Loan Production Basics Overview

Mortgage banking is a career with good income potential and unlimited opportunities for growth. No matter what segment of the business you are in or want to be in, you will have more value and prospects, the more you learn. As you learn more about the different functions, consider your current strengths and where your interests might take you.  
  
This course presents an overview of the loan production process. It begins with a review of the goals of loan production including creating investor acceptable loans and protecting the consumer. After taking a broad look at the functions of loan production, the course takes a closer look at important concepts, responsibilities, and success strategies related to the roles of origination, processing, underwriting, and closing. From there the course looks at common loan programs and financing terms. Finally, we end the course with a look at the laws and regulations that impact loan production.

Objectives

Upon completion of this course, the learner should be able to:

* Describe the goals of loan production.
* Define the typical functions of loan production.
* Identify the skills and strategies of successful originators including how to generate business.
* Identify the skills and strategies of successful processors including ensuring that the loan file meets product guidelines.
* Identify the skills and strategies of successful underwriters including verifying that documents meet investor guidelines for salability.
* Identify the skills and strategies of successful closers as well as the loan documents for closing and funding.
* Recognize loan programs, financing terms, and the borrowers they are designed to help.
* Outline how regulations affect loan production.

Goals of Loan Production Overview

There are two major goals of loan production:

* Creating investor quality loans
* Consumer protection

In this course, we will look at these important goals

# Creating Investor Quality Loans

The primary goal of a mortgage production team is the origination and funding of investor quality loans. Finding good, solid, investor-quality loans is the driving force and passion of the best loan production teams. To achieve this goal requires consistency across all the processes and policies in which the loan is originated, processed, underwritten, and funded, and the loan must be produced within the guidelines of the ultimate investor who is purchasing the loan.

# Challenges of Complexity

One of the challenges of achieving the goal of investor quality loans is the complexity of the business. Every mortgage banking firm has a unique combination of different product mixes, guidelines, and policies for how loans move from the point of origination through closing and beyond. Every borrower purchasing or refinancing a residential mortgage comes with a unique set of circumstances. It is that combination of products, guidelines, and circumstances that makes the goal of creating investor quality loans so challenging. For this reason, each function in the production cycle is very important.

# Consumer Protection

The second extremely important goal of loan production is consumer protection. The unprecedented collapse experienced by the mortgage industry in the mid-2000's was partly because compensation and accountability were not in alignment. Each function of the production team failed to act in the best interests of consumers. The resulting punishment by Congress, the press, associations, and consumer groups has created a new world of mortgage banking.

# Think About It

What can loan producers do to be accountable and play a responsible role in the mortgage business?

**Answers**

* Put the customer's needs before their own (people before profits)
* Recognize the need to embrace education about compliance (laws change constantly)
* Be honest and transparent (withholding information puts the company at risk)
* Commit to being a professional and to continuous learning

# Functions of Loan Production

# Origination

* Take a complete application and gather supporting documentation
* Gain thorough understanding of the goal of the transaction
* Educate the borrower(s) about loan program advantages and disadvantages
* Provide timely disclosures of loan terms and costs and rights of borrowers
* Provide a complete file for your processor to efficiently process

# Processing

* Review files presented by originators for completeness and accuracy
* Request documents as needed to support the loan application
* Be sure the loan file meets all product guidelines
* Obtain third-party verifications
* Order credit report and appraisal according to loan type
* Provide a complete loan file to the underwriter for efficient underwriting

# Underwriting

* Analyze loan file for thorough understanding of the parties and the transaction
* Determine ability and willingness to repay the loan
* Determine property value to ensure that the value and condition meets investor guidelines
* Verify that documents are in accordance with investor guidelines for salability

# Closing

* Review file of complete closing documents and approval of closing agents
* Coordinate with closing agents for funding the mortgage loan
* Verify that all fees, costs, and premiums are collected
* Verify all closing conditions are met and documents comply with federal and state laws

# Practice Questions

Take a moment to test your understanding of the loan production process. Click Answer to check your work.

* Which part of the process involves helping an applicant select the best loan for his or her circumstances?

Ans: Origination

Which part of the process involves coordinating the funding the mortgage loan?

Ans: Closing

Origination Overview

Since the mortgage crisis of 2008, Congress has passed unprecedented and sweeping laws designed to prevent another crisis. One of the critical elements of any law is the way terms are defined. Since this section deals with loan originators, this is a good place to introduce the *Secure and Fair Enforcement for Mortgage Licensing Act* (SAFE Act), which resets the definition of a mortgage loan originator (MLO).

# Origination Success Strategies

One key success strategy of top originators is to turn in loan files so complete and accurate that processors want to process their loan files first. This is because the files contain no inconsistencies, inaccuracies, or missing documents.  
  
In addition to some of their clerical activities, prescribed by law, successful MLOs use two distinct sales skills to succeed.

