

The Loan Officer's Practical Guide to Residential Finance

Copyright 2021
April 13, 2021

By Thomas A. Morgan

35th Printing

ISBN 1535563338/ISBN 13 - 978-1535563338

"The Loan Officer's Practical Guide to Residential Finance"

ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher and the copyright holder.

This publication is designed to present, as simply and accurately as possible, general information on the subject. It should be noted that the information presented is not all-inclusive. Products, programs and guidelines change due to rapid changes in the industry. This publication should not be used as a substitute for referring to appropriate experts and is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other personalized professional service. If legal or other expert assistance is required, the services of a competent professional should be sought.

Table of Contents

Table of Contents	i
Introduction	xi
Introduction to the Business.....	xii
SAFE Act Curriculum Syllabus - Nationwide Licensing System.....	xiii
Test Preparation	xiii
National Test Preparation Source Reference	xiii
Chapter 1 – Mortgage Math	1
Chapter 1 – Mortgage Math Introduction.....	1
Decimals and Fractions- Converting Decimals to Fractions	1
Understanding the Mortgage Business.....	2
Types of Lenders/Primary Originators	2
Retail Lending.....	3
Reading the Rate Sheet	3
Points.....	4
The "Purchase Price" Format	5
The Origination Fee/Discount Points	5
The Mortgage Broker Business	6
Originator Compensation and its Impact on Pricing.....	7
What is a BP?	7
Understanding Interest Rate Lock-in Terms	7
Reading the Pricing Sheet	8
Principal and Interest or Interest Only - Amortization.....	8
Solving for X - Mortgage Math and the Financial Calculator.....	9
Choosing a Financial Calculator	11
"What is the Payment?"	12
What is the Balance over Time?	12
What is the Maximum Loan Amount I Qualify For?.....	13
"I Know How Much I Need to Borrow. What is the Maximum Rate?"	13
How Much Income is Required for a Certain House?	13
What is the Maximum Loan Term with a Specific Payment?	14
Understanding Ratios – Loan to Value - LTV.....	15
Understanding Ratios – Qualifying Ratios	15
The Effect of Computer Automation on Qualifying Practices	15
"Pre" and "Re" Qualifying - Doing the Math.....	16
Using a Pre-Qualification Worksheet.....	16
Qualifying and Pre-Qualification – Two Different Things.....	17
Advanced Concepts - The Concept of Leverage	18
Advanced Concepts - The Concept of Taxable Equivalency	18
Tax Deduction – The Mortgage Payment and Rental Equivalent	19
Chapter 2 - Major Loan Types	23
Chapter 2 - Understanding Loan Types - Introduction	23
Choosing a Fixed Rate Mortgage	23
Interest-Only (Non-Traditional Loan Type).....	24
Prepayment as an Interest Savings Tool	24
Other Prepayment Strategies - The Bi-Weekly Mortgage	24
Other "Fixed Rate" Mortgages.....	25
Balloon Mortgages.....	25
The Two-Step ARM	26
Using Discount Points to Create Beneficial Programs	26
ADJUSTABLE-RATE MORTGAGES (Non-Traditional Loan Types)	27
ARM Components - The Basic Four	28
The Role of the Index in the Interest Rate Change	29
The Margin – The Spread Over Market	30
Interest Rate Caps & Payment Caps – Limiting the Change	31
Initial Adjustment Cap.....	31
The "Option" ARM – No Longer Offered – here is why.....	32
Comparing ARMS	35
Conversion Options	36

