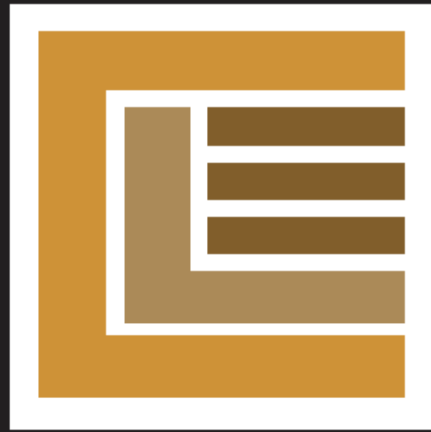


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REAL ESTATE FINANCE



OVERVIEW

- Good Old Days
- Chaos
- A New Lending Environment
- Qualified Mortgage
- Non Qualified Mortgage
- Lenders requirements for Loan approval
- Borrowers ability to pay
- Asset Analysis
- Appraisal
- Approved or Declined?
- Mortgage Defined
- The Note
- The Mortgage
- Mortgage Classes
- Conventional Mortgage Types
- Loan Products
- Real Estate Finance Redefined
- The New Loan Estimate and Closing Statement

THE GOOD OLD DAYS: 2000 - 2007

Money For Nothing

- Fannie Mae, Freddie Mac, FHA and HUD—encouraged home ownership for all by instituting relaxing lending qualifications and exotic mortgage products.
- Banks joined forces, creating exotic mortgage products and writing loans to the bare minimum requirements of the relaxed qualifying guidelines. They loosened up underwriting standards for non-conforming mortgage loans, too. (collateralized mortgage obligations)
- Rating agencies vouched for the integrity of the pools of millions of mortgages that flooded the secondary market: held by Fannie/Freddie, traded between investors, and held by multi-billion dollar municipal retirement funds.
- Home prices increased rapidly. Every homeowner had equity, banks were handing out lines of credit, and in many cases borrowers were required to pay only the interest on their mortgage principal balances to satisfy the terms of The Note.

CHAOS: 2007 - 2012

- Investment bank and mortgage bank collapses.
- TARP: Troubled Asset Relief Program
- The institution of a government-led, government-funded mortgage-buying program.
- Interest rates at historical, all-time lows. Agency Jumbo program, FHA Program
- Home value decreases ranging from 10% in “recession-proof” markets to 20-30% in most other markets.
- Total collapse of real estate markets in Florida, metro Phoenix, and greater Las Vegas.
- Foreclosures skyrocketed. Banks became property owners but tried to do work outs as well.
- Bank lending guidelines changing constantly becoming very strict.
- Frustrated consumers and borrowers.

A NEW LENDING ENVIRONMENT: 2013 - PRESENT

- No more easy lending. No Bad Credit Loans.
- Wiping the slate clean: pay those fines, sell those foreclosures
- Dodd-Frank and The Consumer Financial Protection Bureau
- QM/Non-QM
- The Loan Estimate and the Closing Statement

REAL ESTATE FINANCE REDEFINED

- “Real Estate Finance” could once be described as the support the American dream of home ownership for all, by providing as much financing as possible to as many people as possible, in any creative way that a lender could imagine.

The financial crisis of 2007– 2012 caused an outpouring of distrust for the financial services industry, especially those associated with mortgage lending.

- Now, with the passing of the Dodd-Frank financial reform legislation and the creation of the Consumer Financial Protection Bureau, “Real Estate Finance” is best defined as follows:

The origination of mortgage loans by licensed, regularly trained mortgage bankers employed by licensed, compliant banking institutions registered with the U.S. Government. It involves the proper , full disclosure of information to borrowers and the fair and ethical treatment of every individual who wishes to apply for financing.

REAL ESTATE FINANCE REDEFINED

The entire lending process, from the initial meeting between banker and borrower until the time the documents are signed, has been completely re-engineered to achieve three main results:

- Eliminate fraud and ensure the integrity of the mortgage application.
- Make the mortgage process transparent.
- Provide a safe investment instrument for the secondary market.
- Reduce foreclosures and create a healthy, stable real estate market.

QUALIFIED MORTGAGE

This concept became law on January 10, 2014. A qualified mortgage (QM):

Complies with Dodd-Frank legislation, and follows four basic tenets.