* Selling themselves — by gaining people's trust
* Selling the mortgage product — by being competitive and knowledgeable

# Discovery Activity

Imagine that you are buying a home.

* What are the top three most important factors you would use to select a mortgage originator?
* Would the quoted interest rate be first?

**Factors**

Chances are you thought of one or more of the following factors. The originator:

* Quoted a competitive interest rate and cost.
* Offered advice that I trusted.
* Understood my needs and gave advice that was appropriate for my needs.
* Answered all of my questions and was patient and knowledgeable.
* Returned my phone calls and was available in a timely manner.

Originators must be good at selling, operate honestly and ethically, Listen to customer needs and put them first (ALWAYS), and have the required technology and technical knowledge about the products they sell.  
  
It is not all about the rate.

Originator Responsibilities

**Generating Business**The activities of MLOs differ across companies. Depending on how the loan production team is set up, originators can acquire customers in numerous ways.

Finding customers is proactive. Waiting for them to walk in the door or for the phone to ring is reactive. Lenders value MLOs who know how to get the business.

Strategies for generating business include:

* Developing personal relationships for quality referrals
* Advertising in local newspapers, real estate agent magazines, church bulletins, etc.
* Setting up a direct mail campaign for mail or email
* Purchasing leads from list companies
* Telemarketing

# Originator Responsibilities

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**How Originators Generate Business**  
  
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.  
  
Once you have the customer, the next step is to complete the mortgage application.  
  
**Taking the Application**  
  
Taking a complete application is most often done on the industry standard [Uniform Residential Loan Application (URLA)](https://www.fanniemae.com/content/guide_form/1003rev.pdf), and is more than just filling in the boxes.  
  
To complete an application requires an in-depth discussion with the applicant to uncover his or her true needs and motivation, and to gain an understanding of the goal of the transaction. The originator must gauge the applicant's tolerance for risk, cost and payment expectations, and documentation requirements.

The mortgage loan application goes by many names, here are some of the most common:

* Uniform Residential Loan Application
* URLA
* Fannie Mae Form 1003/Freddie Mac Form 65
* 1003

**Other Important Duties**  
  
In addition to completing the application, an originator must follow through with production team members to ensure a timely, successful closing.  
  
Click the link to see details about other [important originator duties](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html)

**Important Originator Duties**

To ensure a smooth transition through loan production, the originator may be called upon to:

* Determine the borrower's income from tax returns and paystubs
* Verify assets and sources of assets from bank statements
* Analyze credit reports
* Read property appraisals
* Discuss and advise on when and what interest rates to lock
* Communicate the borrower's rights regarding federal and state disclosures

, involving documentation and communicating with the borrower.

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* Processing Overview
* Processing is usually next in line after the origination of the mortgage application. The processor's job is to set up the file accurately and completely, so that by the time it gets to the underwriter, everything is properly documented, there are no missing items, and the underwriter has enough information to render a decision.

# Characteristics of Good Processors

Good processors are worth their weight in gold and hard to find.

If MLOs are creative and conceptual, a good processor is logical and specific and must be:

* **Conscientious.** Understand the file, the transaction, and the requirements
* **Detail-oriented.** Look at each piece of data and to anticipate any issues
* **Organized.** Know where everything is, the status of the file, and what is needed to complete it

# Processor Responsibilities

If you are the processor, you are responsible for:

* Reviewing the documentation presented by originators and ensuring that it is accurate, complete, and consistent
* Requesting additional documents as needed to support the loan application
* Confirm that the licensed originator provided all disclosures to the borrower within the timeframe required by federal regulation
* Ensuring that the loan file meets all product guidelines
* Obtaining [third-party verifications](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html)

**Third-party verifications**are proof from uninterested parties that the information the borrower provided is true and accurate.

 such as:

* + [Verification of deposit](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html)

Establishes that the applicant has sufficient cash to meet settlement needs. The processor sends these requests to financial institutions to verify assets such as:

* + - Checking accounts
    - Savings accounts
    - Stocks and bonds
  + [Verification of employment](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html)

Sent to the applicant's employer to substantiate the:

* + - Employment information supplied in the mortgage loan application
    - Stability of the applicant's source of income
    - Applicant's ability to repay the mortgage loan
* Order an appraisal according to the loan type and pull the credit report if not already pulled by the MLO

# Providing a compleProcessing Success Strategies

Your goal as the processor is to have a reputation for uploading complete and accurate files so that your underwriter has all of the information they need to make a decision on the loan. Also, you can take pride in knowing that your underwriter will know that work won't be stopped due to inconsistencies, inaccuracies, or missing documents when working on your loan files.

Other Succes:

* Know documentation requirements
* Analyze documents to ensure they meet product guidelines
* Keep hard copies of files neat and orderly
* Have a process and system in place for following up and communicating with the originator and underwriter
* Know how to use the loan origination system
* Document your loans with complete and thorough notes
* Use processing and office technology tools efficiently
* Communicate effectively

In cases that require written communication; such as when the processor needs to write an email or explanation on the 1008 Loan Transmittal form; being concise, accurate, and addressing the issue at hand, can help the underwriter get to the right conclusion faster.