Second Mortgages.....	37
Piggybacks or Blends (Non-Traditional Loan Type).....	37
Computing the Blended Rate.....	38
Bridge Loans and Reverse Bridge Loans - 2 Strategies.....	38
Seller held Mortgages, Assumptions and Wraps.....	39
Reverse Mortgages for Seniors.....	39
Chapter 3 - Loan Plan Specifications	41
Chapter 3 - Program Specifications - Understanding Guidelines.....	41
Conventional Loans - What is Conforming?.....	43
"Generic Jumbo" Non-Conforming.....	47
Automated Underwriting – Electronic Decision Engines.....	47
Simple Troubleshooting Strategies.....	47
Variance Tolerance.....	48
Common Problems with AU (Automated Underwriting).....	48
DU or LP?.....	48
First Time Homebuyer Programs.....	50
Private Mortgage Insurance (PMI).....	50
Mortgage Insurance Coverage Requirements.....	51
Mortgage Insurance Premium Plans.....	51
Choosing the Right Plan - Premium Plan Options.....	52
PMI Underwriting Guidelines.....	53
HOPA and PMI Cancellation.....	53
The Federal Housing Administration (FHA).....	54
The Direct Endorsement Program (DE).....	56
Transitional Issues with FHA.....	57
Risk-Based Insurance Premiums – No Longer in Effect.....	57
Financing Mortgage Insurance.....	57
Documented Underwriting "Compensating Factors".....	58
The Department of Veteran's Affairs (VA).....	58
Entitlement and the Maximum Loan Amount.....	59
Loan Level Price Adjustments – You May See Them or Not.....	62
Chapter 4 - QUALIFYING -Ratios and Credit History	65
Chapter 4 - Understanding Guidelines.....	65
Owner Occupancy and Qualifying.....	66
The Mathematics of Qualifying Ratios.....	67
The Housing Expense Ratio.....	68
The Total Debt Ratio.....	70
Regular Business Expenses/Self Employed Borrowers.....	74
Credit History.....	75
Credit Bureaus vs. Credit Repositories.....	75
Obtaining a Credit Report.....	78
Understanding the Ratings - What is "Bad".....	78
Sub-Prime Lending.....	81
High-Rate, High-Fee Loans (HOEPA/Section 32 Mortgages).....	82
Credit Counselors/Agencies.....	83
Understanding Credit Scoring.....	83
Risk Grading.....	85
Consider the Impact.....	87
Income Fraud Alerts/Red Flags.....	87
Chapter 5 - Understanding Income.....	88
Chapter 5 – QUALIFYING: Income & Other Restrictions	88
"Stable" Income.....	88
Base Income with Enhancements.....	89
Getting the most of Overtime, Bonus, & Commissions.....	89
Bonus, Tips and Commission.....	90
Future Raises.....	91
Dividends & Interest.....	92
Self-Employment.....	92
Who is Self-Employed?.....	93
Analyzing Self-Employment Income and Required Documentation.....	94
Income Analysis - Start with the Personal Returns.....	95

Income Sources & "Add-backs"	96
Partnership and S Corporation Tax Returns and Income Analysis	96
Analyzing the US Corporation Income Tax Return	97
The Profit and Loss Statement	98
Alternative Income Verification Loans	99
Documentation Types and Their Meanings	100
What is a Compensating Factor?	100
Co-borrowers	100
Income "Red Flags"	101
Eligible Borrowers	102
Resident Aliens	103
Non-Immigrant Visas	103
Chapter 6 – QUALIFYING: Assets, Down-Payment and Closing Costs.....	105
Chapter 6 - Understanding Asset Qualifying	105
Understanding Closing Costs	105
The Components of a Buyer's Closing Costs	105
1.) Loan Fees and "Points"	106
2.) "Hard" Closing Costs	106
Title Insurance	107
3.) Government/Municipal Title Related Charges	107
4.) Prepaid Items	108
Interim Interest	108
Insurance Escrow	109
Real Estate Tax Escrows	110
Estimating Closing Costs – Qualifying for Cash	111
Preparing a Closing Cost Worksheet (NOT LE/GFE)	111
Seller Contributions	115
Avoiding Problems with Seller Contributions	115
Structuring Seller Paid Closing Costs	116
Sources of Assets for Down Payment, Closing Costs and Reserves	116
Borrower's Own Funds	117
Reserves	118
Lender Credits for "Above Par" Pricing Towards Closing Costs	118
Tips for Using Gifts	118
Shared Equity	119
"Red Flags" for Assets and Deposits	119
Chapter 7 - The Home Financing Process	121
Chapter 7 – Understanding the Home Buying Process	121
Understanding the Home Buying Process	121
The Loan Application Process	122
Why You Should Use a Pre-Application Kit	122
The Application Interview - Completing the 1003 (Ten-oh-3) Application Form	123
Reviewing the Application	125
Section 1 – Borrower Information	125
1a. Personal Information	125
Quick Paystub Review Tips	126
Reviewing Section 1b. through 1e. – Employment and Income Data	127
Reviewing Section 2a. – 2b. - Assets & Liabilities	131
Section 2a. Asset Validation	131
Asset Review and Validation Procedure	132
2c and 2d. - Credit and Liability Review	133
Reviewing the Credit Documents	133
Section 3: Financial Information - Real Estate Owned	135
Pending Sale Real Estate	135
Section 4: Loan and Property Information	138
Lender Loan Information	140
L4 – Qualifying the Borrower – Minimum Cash Required Funds or Cash Back	141
Loan File Set Up	143
File Order	143
Electronic Files - The case for ALWAYS using Exhibit/Document Naming Conventions	143
Sample Listing of File Names assigned to Various Documents	145