1. Uses an approved loan product
2. Accompanied by a specific set of documentation
3. Is not a High-Cost loan (not more than 6.5% above the prime rate)
4. Does not exceed a debt-to-income ratio of 43%

Rendered safe for the secondary market and is saleable to Fannie Mae, Freddie Mac, and FHA/HUD.

* All Conforming mortgage loans must be Qualified Mortgages.

NON-QUALIFIED MORTGAGE

A non-qualified mortgage (non-QM):

- Does not meet one or more of the four QM criteria stipulated by Dodd-Frank.
- Is not supported by Fannie/Freddie/FHA/HUD, and will not be securitized by any of those entities on the secondary market.
- Are allowed but only on Non-Conforming (“Jumbo”) loans, which are either held in a lender’s own portfolio or sold to a non-government investor on the secondary market.
- Each individual lender will make it’s own determination as to what Non QM loans will be approved and accepted.
- Lenders are still required to thoroughly document all non-QM loan, and to provide justification for approving them.

BORROWER'S ABILITY TO REPAY

- Ability to Repay (ATR) is the crux of any loan decision, and the center of the first major discussion a Mortgage Banker will have with a prospective client.
- A thorough review of any and all income sources, each of which are calculated differently and which require their own individual set of documentation, is done to arrive at a Debt-to-Income ratio (DTI).
- The magic number is 43%. Anything at or below this is a QM. If DTI exceeds this number, the loan is now a Non-QM.
- DTI and ATR is always calculated on a monthly basis. Pre-tax figures are used.

THE LENDING PROCESS

Borrower Interview/Application
Prequalification vs Preapproval
Building review
Finding a lender and product
Contract
Loan Application
The Loan Estimate
Appraisal
Underwriting
Commitment

After commitment is issued:

- Order Title
- Conditions
- Aztecs if co-op
- Clearing a file for closing
- Closing
- Funding
- Closing Disclosure

BORROWER INTERVIEW/APPLICATION

Lender criteria for loan approval is based on 4 metrics:

1) Loan to Value Ratio:

- A measure of leverage that the borrower will undertake, expressed as a percentage when dividing the amount of the mortgage loan by the purchase price.

2) Borrower Credit Worthiness:

Thorough review of credit history.

Use of credit scores for qualifying for a mortgage and as a factor in determining interest rate.

BORROWER INTERVIEW/APPLICATION

3) Income/Ability to Repay:

- A determination of a borrower's debt-to-income ratio, based on a thorough and sometimes complex review of income documentation.
- Debt to Income ratio translates directly into someone's ATR.

4) Assets/Down Payment/Post-Closing Asset Reserves:

- The borrower's assets remaining after the down payment and settlement costs are removed from their balances.
- QMs have very little reserve requirements. Non-QM guidelines in this area are more stringent.

PREQUALIFICATION VS PREAPPROVAL

Information provided:	Preapproval	Prequalification
Assets	X	
Income	X	
Debt	X	
Underwriting approval	X	
DU/LP	X	
Lender	X	
Building qualification		

BUILDING REVIEW/FANNIE MAE REQUIREMENT

Presale 90% sold, 51% owner occupied, less than 30% commercial space,

Financials (2 Years)

Line Item Budget

Insurance

Offering Plan /AG Amendments Sponsor/Letter

Warrantable

Non-Warrantable

By-Laws

Appraisal

FINDING A LENDER AND PRODUCT

Conventional Mortgage Types:

Conforming Loan:

- Any loan amount up to of \$417,000.
- Securitized by Fannie Mae or Freddie Mac. These entities guarantee the lender a willing purchaser of the instrument after closing.
- Subject to the lending guidelines set forth by Fannie & Freddie. No exceptions to those guidelines exist.

Conforming “High-Balance” Loan:

- Temporary, expanded securitization capacity for Fannie & Freddie.
- Instituted in 2009. Loan amount limits vary by county and are reviewed/subject to change annually.
- Any mortgage loan between \$417,001 and \$625,500. *
- Subject to a different set of Fannie/Freddie lending guidelines that are more stringent and less inclusive than those pertaining to a traditional Conforming loan.