# Efficiency Rewarded

Every time a processor or underwriter has to return to a file, it can result in reviewing everything all over again which can greatly delay the process.  
  
Many lenders have systems in place to determine the number of touches and reward employees for files with the least amount of touches to close a good loan.

* te loan file to the underwriter for efficient underwriting

# Underwriter Responsibilities

The following are some of the primary responsibilities of an underwriter:

* Analyze a loan file for a thorough understanding of the parties and the transaction.
* Determine the borrower's ability and willingness to repay the loan.
* Determine the property value and ensure that the value and condition meet investor guidelines.
* Validate the AUS conditions have been met.
  + These are listed on the Findings Report
* Verify that documents are in accordance with investor guidelines for salability.

What does it mean to underwrite a mortgage application and how do underwriters do it?  
  
First, it may be helpful to understand that there is more to underwriting than the numbers — the housing-to-income ratio, the debt-to-income ratio, and the credit scores. Think of the loan file as a building, supported with three strong columns, all of which must meet guidelines established by investors and the mortgage company. A transaction that makes sense and has a fully qualified borrower, might also have a property with insufficient value for the loan.

**Purchase Transaction**A purchase transaction is used to purchase a home owned by another.

**Underwriter Questions**

Some important questions underwriters consider with these transactions are listed below:

* Who are the parties to the transaction? Is there a conflict of interest?
* Is the value of the property supported by the appraisal?
* Can the borrower afford the mortgage payments?
* What is the real amount of the down payment? Is any of it a gift or a loan?
* Are the answers to these questions documented in the loan file?

**Refinance Transaction**

A refinance transaction could be either of the following:

* **Rate and term refinance.** To change the rate and/or term of an existing principal balance
* **Cash-out refinance.** To take additional funds above and beyond the existing principal balance (and sometimes closing costs)

**Underwriter Questions**

Important questions underwriters would have about these types of transactions include the following:

* Is it a rate and term or cash-out refinance?
* How much cash out is being requested?
* Can the borrower afford the new, higher payment?
* What does the borrower plan to do with the cash? Is the cash out required to bail out the borrower from excessive debt?
* How long has the borrower owned the property?

# The 4 C's of Underwriting

Underwriters spend the most time analyzing the borrower. Let's begin by determining who a borrower is.  
  
Is this statement true or false?   
  
To be considered a borrower, you must indicate that you will occupy the property? 

**Answer**  
  
If you answeredFalse, that is correct.  
  
Not all borrowers intend to occupy thesubjectproperty — the property being financed. They could be applying for an investment property that they intend to rent to a tenant, or they could be anon-occupyingco-borrower.  
  
Non-occupying co-borrowers are used when the borrowers alone do not qualify but have anon-occupantwho can help them qualify. This is common with first time homebuyers who may have parents helping them qualify.  
  
Customers, clients, buyers, purchasers, sellersor other similar names can also be borrowers.  
  
Regardless of the type of transaction, when there is more than one borrower on a loan application, the primary person is the**borrower**and all other borrowers are considered**co-borrowers**.  
  
The primary person selected is usually selected because they have higher income than the co-borrower, more job stability, or sometimes randomly, because the MLO obtains the application information from this person.

[Answer](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html)

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Once you know who the borrowers are, the next job is determining whether they can qualify for the amount of the loan being requested. This involves analyzing the "4C's" of underwriting:

* Credit
* Capacity
* Capital
* Collateral

The fourth strong support column in building the loan file is the property or collateral. Once you understand the transaction and have qualified the borrower, you need to be comfortable with the collateral — the subject property.

# Evaluating Credit

Analyzing credit also focuses on the borrower's willingness to repay the mortgage debt.  
  
Credit reporting agencies or bureaus maintain data reported to them by creditors. For example, a store is the creditor, and your borrower is the debtor. When the debtor uses his or her charge card, the store reports the activity to the credit bureaus.

The three largest and most commonly accepted credit bureaus are:

* Equifax
* Experian
* Trans Union

Click the link to view some of the [data](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html)

**Data**

**General Information**

* Creditor name
* Type of debt:
  + Mortgage
  + Installment
  + Revolving
* Account numbers
* Open accounts
* Closed accounts
* Date account was opened
* Maximum limit for charging on the account
* Current outstanding balance
* Minimum payment due
* Number of months the account has been reporting

**Negative Information**

* Number of delinquencies
* Number of days account was delinquent
* Delinquent account
* Charge-offs
* Liens
* Foreclosures
* Bankruptcies
* Pubic judgments
* Inquiries
* Notes placed on the account by the borrower

 that appears for each borrower on a credit report.  
  