Paper File Setup	146
Red Flags in the Application Process	146
Understanding APR	147
Emergency Processing Procedures	148
The Approval Process - Who is the Underwriter?	149
Desktop Underwriter and Loan Prospector	151
Conducting Weekly Status Reviews	152
The Closing and Requirements	154
Settlement Agent	154
Lender Sends Loan Instructions to Settlement Agent	156
Closing "Red Flags"	157
The Closing Disclosure	157
Closing Documents	158
Promissory Note	158
The Mortgage or Deed of Trust	158
The Right of Rescission - Refinances	158
Loan Officer and Processor Time Management Techniques	159
System 1 - The Complete Application System for Loan Officers	159
Pipeline Review	159
Chapter 8 – Property Types.....	163
Chapter 8 - Understanding Property Types	163
Why Condos are Hard to Finance	164
Conforming Guidelines	164
Private Mortgage Insurance and Projects	166
Documentation Required for Project Approval	167
PUD/Classifications & Requirements	169
New Construction Projects - Construction Permanent Financing	169
Financing Investment Property	171
Cash Flow	171
What Must the Rent Be?	171
Investment Property Pre-Qualification	172
Property Documentation Requirements for Investment Property Financing	173
2 to 4 Unit Properties	174
Cooperatives	174
Manufactured /Mobile, Modular and "Kit" Homes	175
Commercial Loan Guidelines	175
Commercial Property Types and Basic Guidelines	176
Appraisals	176
Appraisal Basics	176
Simple Approaches to Resolving Valuation Problems	177
Fraud Alert	178
Chapter 9 – REFINANCING	181
Chapter 9 – Refinancing	181
Where to Start - Determining "Value"	181
"Seasoning"	181
Rate Reduction	182
Term Reduction Refinances	183
Refinancing to "Cash Out" - Recapture Equity in Your Property	184
Reasons to Take "Cash Out"	185
Low Cost of Cash	185
Cash Out for Debt Consolidation	185
Cash out for Investment	187
Cash Out to Purchase Investment Property	187
Cash Out for Retirement	188
Refinance to eliminate Private Mortgage Insurance	189
Using a 1st and 2nd Mortgage to Solve Equity Problems	190
Refinancing a 1st and 2nd Mortgage	191
Refinancing an FHA Loan	191
Refinancing a VA Loan	192
Important Facts With Regard to Refinancing	193
Escrow Accounts and Prepaid - Understanding Costs of Refinancing	193

Problems with Existing Financing	194
Chapter 10 – The Secondary Market.....	195
Chapter 10 – Understanding Selling Loans – The Basis of our Industry	195
Lock or Float.....	195
Seasonality Patterns	196
Immediate Delivery	196
The Secondary Market	196
Who’s Who in the Secondary Market.....	197
Par is not a Golf Score.....	198
How Lenders Make Money	199
Interest Rate Drivers.....	201
Playing the Market.....	202
Chapter 11 – Practical Compliance - Understanding Federal Laws.....	203
Chapter 11 - Practical Compliance Overview	203
Test Preparation	203
Regulators – The Consumer Financial Protection Bureau.....	204
The Rules	204
The Housing and Economic Recovery Act of 2008 (HERA)	205
Regulator – Federal Housing Finance Agency	205
Secure and Fair Enforcement for Mortgage Licensing (SAFE Act).....	206
The Dodd/Frank Act – Originator Compensation (Anti-Steering).....	207
Process.....	207
The Qualified Mortgage Rule (QM) and Steering.....	207
RESPA – The Real Estate Settlement Procedures Act	209
Purpose of the Law	209
Exempt Transactions	209
The Anti-Kickback Rule - Payment or Receipt of Non-Approved Fees	210
Prohibited - Kickbacks and Referral Fees.....	210
Prohibited Payment – “Anything of Value”	210
Prohibited - Fee Splitting.....	210
Permitted – Approved Affiliated and Controlled Business Arrangements	210
Approval Required - Desk Rental Arrangements	211
Approval Required – Joint Marketing Arrangements	211
Required Disclosures.....	211
Operating Areas Affected.....	211
Penalties for Non-Compliance	211
Application Disclosures - The Closing Cost Worksheet	212
The Loan Estimate Form	212
Timing.....	212
Costs Cannot Change.....	212
Changed Circumstances.....	213
Application Disclosures – Home Buyer’s Tool Kit	213
HELOC/HECM Disclosures – Good Faith Estimate and Settlement Costs Booklet.....	214
HELOC/HECM Application Disclosures - Notice of Transfer of Servicing.....	214
HELOC/HECM Disclosures - at Closing - HUD-1 Settlement Statement.....	214
Home Equity Lines and Open-Ended Credit (HELOC)	214
Transfer of Servicing Act.....	214
The Truth-in-Lending Act (TILA) - Regulation Z.....	215
Purposes of Truth-in-Lending Act	215
Corrective APR Disclosures Exceeding Tolerance	215
APR Tolerance	216
Notice of Right to Cancel (Right to Rescind).....	216
Waiver of Right to Rescind	216
Right to Rescind in Open-end Transactions	216
Three Day Right to Cancel.....	217
Truth-in-Lending - Advertising.....	217
Advertising – Trigger Terms.....	217
Homeownership Counseling Disclosure	217
High-Cost Loans - Section 32 of Truth-in-Lending Act	217
Average Prime Offered Rate.....	217
Loans Subject to Section 32	217

