’s private security insurances. Typically, these loans are underwritten to very strict guidelines, and require ample amounts of income-qualifying documentation for a borrower to be qualified for this type of mortgage. These types of loans are used for a vast array of different types of commercial and/or rental properties. Examples include - Residential investment properties (1 - 4 units), Multifamily properties (5+ unit residential properties), Mixed-use (commercial / residential) properties, and straight commercial properties (retail, office, warehouse, etc.). The common thread being that the properties are not being used as primary residences (with limited exception regarding multi-family and/or mixed-use properties). Many major banking institutions participate in the conventional real estate mortgage (commercial) market, and the overall market-size is very large, but it is dwarfed in both total size and transactional volume when measured against its residential counterpart. Typically, conventional real estate loans for commercial properties are QM loans.
* **Asset Based Mortgage Loans** - Asset-based loans can be extremely varied, and are often offered by specialty lending institutions. Asset-based mortgages typically use the value of the asset as the main qualifier for a mortgage transaction. The specific qualifications for asset-based loans can vary widely from lender to lender, with some lenders requiring many supporting documents in their qualification process and other lenders requiring very little supporting documents in their qualification process. Similarly, the specialty lenders involved in this process can range from large institutions, to medium institutions, to small institutions, and micro (private) investors. Sometimes these mortgages are referred to as hard-money loans and often associated with loose qualification guidelines, higher fees and terms, and fewer federal and/or state regulations and/or institutional backing.
* **Specialty Mortgage Loans** - The specialty mortgage loan market is extremely vast, and will not be covered in detail within this document. Specialty mortgage loans are types of loans used for a variety of mortgage situations. Examples include Portfolio Lending, where a borrower will mortgage several properties together under one mortgage; Reverse Mortgages, typically offered to retired/older borrowers who are looking to have a lender pay them a monthly payment against the equity they have in their property; and Syndicated loans where large groups will pool investment funds together to write a group mortgage against a property, typically seen in larger dollar-value mortgages.

There are several different types of persons and/or companies involved in a mortgage transaction. What types of persons and or what types of companies involved depend upon:

* The type of mortgage being offered - Purchase or Refinance
* The geographical area (often the state) the property is located within
* The regulations involved with the specific type of mortgage being offered
* The requirements of the lender offering the mortgage

The types of persons and/or companies that can be involved in a mortgage transaction are:

* **Lenders** - These are the institutions offering mortgage loans.
* **Borrowers** - These are the actual persons or entities who are applying for a mortgage
  + A borrower can be a person or an entity (such as an LLC, Corporation or Trust)
* **Guarantors** - Often the same as the borrower, a guarantor is the person offering a personal guarantee on a mortgage loan
* **Buyer** - This is the person or entity buying a specific property. Often the buyer is the borrower.
* **Seller** - This is the person selling a specific property.
* **Loan Officer** - This is the person who works to qualify the mortgage loan for a lender. They are often sub-licensed employees of mortgage brokers and or lenders. Typically Loan Officers charge a percentage of the total dollar amount of a mortgage transaction and they can be paid by the lender directly and/or the borrower directly.
* **Broker** - This is a general term often used to describe the person most closely aligned with the borrower, who is helping the borrower shop around for the correct mortgage, apply for said mortgage and qualify for said mortgage. Often the broker is the loan officer. Typically brokers act in similar ways to a Loan Officer and they charge a percentage of the total dollar amount of a mortgage transaction and they can be paid by the lender directly and/or the borrower directly.
* **Mortgage Broker** - This is the licensed individual, or company, who represents borrowers in their mortgage transaction. Often Mortgage brokers will employ sub-licensed loan officers who work to originate and process mortgage loans on behalf of the mortgage broker. Typically mortgage brokers will provide insurances and licenses needed to participate in the mortgage market for their sub-licensed loan officers. Mortgage brokers often take a percentage of the money being charged by brokers and/or their sub-licensed mortgage loan officers.
* **Loan Processor** - This is the person who handles all of the paperwork needed to qualify a mortgage. Typically loan processors work for a lender and/ior broker, and they are responsible for coordinating all needs between a borrower and/or lender.
* **Real Estate Agent** - This is a licensed individual who works directly with buyers and/or sellers of property. Real Estate Agents often help with the following buyer and/or seller needs:
  + Marketing a property for sale
  + Handling all contractual documents associated with a real estate purchase transaction
  + Submitting offers on a property for sale for prospective buyers they are representing
  + Negotiating the terms of a real estate transaction between buyers and sellers
  + Working closely with a loan officer and/or broker and/or mortgage broker in their qualifications of the mortgage being used for a real estate purchase transaction
  + Coordinating all parties involved in order to meet all parameters as laid forth in all contractual documents involved with a real estate transaction

Real Estate Agents often earn a percentage of the total sale price, and are typically paid by the seller of a property.