By factoring in the information on the credit report, credit scores are generated giving the underwriter an indication of the willingness of the borrower to repay debts.  
  
One of the downsides to using credit scores is that it can make originators, processors, and even underwriters overly reliant on the numbers, ignoring the real credit story. Scoring models are not perfect. For example, it is possible for a borrower to have a 700 credit score, indicating a good credit history, even with a late mortgage payment reported in the last six months. The reviewer should read each page of the report to avoid being caught off guard later.

# Credit Scores

Using these data sets, each credit bureau uses its own algorithm (mathematical computation) that calculates a credit score for each borrower. Underwriters usually use the middle score to determine if the borrower meets the product guidelines. If there is more than one borrower, the underwriter would be required to use the lower of the middle of all borrowers.

# Discovery Activity

Review the items in this scenario and answer the questions below. Once you've thought about your answers, discuss them with your supervisor or with an underwriter.

# Evaluating Capacity

Evaluating capacity measures the borrower's ability and willingness to repay the loan.  
  
Assume that you are the bank and have money to lend. You are asked to loan someone $150,000. What is your primary concern?

| The two questions that should come to mind are:   * Will they pay me back? * How can I be sure? |
| --- |

housing-to-income ratio

[housing-to-income ratio](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html):

This ratio is also known as the front ratio. It compares the total monthly income to the total monthly mortgage payment or PITI (principal, interest, taxes, and insurance).  
  
The standard guideline for this ratio is 28% of monthly income.

debt-to-income ratio (DTI)

[debt-to-income ratio (DTI)](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html):

This ratio is also known as the back ratio, which compares the total monthly mortgage payment (PITI) plus all other monthly debts to the total monthly income. The standard guideline for this ratio is 36%.  
  
All other monthly debt includes mortgages, installment loans, and revolving debt.

# Evaluating Capital

Webster's Dictionary defines capital as "wealth in the form of money or property owned by a person or business and human resources of economic value."

Using that definition, we will discuss capital as money held in any of the following types of accounts:

* Checking
* Savings
* Money market accounts (MMA)
* Certificates of deposit (CDs)
* Stocks and bonds
* Mutual funds
* Retirement
* Other investments

| **The borrower's available capital is an important factor in a loan application. The amount of capital, or lack thereof, answers several questions about the borrower:** |
| --- |
| How much does he or she have invested in the transaction or property (equity)?  How much will he or she have after all down payments and closing costs are considered? |

Reserves

Reserves have a very specific meaning in mortgage lending. The purpose of a reserve requirement is for the lender to have some assurance that if an unanticipated event (i.e., job loss or serious illness) occurs, the borrower has enough money in savings to be able to continue to make the mortgage payments each month.  
  
Reserves always strengthen a file, even when there are no reserve requirements. Based on the other variables of a mortgage application, underwriters usually have the right to approve or deny the loan on the strength or weakness of the borrower, the reserves, and whether these offset other risks.  
  
Prior to the mortgage meltdown in 2007, many high-risk loan products did not have any reserve requirements. Purchasing a property with*zero* money down (no investment or equity) was made possible by 100% financing. At that time, a borrower may have had poor credit, no verifiable income, *and* no funds for emergencies!

# Evaluating Collateral

The property being mortgaged becomes the secured collateral for the bank. This means that the borrower(s) actually pledges the property as security for the bank in the event of a default. If the borrower fails to comply with the terms of the mortgage and note, the bank may foreclose (take back the property). Once the bank takes back the property, it becomes a bank-owned property, referred to as an REO or real estate owned property.  
  
This basic understanding makes it easy to see why the bank is concerned about the value and condition of the property being collateralized. There are many different issues that can arise involving the property.

# Why Lenders Care about Property Condition

If the borrower defaults and the lender forecloses on the property, how quickly can the lender sell it?

Some sample questions to ask about the property include but are not limited to:

* Is the home safe or are there safety hazards (e.g., staircase with no railing)?
* Is the home structurally sound (e.g., no cracking foundation or faulty roof)?
* Are there environmental issues (e.g., soil contamination from an underground oil tank)?
* Does the property meet the town building codes (e.g., SFR with one kitchen)?

In a foreclosure, the bank is already at a disadvantage. The mortgage has not been paid for months, maybe years, and taxes, insurance, and other maintenance costs may also be delinquent. The last thing the bank wants to do is incur additional costs to repair the property, which will increase its losses. The primary considerations for evaluating property are condition and value.