Points and Fees Trigger.....	217
Section 32 Disclosures	218
Section 32 Prohibitions	218
Penalties for HOEPA Violations.....	218
“Higher Priced Mortgage Loans” - Section 35.....	218
The Equal Credit Opportunity Act (“ECOA” or “Fair Lending”	219
Unlawful Inquiries	220
Prohibitions.....	220
Notification Requirements.....	220
Penalties.....	220
ECOA Related Consumer Protection Laws	220
Fair Housing Act.....	220
Fair Credit Reporting Act (“FCRA”).....	221
The Fair and Accurate Credit Transactions Act (FACTA).....	221
Home Mortgage Disclosure Act (“HMDA”).....	221
Depository Institutions Subject to the Act.....	222
Community Reinvestment Act (CRA)	222
Common Consumer Protection Laws Relating to Mortgages	223
Home Owner’s Protection Act.....	223
PMI Cancellation.....	223
Gramm-Leach-Bliley Act.....	223
Flood Disaster Protection Act (FDPA).....	224
USA PATRIOT Act.....	224
Appraiser Independence Rules	225
History of the Appraiser Independence Rule	225
Chapter 12 – The Real Estate Settlement Procedures Act (RESPA).....	227
Key Concepts	227
Chapter 12 – Detailed Understanding of RESPA.....	227
Transactions Subject to the Law	228
Issues Relating to Business Practices – Kickbacks.....	228
Prohibition on Kickbacks, Fee-Splitting and Unearned Fees	229
Compensable Settlement Services – What the Borrower can Pay For.....	229
Controlled and Affiliated Business Arrangements (ABA).....	230
Why an ABA is not a RESPA Violation.....	230
Mortgage Brokers are Controlled Business Arrangements.....	231
Other Controlled Business Arrangements.....	231
Sample Cases – Is it a Controlled Business Arrangement?.....	234
Enforcement of Section 8.....	237
Chapter 12 Section 2 - TRID - TILA and RESPA Integrated Disclosures	238
Loan Estimate and Closing Disclosure or Good Faith Estimate, TIL and HUD-1?	238
Application Process to Comply with Loan Estimate Rules.....	238
Application Paths and Requirements.....	241
Transaction Type - Know Before you Owe OR GFE 2010.....	243
Loan Estimate and Closing Disclosure Timing Procedure.....	244
Completing the Loan Estimate.....	245
HELOC, HECM and Mobile Homes - Timing and Delivery of the GFE	248
RESPA Reform and the Good Faith Estimate	248
HELOC, HECM and Mobile Homes - Preparing the Good Faith Estimate.....	248
HELOC, HECM and Mobile Homes - Preparing the 2010 GFE	249
HELOC, HECM and Mobile Home Loans - The Special Information Booklet – HUD Guide to Settlement Costs	249
HELOC, HECM and Mobile Homes- Preparing the “Adjusted Origination Charge” Section of the 2010 GFE	250
HELOC, HECM and Mobile Homes - “No Cost Loans”.....	251
HECM, HELOC and Mobile Homes - The Good Faith Estimate (GFE) and Settlement Statement HUD-1/HUD-1A	251
HELOC, HECM and Mobile Homes HUD – 1 Revision - Comparability	252
Loan Estimate/GFE - Limits on changes –The Issue of Tolerance	253
Circumstances in Which the Loan Estimate/GFE Can Be Revised	254
Timing and Requirements for Delivery of LE/GFE.....	254
Average Cost Pricing and Negotiated Discounts – Kickback Violations	258
Methodology for Average Cost Pricing.....	258