FINDING A LENDER AND PRODUCT:

Non-Conforming Loan:

- Commonly referred to as a “Jumbo” mortgage loan.
- Any mortgage that exceeds \$625,500. *
- Not securitized by Fannie or Freddie, and therefore not subject to their lending guidelines.
- Lenders use their own guidelines and specialty lending programs for Non-Conforming loans.
- Exception lending becomes possible.

FINDING A LENDER AND PRODUCT

1) Fixed Rate:

Available in amortization terms of 10 – 30 years, at 5-year increments.

2) Adjustable Rate:

Available in amortization terms of 10 – 30 years, at 5-year increments.

Initial fixed rate period is either 3, 5, 7, 10

Rate adjustments begin at the conclusion of the initial fixed rate period. Rate caps exist, and are set forth in the note. 5/2/5, 2/5/2

FINDING A LENDER AND PRODUCT

Other Products:

- Home equity/second mortgages.
- Construction mortgages.
- Rehabilitation 203(k) mortgages.
- Reverse mortgages: offered only by reverse-mortgage companies, and only offered to homeowners of a certain age.

No longer offered:

- Balloon loans.
- Negative amortization loans.
- Interest only mortgages (Quasi-illegal. Allowed on Non-Conforming loan amounts at lender discretion).

FORMAL LOAN APPLICATION (1003)

1. Name
2. Social Security Number
3. Income
4. Address
5. Property Value
6. Loan Amount

ASSET ANALYSIS

Asset Classes:

1. liquid
2. semi-liquid
3. non-liquid

Not all asset classes can be considered.

Lender analysis of borrower assets focuses on two things:

1. **Cash to Close:** down payment and settlement costs. Assets from any class can be used, provided they are liquid/liquidated and fully-documented.
2. **Post-Closing Reserves:** assets required in order to be approved for most loan products (especially non-QMs). Calculated as number of months of housing payments left over after Cash to Close is removed from asset balances.

LOAN ESTIMATE

- On October 3, 2015 the CFPB instituted a new document replacing the Good Faith Estimate, referred to as a GFE. The new document call the “Loan Estimate replaces both the GRE and TIL. This must be provided by a mortgage lender or broker in the United States to a customer.
 - The estimate must include an itemized list of fees and costs associated with the loan and must be provided within 3 business days of applying for a loan (formal loan application – 1003).
 - These mortgage fees, also called settlement costs or closing costs, cover every expense associated with a home loan, including inspections, title insurance, taxes and other charges.
- A good faith estimate is a standard form which is intended to be used to compare different offers (or quotes) from different lenders or brokers.

The Loan Estimate

Page 1

- Loan Terms
- Projected Payments
- Costs at Closing

Citibank, N.A.
1000 Technology Drive • IT Park, MD 63368-2240 *See this Loan Estimate to compare with your Closing Disclosure.*

Loan Estimate

LOAN TERM 30 years
DISPENSE Full-Disc
PROPERTY 1st Lien
LOAN TYPE Conventional FHA VA
LOAN ID# 809602789
RATE LOCK NO LOCK YES LOCK (to 10/30/2015 at 3.50% per CDT)
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs apply to 10/30/2015 at 3.50% per CDT.

APPLICANTS Debra Lee
PROPERTY 1 WASHINGTON BLVD
ALBANY, NY 12205-0005
SOLD PRICE \$1,861,000

Loan Terms	Can this amount increase after closing?
Loan Amount	\$260,000 NO
Interest Rate	3.500% NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment.</i>	\$1,167.52 NO
Prepayment Penalty	NO
Ballot Payment	NO

Projected Payments	Does the loan have these features?
Payment Calculator Years 1-30 Principal & Interest	NO
Estimated Total Monthly Payment	\$1,861
Mortgage Insurance	+ 0
Interest Escrow	+ 893
Amount can increase over time	
Estimated Total Monthly Payment	\$1,861

This estimate includes:
 Property Taxes
 Homeowner's Insurance
 HOA
See Section One, page 2, for estimated payments costs. You may pay for other property costs separately.

Costs at Closing

Estimated Closing Costs	\$15,059 <i>Includes \$2,899 in Loan Costs + \$12,000 in Other Costs in Lender Credits. See page 2 for details.</i>
Estimated Cash to Close	\$155,059 <i>Includes Closing Costs. See Calculating Cash to Close on page 2 for details.</i>

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.