**Property Types:**

* Single Family House (SFR)  
  Usually a separate, free standing residential building, with one occupant or occupying family
* Two-to-Four Family (Multifamily)  
  Usually two or more residential units are attached, either side-by-side or one above the other
* Condominium (Condo)  
  Usually residential property attached to other units where only part of the property is owned
* Cooperative (Co-op)  
  Usually owned by an association where residents own shares in the *cooperative*

**Occupancy Types:**

* Owner Occupied  
  Occupied by the owner(s) full time, year round
* Second Home  
  Occupied by the owner(s) for vacation use or part-time during the year
* Investment Property  
  Occupied by tenants who do not own the property
* Loan-to-Value Ratio
* The next ratio, which helps with the approval decision, is to determine the relationship between the value of the property being financed and the amount of money being borrowed. This ratio is called the loan-to-value (LTV) ratio.  
    
  The LTV is simply calculated by dividing the loan amount by the value of the property.

|  |  |  |
| --- | --- | --- |

# The premise of determining LTV is that the more money someone has invested in the property, the more interest he or she has in making sure they make the payments on time to avoid losing the home. Borrower and Property

Underwriters spend the most time analyzing the borrower. Let's begin by determining who a borrower is.  
  
Is this statement true or false? To be considered a borrower, you must indicate that you will occupy the property?   
  
If you answered false, you are correct.   
  
Not all borrowers intend to occupy the subject property — the property being financed. They could be applying for an investment property that they intend to rent to a tenant, or they could be a non-occupying co-borrower.  
  
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The primary person selected is usually selected because they have a higher income than the co-borrower, because they have better job stability, or, sometimes randomly, because the MLO obtains the application information from that person.

Closing Overview

The closing or settlement is the process in which the mortgage loan transaction is consummated. At closing, the borrower signs all the required documents.  
  
At the closing table, the funds are transferred to the seller on behalf of the borrower, usually through the title agent or attorney. In a purchase transaction, the title to the property and keys to the home are handed over to the buyer at settlement.  
  
Closings procedures and documentation vary by state.

# Closing Success Strategies

A successful closing is the end goal of the loan production process. Closers coordinate the documentation required for a successful closing and are responsible for:

* Reviewing, in a timely manner, the file of complete closing documents
* Coordinating with closing agents for funding the mortgage loan
* Verifying that all fees, costs, and premiums are collected
* Verifying that all closing conditions are met, and all documents comply with federal and state laws

# Closing Documents

The basic documents required to complete a residential mortgage file vary depending on:

* State requirements
* Investor requirements
* Insurer requirements
* Financing method (fixed, ARM, etc.)
* Loan type (FHA, VA, or conventional)

Below are the standard documents that closers handle

**Promissory Note**Creates the borrower's legal obligation to repay the loan and is generally secured by a security instrument, such as a mortgage or deed of trust. The note should contain accurate information on the terms of the loan, the lender, and the borrower.

**Security Instruments: Mortgage and Deed of Trust**A **mortgage** has two parties: the lender and the borrower. In a mortgage, the borrower pledges the property as security for repayment of the note.  
  
A **deed of trust** has three parties: the lender, the borrower, and the trustee. The property is pledged or conveyed to the trustee for the benefit of the lender to secure repayment of the note.  
  
An advantage of the deed of trust over a mortgage is that in many states, in case of default, the deed of trust can be foreclosed by a trustee's sale without a court proceeding.

**Closing Disclosure**The Real Estate Settlement Procedures Act (RESPA) of 1974 introduced the HUD-1 Uniform Settlement Statement for almost every residential loan. The HUD-1 provided the borrower and the seller with a full disclosure of the closing and settlement costs. It included all payments made by all parties to the transaction.  
  
The Truth in Lending Act (TILA) requires disclosure of the actual cost of financing, including the annual percentage rate (the cost of credit expressed as a yearly rate), the finance charge (the amount the credit will cost, including interest, points, mortgage insurance expense, assumption fees, and fees paid by the borrower to the lender to acquire the mortgage), the amount financed (the amount of credit provided on the borrower's behalf), and the total of payments (the amount the borrower will have paid after all of the scheduled mortgage payments). TILA also requires disclosure of insurance requirements, late charges, potential payment adjustments, or demand features.  
  
As a result of the Dodd-Frank Act, after October 3, 2015, the HUD-1 Settlement Statement and the Truth in Lending disclosure were combined into another new form, the Closing Disclosure. The Closing Disclosure is designed to provide disclosures that will be helpful to consumers in understanding all costs of the transaction.

**Title Insurance Policy**  
  
A title insurance policy guards the lender's lien position. The closer hires a title company to examine public records that disclose the past and current facts regarding ownership of the property. A title search identifies who has rights to the property and therefore must sign the mortgage to secure the property. A title search also discloses any prior encumbrances, tax liens, or other interest on the property. Upon completion of this examination, the title company issues a title insurance policy.  
  
For more on how the American Land Title Association (national trade association for the title insurance industry) protects consumers and lenders, visit its website at: [http://www.alta.org](http://www.alta.org/).

**Hazard Insurance Policy**  
  
Hazard insurance (also called property insurance) is an insurance coverage policy that provides compensation to the insured in case of property loss or damage.