Transfer of Servicing and Servicing Practices Act.....	258
Transfer of Servicing.....	259
Aggregate Escrow Accounting.....	261
Prohibition against Excessive Escrow.....	261
Aggregate Escrow Accounting Disclosure.....	262
HELOC, HECM and Mobile Homes - HUD-1 Settlement Statement.....	263
Chapter 13 - Truth-in-Lending Act – “Regulation Z”	267
Chapter 13 – Truth-in-Lending - Detailed Understanding	267
Purposes of Truth-in-Lending Act.....	267
Disclosures - At Application - The APR (Annual Percentage Rate) Disclosure	268
Calculating the APR Formula	270
Third Party Fees “Generally” Included in the Finance Charge.....	271
Errors in Calculating the APR	273
Using APR to Compare Loan Fee Options.....	273
Disclosures at Application – Adjustable Rate Mortgage Terms.....	273
The Consumer Handbook on Adjustable Rate Mortgages.....	275
Home Equity Lines and Open-Ended Credit.....	275
Specific Disclosures for Home Equity Lines of Credit.....	275
When Your Home is on the Line	276
Notice of Right to Cancel (Right to Rescind)	276
Effects of Rescission	278
Advertising and Truth-in-Lending.....	280
Trigger Terms.....	280
Rules of Advertising for Open-End Credit and Closed-End Credit.....	281
Rules of Advertising for Home Equity Loans.....	282
The Challenge of Compliance.....	282
FTC Actions for Advertising Violations.....	282
Penalties.....	283
Section 32 of the Truth-in-Lending Act	283
Section 32 Disclosures	283
Section 32 Prohibitions – “Flipping”	283
Section 32 Prohibitions - Lending Without Regard to Repayment Abili	284
Section 32 Prohibitions - Direct Payments to Contractors	284
Section 32 Prohibitions - Documenting Closed-end Loans as Open-End Credit	284
Other Section 32 Prohibitions	284
Penalties for HOEPA Violations.....	285
“Higher Cost” Loans- Section 35.....	285
Advertising Practices	286
Chapter 14 - Understanding Federal Credit-Granting Related Laws	287
Chapter 14 – Detailed Understanding of Credit Granting Laws	287
The CFPB and Secondary Regulators.....	288
Equal Credit Opportunity Act – Federal Reserve Regulation B - 12 CFR Part 202	289
General Rules for Compliance §202.4.....	289
Definitions - §202.2.....	289
What information can be Requested – Section 202.5.....	290
How Applications are Evaluated – Section 202.6/202.7.....	291
What is a “Statistically Sound Credit Scoring System?”.....	292
Adverse Action.....	292
Other General Requirements.....	294
Right to Receive a Copy of the Appraisal	294
Lenders May Not Discourage the Filing of an Application.....	295
The ECOA Code – Who Is Responsible For the Account?.....	295
Lender Do’s and Don’ts	296
Borrower’s Recourse for Inaccurate Credit Information.....	296
If the Loan is “Counter-Offered”	297
What Recourse Does the Borrower Have	298
The Fair Credit Reporting Act.....	298
FCRA Features.....	298
Penalties.....	299
Procedure for Correcting Errors.....	299
Borrowers Copy of Report	299

"Imposter" Free Credit Report Sites.....	299
Seven-Year Reporting Period.....	300
Permissible Purpose for Ordering a Credit Report.....	301
Lender's Reporting Duties (Section 623).....	301
Fair and Accurate Credit Transactions Act (FACTA).....	302
Disposing of Consumer Report Information.....	302
Identity Theft "Red Flag" Programs.....	302
FACTA and Identity Theft.....	303
FACTA and the Credit Score Disclosure.....	304
FACTA and the Risk Based Pricing Notice.....	304
The Gramm-Leach Bliley Act.....	304
Defining the Customer.....	305
The Privacy Notice.....	306
Opting Out.....	306
The Safeguards Rule.....	307
Receiving Nonpublic Personal Information.....	307
Fair Credit Billing Act (FCBA).....	308
While the Bill is in Dispute.....	308
Fair Debt Collection Practices Act.....	309
Rules Regarding Contact with Borrowers.....	309
Electronic Funds Transfer Act (EFTA).....	310
Credit Repair Organizations Act (90-321, 82 Stat. 164).....	311
The Fair Housing Act.....	312
Covered Transactions.....	313
Unlawful Lending Practices.....	313
Violations and Enforcement.....	314
Advertising.....	314
Limitations Extended to 3 rd Parties.....	315
Allegations of Discrimination.....	315
Filing Complaints.....	315
The Credit Report.....	316
The Home Mortgage Disclosure Act (HMDA) – Regulation C.....	316
The Loan Application Register (LAR).....	317
Interest Rate Data.....	318
COMMUNITY REINVESTMENT ACT (CRA).....	318
Evaluation of CRA Performance.....	319
Home Owners Protection Act (HOPA).....	319
FTC's Telemarketing Sales Rule (TSR) – DO NOT CALL.....	319
Rules for Telemarketers.....	320
The USA PATRIOT ACT.....	321
Bankruptcy Abuse Prevention and Consumer Protection Act.....	322
Chapter 15 – Fraud.....	323
Chapter 15 – Fraud in the Mortgage Industry.....	323
Types of Fraud.....	323
Fraud for Housing.....	323
Exigent Fraud.....	324
Perpetrators.....	324
Real Estate Brokers.....	324
Real Estate Attorney.....	324
Appraisers.....	324
Borrowers.....	325
Loan Officer.....	325
Fraud Schemes.....	325
New Schemes – Short Sale Fraud.....	325
New Schemes – Foreclosure "Rescue".....	326
Appraisal Fraud.....	326
Appraisal Review.....	328
Builder Bailout Scheme.....	328
Occupancy Fraud.....	329
Flips.....	329
Foreclosure or Deed-in-Lieu.....	331
Fraudulent Legal Documentation.....	331