LOAN ESTIMATE PAGE 1 OF 3 • LENDER ID: 809602789

Page 2

- Breaks out for the client the fees they can shop for and those they cannot.
- A Calculating Cash to Close section organizes and itemizes all of the components which make up the closing costs.
- The form includes a Payment Table and Interest Rate Table for adjustable rate mortgage loans, enabling clients to see how their loan may change over time.

Closing Cost Details

Loan Costs	Other Costs
I. Origination Charges \$445	E. Taxes and Other Government Fees \$445
1.00 % of Loan Amount (Points)	Recording Fees and Other Taxes
Application Fee	Transfer Taxes
Compliance Fee	
	F. Prepaids \$1,800
	Homeowner's Insurance Premium (12 months)
	Mortgage Insurance Premium (months)
	Original Issuance (\$2 per day for 1 year (31-5%))
	Property Taxes (months)
	G. Total Escrow Payment at Closing \$2,899
	Homeowner's Insurance \$12.25 per month for 2 mos
	Mortgage Insurance \$187
	Property Taxes \$610.00 per month for 4 mos
	\$2,440
H. Servicing You Cannot Shop For \$447	J. Other \$2,398
Appraisal	Title - Owner's Title Insurance (Optional)
Credit Report - Lender	
Lender Flood Certification	
Tax Service	
	K. TOTAL OTHER COSTS (E + F + G + H) \$6,250
	L. TOTAL CLOSING COSTS \$15,059
	D + I
	Lender Credits
	Calculating Cash to Close
	Total Closing Costs (L)
	\$15,059
	Closing Costs Financed (Paid from your Loan Amount)
	\$0
	Down Payment Funds from Borrower
	\$140,000
	Deposit
	\$0
	Funds for Borrower
	\$0
	Settle Credits
	\$0
	Adjustments and Other Credits
	\$0
	Estimated Cash to Close
	\$155,059
K. TOTAL LOAN COSTS (A+B+C) \$8,855	

M. Servicing You Can Shop For \$3,997

Title - Amount Title Search or Property Report	\$31.0
Title - Settlement or Closing Fee	\$300
Title - State Title Search Fee	\$125
Title - Survey - Title Insurance	\$79.4
Title - Title Insurance	\$1,415
Title - Title Insurance Endorsement	\$127
Title - Title Pick-Up Fee	\$300

LOAN ESTIMATE PAGE 2 OF 3 • LENDER ID: 809602789

Page 3

- Includes additional information about the loan, along with sections on Comparisons and other Considerations, to help clients make informed decisions about their loan.
- Informs clients on whether the lender intends to service the loan or transfer servicing.

Additional Information About This Loan

LENDER Citibank, N.A. **MORTGAGE BROKER**

NMLS_LICENSED ID 412915 **NMLS_LICENSE ID**

LOAN OFFICER **LOAN OFFICER**

NMLS_LICENSED ID 1231 **NMLS_LICENSE ID**

BRANCH **EMAIL**

PHONE **PHONE**

Comparisons	Use these resources to compare this loan with other loans.
In 5 Years	\$75,960 Total you will have paid in principal, interest, mortgage insurance, and loan costs.
	\$35,788 Principal you will have paid off.
Annual Percentage Rate (APR)	3.684% Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	61.675% The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

Appraisal We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.

Assumption If you sell or transfer this property to another person, we will allow, under certain conditions, that person to assume this loan on the original terms. We will not allow assumption of this loan on the original terms.

Homeowner's Insurance This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice or the one we recommend.

Loan Payment If your payment is more than 15 days late, we will charge a late fee of 2% of the monthly principal and interest payment.

Loan Acceptance You do not have to accept this loan because you have received this form or signed a loan application.

Liability after Foreclosure Taking this loan could end any state law protection you may currently have against liability for unpaid debt if your lender forecloses on your home. If you lose this protection, you may have to pay any debt remaining even after foreclosure. You may want to consult a lawyer for more information.

Servicing We intend to service your loan. If so, you will make your payments to us. to transfer servicing of your loan.