# Closing Risks

The importance of this function cannot be overstated. When volume is high, it can be challenging for all the parties to come together with the same information at the same time. The consequences of an unsuccessful closing can include:

* Harm to reputation, resulting in loss of future business
* Harm to relationships with brokers, originators, attorneys, and real estate agents
* Unrecoverable costs for origination, processing, underwriting, and closing preparation
* Lack of salability in the secondary market if the loan closes without proper documentation
* An unenforceable mortgage (i.e., lender not able to foreclose in the event of default)
* An invalid transfer of ownership in a property

# Role of the Closing or Settlement Agent

Attorney states are those where only an attorney can legally execute the closing documents. Other states are referred to as title states, and these allow a clerical person employed by a title company to perform the duties of a closing. A title clerk may not dispense legal advice unless licensed as an attorne  
  
While it is common for thrifts (saving banks and savings and loans) to prepare and close the loan in-house, other companies prepare and send the documents to a [closing agent](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html)

The closing or settlement agent is generally one of the following:

* An outside attorney
* A title insurance company
* An escrow agent
* The closing staff of the mortgage banker

The settlement agent could be the mortgage lender's accounting department, the investor who has bought the mortgage loan, or a financial institution that provides a line of credit to the lender.

. The closer instructs the agent on how funds will be delivered.  
  
The closing agent is responsible for disbursing the funds to all of the parties involved with the transaction. Many loans closed by attorneys are called insured closings, meaning the title company insuring the property also insures the attorney's closing of the loan.1 Proof of this insurance is referred to as the closing protection letter.  
  
Closing the loan does not signify the end of the mortgage lending cycle. The lending cycle continues through loan administration until the loan is paid off, refinanced, or foreclosed.

Loan Programs and Financing Methods Overview

To be competitive means more than having the lowest interest rate. Having a broad menu of loan programs allows lenders to offer their customers a variety of loans to meet their needs. The primary loan programs that most lenders offer fall into categories based on the accompanying guidelines.  
  
The product is the specific loan. The guidelines are how a borrower can qualify for the product. For example, a lender may offer a 97% fixed rate program, but the guidelines may require a 740 credit score.

**FHA Loans**  
  
FHA loans are loans insured by the Federal Housing Administration against foreclosure loss.  
  
FHA maintains its self-support by charging borrowers a mortgage insurance premium (MIP) which is paid in both up-front and monthly installments, or financed in the maximum mortgage amount depending on the loan program, terms, and conditions.

**VA Loans**  
  
VA loans are mortgage loans guaranteed against foreclosure loss by the Department of Veterans Affairs. VA loans are only offered to veterans. The Department of Veterans Affairs guarantees the repayment of mortgage loans up to a specified amount. The VA loan program allows veterans to obtain mortgage loans with little or no down payment. The VA charges the veteran a funding fee for guaranteeing the mortgage loan.

**Jumbo Nonconforming Loans**  
  
These are large loans that exceed the maximum mortgage limits of Fannie Mae or Freddie Mac, the two largest investors. Each year the two GSEs set the county limits for conforming loan amounts. Once the loan exceeds the limit, it is no longer a conforming loan.  
  
In response to higher priced markets, Fannie Mae and Freddie Mac created a quasi-jumbo loan known as a high-balance loan. This loan exceeds the conforming loan limit with a higher limit determined by county. Since these loans are larger, there is usually a higher interest rate and stricter guidelines associated with them.

**Alt-A Loans**

# Affordable Housing Programs

As the housing and economic market conditions change, so do the products offered within federal and state agencies. There is much debate surrounding the question: Does everyone deserve to be a homeowner? Affordable housing programs come and go. The goal of these programs is to ensure equal access to mortgage loan credit. The loan programs listed below help to ensure this access.

* [MyCommunity Mortgage](https://www.fanniemae.com/content/fact_sheet/mcm-product-matrix.pdf)TM. Fannie Mae's MyCommunity Mortgage is a suite of low down payment products with very flexible credit guidelines for low- to moderate-income borrowers who have limited cash reserves.
* [Home Possible Mortgages](http://www.freddiemac.com/homepossible/). Freddie Mac's Home Possible Mortgage is a low down payment mortgage product with flexible credit underwriting standards that help more borrowers qualify for a home.
* Other Loan Programs
* Throughout the country, innovative loan programs keep appearing. Click to learn more about some of these programs.

**Interest Only Mortgages**  
  
These mortgages generally require payments of interest-only for a fixed period of time (usually five or ten years) and then require larger payments of principal and interest for the balance of the loan term. This type of loan is considered a non-traditional mortgage product.

**Rate Reduction for Good Payments**  
  
Provides an automatic interest rate reduction under certain circumstances.

**Reverse Mortgages**  
  
Provides monthly payments to increase the income of retired or elderly borrowers. These are also known as reverse mortgages, reverse annuity mortgages, or home equity conversion mortgage loans.