Straw Buyers	332
Straw Sellers	332
Mortgage Application Documentation Fraud.....	333
Falsified Applications and Documentation	333
Borrower Identity Fraud	333
Social Security Numbers.....	334
Credit Score Improvement Scheme.....	334
Identity Theft	335
File Segregation.....	335
Income Documentation Fraud.....	335
Self-Employed Borrowers	336
Tax Return Authenticity Verification.....	337
Asset Documentation Fraud	337
Validating “Cash on Hand”	338
Asset/Deposit Verification Scheme.....	338
Pending Rental Scheme	338
Punishment.....	338
Federal Laws that Address Mortgage Fraud.....	338
Mail Fraud (18 USC Section 1341).....	339
Frauds by Wire, Radio, and Television (18 USC Section 1343)	339
Bank Fraud (18 USC Section 1344)	339
Attempt and Conspiracy (18 USC Section 1349).....	339
Making False Statements to the Government (18 USC Section 1014).....	339
Conspiracy (18 USC Section 371).....	340
Laundering of Monetary Instruments	340
Federal Sentencing Guidelines.....	341
Industry Actions to Combat Fraud	341
Prevention.....	342
Common Sense is the Loan Officer’s Best Defense.....	342
Chapter 16 – Unfair, Deceptive and Abusive Acts and Practices (UDAAP) -	
Predatory Lending.....	343
Chapter 16 – Detailed Review of Predatory Lending - Introduction	343
The Sub-Prime Market as a Catalyst for Predatory Lending.....	343
Predatory Lending Practices.....	344
High-cost Loans	344
“Higher Cost Loans” and Anti-Predatory Lending (APL) Policies.....	344
Loan Flipping- No Financial Benefit – Equity Stripping.....	345
Excessive Fees – Fee Packing.....	346
Lending Without Regard for the Borrower’s Ability to Pay	346
Fraud	347
Negative Amortization.....	348
Payments in Advance	348
Prepayment Penalties.....	348
Payments to Contractors	349
Mandatory Arbitration Agreements	349
Due on Demand Clauses - Acceleration.....	349
Balloon Payments.....	350
Predatory Servicing Practices.....	350
Deceptive Practices	351
Encouraging Default	351
The Federal High-Cost Loan Law.....	351
High-cost Loans.....	352
Disclosures	352
Prohibited Loan Features on Section 32 Loans.....	352
Additional Legislative Solutions and Impacts.....	353
Counseling.....	353
Inclusion of Assignees in the Prohibition.....	353
Effect on Neighborhoods	353
Best Practices – Internal Training Program	353
Potential Federal Regulatory Cures.....	354
Penalties and Enforcement.....	354

State Predatory Lending Laws.....	355
National Bank Exemption.....	355
Blaming Brokers	355
Chapter 17 – Ethics in the Mortgage Industry	357
Pressure to Compromise.....	357
A Code of Ethics	357
Principle 1 – Put the Borrower’s Interests First.....	358
Ethical Quandaries	359
Pricing Issues – Rate Lock-in	359
Pricing Issues – Opportunistic Pricing.....	359
Approval Issues – Pre-Qualified vs. Pre-Approved.....	360
Approval Issues – Loan Denial	361
Approval Issues – The Counter-Offer	362
Processing Issues – Financial Privacy.....	362
Pricing Issues – Hide the Origination/Doc/Broker Fee	362
Processing Issues – Undisclosed Loan Terms	363
Approval Issues – Insufficient Income.....	363
Approval Issues – Low Appraisal.....	364
Business Practices – Kickbacks and Referral Fees.....	364
Business Practices – Advertising.....	364
Origination Issues – Buyer Over-Reaching.....	365
Origination Issues – Documents Signed in Blank	365
Origination Issues - The Unsigned Document	365
Other Ethical Behaviors.....	366
Harassment/Sexual Harassment	366
Business Courtesies	366
Compliance with the Letter, Not the Spirit.....	366
Truth-in-Lending	366
Unethical Treatment of the APR Disclosure.....	367
The Real Estate Settlement Procedures Act.....	367
Unethical Treatment of RESPA Rules	367
The Equal Credit Opportunity Act and the Fair Housing Act.....	369
Unethical Treatment of the ECOA/FHA	369
Ethics - When in Doubt.....	369
Conclusion.....	369
Mortgage Terminology	371

Introduction

Since the first publishing of this book in 1991, the mortgage industry experienced three complete cycles of boom and bust. The last bust grew so large that it threatened the global financial system. The repercussions of this last collapse include a hyper-vigilant level of regulatory oversight and risk-averse guidelines so tight as to constrict lending to pre-1990's levels. In fact, except for technology, the industry looks a lot more like the industry I joined in 1983 than we have seen since.

Because of these changes, this book carries more importance now than ever. Many people who came into the industry since 2002 do not know about the fundamentals of borrower financial qualification - low and no documentation loans made it easy to get a loan without qualifying. This means fewer mentors teaching new loan originators the "right way" to make loans. This book teaches financial qualifying as a skill, but also as an ethical selling process. We would not have experienced the crisis we now face if the industry had insisted that borrowers could afford the loans they took.