* **Real Estate Broker** - This is the licensed individual, or company, who represents buyers and sellers of properties. Often real estate brokers will employ sub-licensed Real Estate Agents who work for them and will deal with buyers and sellers in a more direct fashion than the Real Estate Broker does themselves. Typically Real Estate Brokers will provide the insurances and licenses needed to participate in the real estate sales market for their sub-licensed Real Estate Agents. Real estate brokers often take a percentage of the money being charged by their sub-licensed real estate agents.
* **Transaction Coordinator** - A transaction coordinator typically works on behalf of the Real Estate Broker in a similar manner that a Loan Processor works for a Loan Officer or Broker, but they handle all documents associated with the purchase and or sale of a property as opposed to the documents associated with the qualification for the mortgage loan specifically.
* **Escrow Companies** - Escrow companies are independent third party companies who work to facilitate the closing of a real estate transaction. Escrow companies typically coordinate all title insurance closing documents, all lender closing documents, all closing appointments with buyers/sellers/borrowers, as required by the lender. The main person who facilitates the closing of a real estate translation is typically called an escrow agent, closing agent or closer. Escrow companies typically work in close coordination with title insurance companies. Often they are different divisions of the same company.
* **Closing Attorneys** - Some states do not allow escrow companies without the involvement of a licensed closing attorney. As a result, those states have closing attorneys who act, essentially, in the same manner as an escrow company does in non-attorney closing states. Closing attorneys typically act in the same manner as escrow companies act, with the main difference being that the ultimate escrow agent, or closer, is a licensed closing attorney.
* **Title Insurance Companies** - Real estate transactions are recorded on open title records, maintained by local cities and or counties. Title insurance companies work to provide all past histories of a recorded property record, and provide services that include the recording of all transactional documents for a specific transaction, as needed. Typically, they handle the recording of a mortgage deed against the city or county title record for the specific property being mortgaged in a real estate transaction. Title companies also offer insurance to all involved as they handle the transfer of all monies associated with a real estate transaction (often closely coordinated with closing agent’s and or escrow companies).
* **Notary Publics** - These are the licensed individuals responsible for verifying that all persons involved in signing any closing documents are the persons they are claiming to be. Notaries handle the actual signing of all documents, unless otherwise allowed and/or handled by a licensed attorney.
* **Property Insurance Companies** - Property insurance companies act as a safety net in the event of any damages or losses experienced with a property. Typically, lenders require Property Insurance and/or borrowers wish to have Property Insurance behind a property they either own or are purchasing, and thus property insurance companies are almost always involved in every real estate transaction.

A typical real estate mortgage transaction involves:

* Lenders actively market the availability of their mortgages to the general public and/or their targeted consumer prospect base.
* Borrowers search for the right mortgage within the mortgage market that is created by lenders advertising the availability of their mortgages, often with the help of a broker
* A Loan Officer (or broker) sells a mortgage to a borrower by matching them with a mortgage that meets their needs/goals
* A borrower applies for a mortgage loan, based on the individual needs of a lender
* A borrower gets pre-qualified for the mortgage loan, and is given a list of closing needs for a given loan
* The borrower works with a loan processor to facilitate all documents required by the lender in order to qualify for their mortgage loan
* The lender orders an appraisal to help determine the fair market value of the property being mortgaged
  + Sometimes lenders will also require property condition inspections along with an appraisal
* The loan processor coordinates all other parties associated with the mortgage loan - The escrow company or closing agent, the title insurance company, the real estate agent and or real estate broker and/or the property insurance company, and works to drive all of their actions toward the closing of the loan
* Once their needs are met, the lender approves the mortgage and issues an approval to all parties involved
  + A lender will typically send a closing package, with all associated closing documents, to a the escrow company or closing agent
* The escrow company or closing agent will coordinate a closing with all parties
  + During the closing they will handle all documents and are responsible for obtaining all signatures from all parties, and returning all documents to the lender for review
* Once all documents are cleared by the lender, the lender will typically wire their monies to the title company
* The title company will then distribute all monies to all appropriate parties, as dictated by the lender. They will also handle all recordings of all appropriate documents in city and or county title records, as required by the lender
* If the transaction is a purchase transaction, Real Estate Agents and/or their corresponding Real Estate Brokers will work to coordinate all efforts with the buyers and or sellers throughout the entirety of the transaction’s process