**Rehabilitation Loans**  
  
Allows financing for both the purchase and the rehab cost in one loan based upon the as completed value of the property.

**Option Payment ARMs**

**Fixed Rate Mortgage (FRM)**  
  
A mortgage loan in which the interest rate and payments remain the same for the life of the loan.

|  |
| --- |
| **Adjustable Rate Mortgage (ARM)**  A mortgage with an interest rate that increases or decreases over the life of the loan, based on market conditions. The changes in the interest rate are determined by an easily definable financial index, such as the prime rate posted by the Federal Reserve Bank, Treasury Bills, etc. Also called a variable rate mortgage (VRM). |

**Balloon Mortgage**

**Buydown Mortgage**  
  
A mortgage with a below-market interest rate that results in lower monthly payments for the first few years or the entire term of the mortgage. A buydown is made by a lender in return for money received from a builder, seller, or home buyer.

[growing equity mortgage (GEM)](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html):

The growing equity mortgage loan (GEM) uses a fixed-rate mortgage loan with payments that rise yearly until the mortgage loan is paid off.  
  
The lender applies the payment hike directly to the outstanding principal balance, creating a faster payoff of the mortgage loan debt. Because of the extra payments to principal, payoff is frequently less than 15 years.

temporary buydown mortgage

[temporary buydown mortgage](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html):

A temporary buydown is a subsidy of the loan interest rate. It helps the borrower meet the payments during the first few years of the loan.  
  
Money is advanced by an individual (the builder, seller, etc.) to reduce the monthly payments made by the borrower for a period of two to five years (in general). The payments increase each year until the buydown funds are paid out. After the buydown period, the payments revert to those stated in the note.

bi-weekly mortgage

[bi-weekly mortgage](http://education.mbaeducation.org/courses/1/DL2_011011/content/_169554_1/index.html):

The bi-weekly mortgage loan is similar to the standard fixed-rate loan. The only difference is in the number of payments made each year. On a fixed-rate mortgage loan, the borrower makes monthly payments (12 payments a year). With a bi-weekly mortgage loan, the mortgagor makes a smaller payment every two weeks, making 26 (or possibly 27) payments each year.  
  
The increased number of payments reduces the total interest cost on the loan, because principal amortizes more quickly.

Prime and Subprime Lending

Prime Lending

Prime loans are loans made to borrowers who qualify for conventional financing loans that are sold to the GSEs.

Subprime Lending

The term subprime applies to loans that do not qualify for such terms because of asset, credit, employment, income, or property risks that do not meet typical prime guidelines.  
  
According to the U.S. Department of Housing, the subprime industry originated loans totaling approximately $35 billion in 1994, 5% of all originations. By 1999, production had grown to $160 billion, 13% of originations. Subprime loans became a Main Street product and were used by lenders and borrowers when no other loan would qualify the borrower. Between 2002 and 2007, the influx of lenders and subprime products made it possible for virtually anyone to qualify for a mortgage.  
  
This chart illustrates the volume of subprime loans and the influence on homeownership rates between 1997 and 2002.  
  
The subprime market continued to grow through 2003 to 2005. Overall market conditions began to change in 2006, and dramatic changes occurred in the subprime market during 2007.  
  
According to Inside Mortgage Finance, by March 2007, subprime loans had dropped to just over 10 percent of the $10.4 trillion in outstanding mortgages.

# Regulations Affecting Loan Production

**Equal Credit Opportunity Act (ECOA)**

The ECOA prohibits discrimination based on any of the nine prohibited aspects of the credit transaction shown below:

* Sex
* Marital status
* Age
* Race
* Color
* Religion
* National origin
* Receipt of public assistance benefits
* Applicant's exercise of any of his or her rights under the Consumer Credit Protection Act

ECOA also defines when an inquiry about a loan becomes an application, requires disclosures for the status of a loan, and as amended by the Dodd-Frank Act, now requires lenders to provide the borrower with copies of appraisals and other written valuations conducted as part of the credit process for most loans.

**Fair Housing Act**

The Fair Housing Act applies to mortgage and home improvement loans and protects the applicant from discrimination based on:

* Race
* Color
* Handicap
* National origin
* Sex
* Religion
* Familial status

**Truth in Lending Act (TILA)**The Truth in Lending Act requires lenders to inform their customers of the direct and indirect terms and conditions of their credit arrangement. The statute attempts to give the applicant information to compare and understand the lender's loan programs.

**Real Estate Settlement Procedures Act (RESPA)**  
  
The Real Estate Settlement Procedures Act is administered by the Consumer Finance Protection Bureau.

RESPA:

* Promotes consumer notification in a timely manner on the nature and costs of the settlement process.
* Offers consumers protection from unnecessarily high settlement charges caused by certain abusive practices (for example, referral fees).

**Home Mortgage Disclosure Act (HMDA)**  
  
The Home Mortgage Disclosure Act requires covered institutions to compile and disclose data about applications they receive and the home purchase and home improvement loans they originate or purchase during each calendar year.