Loan officers or originators are an oft-maligned group. Lenders put them in charge of bringing in the business. They are the consumer's only advocates in the home loan process. They must possess that delicate balance of salesmanship and sledgehammer. Invariably, we also view them as a "necessary evil" - because they push the system. We rarely accuse loan officers of strictly adhering to guidelines. A significant number of homeowners would never have achieved their goal if their loan officer followed a set procedure.

Due to limited personnel resources, many mortgage firms find themselves forced to offer loan officer training on a "sink or swim" basis. Handed a binder with program specifications, you must become an expert immediately. Your livelihood depends on how quickly you can make an impact. We have structured this book to bring the neophyte, "haven't touched a calculator since high school," non-real estate practitioner up to speed in a matter of weeks instead of months.

The SAFE Act and (NMLS) Nationwide Mortgage Licensing System

The SAFE (Secure and Fair Enforcement for Mortgage Licensing) Act became law as a reaction to the Sub-Prime Mortgage Meltdown and the global financial crisis. This law was a reaction to the mortgage industry's failure to self-regulate in a market environment that facilitated the financing of nearly anyone who applied for a loan. Many believed unregulated mortgage brokers were largely to blame for the crisis. SAFE targets these loan originators and creates a universal licensing law. The law mandates that states require pre-licensing and continuing education, as well as registration through the NMLS, for non-bank mortgage originators. Examining the required training elements reveals an emphasis on regulatory compliance. The Federal requirements understate the vocational (skills-based) training needs of new entrants. 20 hours is not a sufficient amount of vocational education to prepare an originator for work in this complex industry.

To address the SAFE Act requirements, we have combined two texts; "The Loan Officer's Practical Guide to Residential Finance" and "The Loan Officer's Practical Guide to Compliance." Together these textbooks contain all of the information required by the Federal law, as well as providing instruction on job skills required to execute the duties of the loan originator. In addition, this

material arms the originator with the information required to pass the Federal sections of the National Mortgage Originator Exam. Once you obtain a license to practice mortgage origination you will find that your success depends far more heavily on your skills. 20 hours of compliance education may prepare you to take an exam, but job proficiency requires that you study longer.

Introduction to the Business

A Mortgage - the paper itself - is a document recorded among permanent land records. This document enforces the Note - a borrower's promise to pay - and allows a lender to take a property back from the owner if he or she does not keep that promise. This is why we call it the mortgage business. Sounds simple, but the simplicity ends here. This piece of paper forms the basis of a thriving and dynamic industry. However, for all of the sophistication that has evolved over the last 70 years, the loan officer still holds the primary responsibility for performing the function of structuring residential home mortgage transactions.

There is no substitute for practical experience. However, learning through practical experience is a nice way of saying, "learning it the hard way." The phrase "a little knowledge is very dangerous" is a description of what can happen when we apply facts without appropriate framework. We have attempted to distill the introductory training of a loan officer in a way that gives an understanding of how, physically, things work. Knowing how and why we do things provides a context for all of the facts that the loan officer must commit to memory or have readily available. There is a LOT to learn.

Because of this challenge, we have organized this book in the way that we feel an individual would learn this information chronologically, as he or she would if going through a loan process from beginning to end. Our unique program understands that the originator must calculate and explain monthly payments and programs in order to progress to the loan application, so our instructions follow the timing of the process.

In addition, we have attempted to compress a vast amount of information into a relatively small package. Mark Twain once said, "I didn't have time to write you a short letter, so I wrote you a long one..." which illustrates what our industry suffers most from – verbosity. In compressing information, the instruction can start to appear jumpy. We know the challenge of learning this business in a short time, and we try to eliminate as much filler as possible.

Today, More Than Ever...

Today's mortgage industry resembles the 1980's, with few products and super vigilant underwriting. More than ever, we need that person who can step in and take the time to structure a transaction for a borrower's best interests utilizing all of the options available. We can lend our way out of this crisis. That is the loan officer's job - this is what I hope you will learn from this book.

SAFE Act Curriculum Syllabus - Nationwide Licensing System

We have designed this text to encompass all the information that could be on a National Test, as well as that which is required to perform the originator's function. For those who require SAFE Act (Secure and Fair Enforcement for Mortgage Licensing Act) initial and continuing education credit, we are providing this Syllabus to guide you to the SAFE Act required topics.