LOAN ESTIMATE PAGE 3 OF 3 • LENDER ID: 809602789

The Closing Disclosure

- Statement of the final loan terms and closing costs
- Follows the same format as the Loan Estimate which will allow the client to easily compare the documents.
- Information that was originally provided on the Loan Estimate is also included on the Closing Disclosure.
- The Closing Disclosure must be provided to the client no later than three business days before the consummation of the loan.
- When the Annual Percentage Rate (APR) changes or the product changes, i.e. Adjustable Rate Mortgage (ARM) to a Fixed Rate; a new disclosure period begins.

Closing Disclosure		<i>This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.</i>	
Closing Information		Transaction Information	
Date Issued	02/19/2015	Borrower Do Not Use Unit	121 N Main St Tulsa, OK 74108
Closing Date		Seller	Test One 121 N Main St Tulsa, OK 74108-
Disbursement Date		Lender	Citibank, N.A.
Settlement Agent		Loan Information	Loan Term 30 years
File #			Purpose Purchase
Property	5 WASHINGTON AVE ALBANY, NY 12205-5220		Product Fixed Rate
Sale Price	\$400,000		Loan Type <input checked="" type="checkbox"/> Conventional <input type="checkbox"/> FHA
			<input type="checkbox"/> VA <input type="checkbox"/> _____
			Loan ID # 009900213990
			MIC #
Loan Terms		Can this amount increase after closing?	
Loan Amount	\$260,000	NO	
Interest Rate	3.500%	NO	
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$1,167.52	NO	
		Does the loan have these features?	
Prepayment Penalty		NO	
Balloon Payment		NO	
Projected Payments			
Payment Calculation	Years 1-30		
Principal & Interest	\$1,167.52		
Mortgage Insurance	+ 0		
Estimated Escrow <i>Amount can increase over time</i>	+ 693.33		
Estimated Total Monthly Payment	\$1,860.85		
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$693.33 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Escrow Account on page 4 for details. You must pay for other property costs separately.</i>	In escrow? YES YES
Costs at Closing			
Closing Costs	\$15,059.03	Includes \$8,859.50 in Loan Costs + \$6,199.53 in Other Costs \$0.00 in Lender Credits. <i>See page 2 for details.</i>	
Cash to Close	\$154,591.78	Includes Closing Costs. <i>See Calculating Cash to Close on page 3 for details.</i>	
CLOSING DISCLOSURE		PAGE 1 OF 3 • LOAN ID # 009900213990	

APPRAISALS

Per RESPA regulations:

Ordered, tracked, disbursed to lender via third party. AMC – appraisal mgmt. company

No interaction between mortgage banker and appraiser.

Certain types subject to higher levels of scrutiny before receiving approval.

Is the potential “wild card” for any transaction due to the subjectivity involved.

Lender will use the lower of the appraised value or the contract price to determine the Loan-to-Value ratio for the mortgage transaction.

APPROVED OR DECLINED?

The role of the mortgage originator:

- Interview
- Gather documents
- Complete mortgage application
- Pre-underwrite loan

The role of the mortgage underwriter:

- Match up supplied documentation with originator's application
- Review credit report, income and asset documents, appraisal
- Ask for more documentation before clearing the loan for closing

APPROVED OR DECLINED

- The value of the mortgage pre-approval:
- Legitimizes the borrowers before they hit the market.
- Provides the ability to submit non-contingent offers.
- Provides the ability to close quickly.
- Gives all parties—the borrower(s), the mortgage banker, and the real estate broker—the opportunity to communicate and understand one another as early as possible.

CONTROL OF THE TRANSACTION

Preparing for the Closing

- **Meet conditions of the commitment**
- **Resolve title questions**
- **Obtain homeowner's insurance**
- **Final walk-through inspection**
- **Final estimate of closing costs**
- **Bank checks**

Co-op Lending

Some additional terms to know:

- **Condo-ops (Condo/Co-ops):** A building with both co-op units and condo units. Generally, co-op corporation owns the condo units, usually commercial or professional space
- **Ground lease:** A lease of the land the co-op project is on, usually a long-term basis; term **MUST** extend 5 years beyond that of mortgage loan
- **Flip Tax:** A fee imposed on the transfer of shares in the co-operative project, paid either by the property seller or purchaser. For lending purposes, it is DEDUCTED from value/price if greater than 3%

Sources:

<http://www.fanniemae.com/portal/index.html>

<https://www.fanniemae.com/singlefamily/loan-limits>

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