The purpose of HMDA is to:

* Make information available to the public to show whether financial institutions are serving the housing credit needs of their neighborhoods and communities.
* Help identify possible discriminatory lending patterns and assist regulatory agencies in enforcing compliance with anti-discrimination statutes.

**Home Ownership and Equity Protection Act (HOEPA)**  
  
HOEPA primarily affects refinancing and home equity installment loans that also meet the definition of a high-rate or high-fee loan (Section 32 mortgages). Section 32 is in Regulation Z, of TILA. HOEPA does not cover loans to buy or build a home, reverse mortgages, or home equity lines of credit.

HOEPA:

* Requires the lender to provide several disclosures at least three days before the loan is finalized to give the borrower time to consider the loan carefully
* Bans certain provisions in high-rate, high-fee loans
* Prohibits creditors from engaging in a pattern or practice of asset-based lending
* Prohibits lenders from making payment directly and solely to a home improvement contractor when one is involved

**Secure and Fair Enforcement for Mortgage Licensing Act (SAFE)**

* Registration or licensing in the Nationwide Mortgage Licensing and Registry System (NMLS)
* 20 hours of pre-licensing education
* Federal and state testing requirements
* 8 hours of continuing education per year
* Federal criminal background checks
* Assessment of credit and character
* State requirements as specified by each state
* Dodd-Frank Act
* The passage of the SAFE Act preceded the next major law — The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which overhauled regulation of the entire banking industry. The Act passed on July 21, 2010 and continues to have broad sweeping effects on all mortgage originators and lenders.  
    
  As a result of Dodd-Frank, TILA, and RESPA are now administered by the Consumer Financial Protection Bureau (CFPB). As of October 3, 2015, disclosures that were formerly provided under the Truth in Lending have been combined with disclosures provided under the RESPA.  
    
  The Good Faith Estimate (required under RESPA) and the initial Truth in Lending (required under the TILA) were combined into a single disclosure form called the **Loan Estimate**, which is provided within three business days of application. The HUD-1 Settlement Statement (required under RESPA) and the revised Truth in Lending Disclosure (required under TILA) were combined into a single disclosure form called the **Closing Disclosure**, which must be provided to consumers at least three business days before consummation of the loan.  
    
  You can read more about the impact of the Dodd-Frank Act on the [Regulatory Implementation page of the CFPB's website](http://www.consumerfinance.gov/regulatory-implementation/).

# Predatory Lending

If subprime refers to a product, predatory lending refers to a behavior. Borrowers can be victims of predatory behavior with a prime product. Predatory lending practices result from the behavior of unethical participants in the market.

Looking at a list of some of the practices that are considered predatory, you will recognize that these are types of abuse. HUD's Task Force on Predatory Lending found four main categories of abusive practices:

* Loan flipping
* Excessive fees and packing
* Lending without regard to ability to repay
* Outright fraud and abuse

As a result, the word abuse has now been added as another component to Unfair, Deceptive or Abusive Acts (UDAAP). While these abuses were more prevalent in the subprime market, this behavior can still occur in any environment. The mortgage industry is fertile ground for ethical challenges every day. The CFPB has responsibility for oversight to prevent and punish these practices.  
  
For more information on Unfair, Deceptive, and Abusive Practices, read this [bulletin](http://files.consumerfinance.gov/f/201307_cfpb_bulletin_unfair-deceptive-abusive-practices.pdf) from the CFPB.

# Loan Production Basics Summary

This course presented an overview of the loan production process.  
  
We began this course with a review of the goals of loan production: originating and funding investor quality loans while protecting consumers. Next we examined the four major functions in loan production and important concepts related to each: origination, processing, underwriting, and closing.  
  
Toward the end of the course, we looked at common loan programs and financing terms. Finally, we ended the course with a look at the laws that impact loan production.

# Objectives

Upon completion of this course, the learner should be able to:

* Describe the goals of loan production.
* Define the typical functions of loan production.
* Identify the skills and strategies of successful originators including how to generate business.
* Identify the skills and strategies of successful processors including ensuring that the loan file meets product guidelines.
* Identify the skills and strategies of successful underwriters including verifying that documents meet investor guidelines for salability.
* Identify the skills and strategies of successful closers as well as the loan documents for closing and funding.
* Recognize loan programs, financing terms, and the borrowers they are designed to help.
* Outline how regulations affect loan production.

### The Truth in Lending Act requires lenders to inform applicants of:

* 

The appraised value of the subject property

* 

What percentage of applications they approve

* 

Direct and indirect terms and conditions of their credit arrangement

* 

Reasons their application was denied

Submit

Correct!

**In addition to prohibiting discrimination based on a number of specific factors, the Equal Credit Opportunity Act requires lenders to:**

Provide the borrower with a copy of the appraisal report