Pre-Licensing 20 hours/Continuing Education 8 Hours Required Courses/Topics			
SAFE Topic	Course Title	Chapter	Hours
Federal Laws (3 Hours Total)	Understanding Federal Laws	11	1
	RESPA – Understanding the Real Estate Settlement Procedures Act	12	1
	Truth-in-Lending Regulation Z	13	1
Ethics (3 Hours Total)	Fraud - Understanding Mortgage Fraud	15	1
	Understanding Federal Credit Laws	14	1
	Ethics in the Mortgage Business	17	1
Lending Standards and Non-Traditional Loans	Predatory Lending	16	1
	Understanding Loan Types	2	1
Total Mandatory Pre-Licensing (PE)			8
Add State Specific Required Pre-Licensing (0-6 hours, depending on state)			0-6
Add Elective Pre-Licensing Education for a total of 20 (6-12 hours min.)			6-12

Test Preparation

For the national tests, the NMLS has drawn questions from topics listed on the suggested National Test Outline. Within this outline, there are wide arrays of requirements. We provide this guide to assist you in preparing for the National Test. Individual state tests will focus more on state specific laws, requirements, and practices. The percentage of questions per topic may vary from time to time, based on test revisions.

National Test Preparation Source Reference

Topic(s)	Chapter(s)
I. Federal mortgage-related laws	
RESPA, Equal Credit Opportunity Act (Reg. B), Truth-in-Lending Act (Reg. Z and HOEPA), SAFE Act, Home Mortgage Disclosure Act (HMDA), Fair Credit Reporting Act, Privacy protection / Do Not Call, FTC Red Flag Rules (Fair and Accurate Credit Transactions Act of 2003)	11 - Understanding Federal Laws (Overview) 12-14 Specifics
I.a. Uniform State Content	See QuickNotes
II. General mortgage knowledge	
A. Mortgage programs; 1. Conventional/conforming; 2. Government (FHA, VA, USDA); 3. Conventional/nonconforming (Jumbo, Alt-A, etc.); a. Statement on Subprime Lending; b. Guidance on Nontraditional Mortgage Product Risk	3. Understanding Loan Plan Specifications
B. Mortgage loan products; 1. Fixed; 2. Adjustable; 3. Balloon; 4. Other (home equity [fixed and line of credit], construction, reverse mortgage, interest-only)	2. Understanding Major Loan Types
C. Terms used in the operation of the mortgage market; 1. Loan terms, 2. Disclosure terms, 3. Financial terms, 4. General terms	Mortgage Terminology

Topic(s)	Chapter(s)
III. Mortgage loan origination activities	
1. Application accuracy (truthfulness) and required information (e.g., 1003); a. Customer, b. Loan originator, c. Verification and documentation, A. Application information and requirements	7 – Understanding the Application Process
2. Suitability of products and programs	2 - Understanding Major Loan Types
3. Disclosures, a. Accuracy, b. Timing	7 – Understanding the Loan Process; 11- Understanding Federal Laws
B. Qualification: processing and underwriting; 1. Borrower analysis. a. Assets, b. Liabilities c. Income, d. Credit report, e. Qualifying ratios (e.g., housing, debt-to-income, loan-to-value), 2. Appraisals, 3. Title report; 4. Insurance: hazard, flood, and mortgage	6 – Asset Qualifying 4 – Ratios, Debts and Credit History 5 – Income 1 – Mortgage Math 7 – Application Process
C. Specific program guidelines; 1. VA, FHA, USDA, 2. Fannie Mae, Freddie Mac, 3. Other (e.g., Mortgage insurance, HUD)	3 – Loan Plan Specifications
D. Closing, 1. Title and title insurance, 2. Closing agent, 3. Explanation of Fees	7 – Application Process 6 – Assets and Closing Costs
4. Explanation of Documents, 5. Funding	7 – Application Process
E. Financial calculations used in mortgage lending 1. Interest per diem, 2. Payments (principal, interest, taxes, and insurance; mortgage insurance, if applicable), 3. Down payment, 4. Loan-to-value (loan-to-value, combined loan-to-value, total loan-to-value), 5. Debt-to-income Ratios, 6. Temporary and Fixed interest rate buy-down (discount points) 7. Closing costs and prepaid items 8. ARMs (e.g., fully indexed rate)	1 – Mortgage Math 2 - Major Loan Types 6 – Assets/Closing 2 – Major Loan Types
IV. Ethics	
A. RESPA, B. Gramm-Leach-Bliley Act, C. Truth-in-Lending Act, D. Equal Credit Opportunity Act, E. Appraisal, F. Fraud detection, reporting, and prevention, G. Ethical behavior, 1. Consumers, 2. Appraisers 3. Underwriters, 4. Investors, 5. Warehouse lenders, 6. Real estate licensees, 7. Closing agents, 8. Employers	11 – Federal Laws 15 – Fraud 16 – Predatory Lending; 17 – Ethics

The required knowledge outline reflects the traditional educational approach – lumping topics together – that create a challenge in teaching to a regulatory requirement. The order of this book provides a more logical approach to learning and addresses the knowledge required from a vocational training perspective so that the reader gets job skills, not just test preparation. According to our statistics (including student and instructor feedback) students retain the compliance requirements more completely when placed in the context of job duties.