# Chapter 11: Financing

**10 Questions**

In this chapter we will explore the many aspects of real estate financing:

- **Basic Concepts and Terminology**
- **Types of Title**
- **Security Instruments**
- **Types of Financing**
- **Common Types of Residential Loans**
- **Construction Loans**
- **Important Clauses in Security Instruments**
- **Default of a Home Loan**
- **The Lending Process**
- **Methods of Financing**
- **Government Oversight**

## Basic Concepts and Terminology

While licensees are not expected to be experts in the field of finance, licensees should have a working knowledge of real estate finance and the lending process.

- **List price:** The price the seller sets on the property when placing it on the market. This is the seller's ideal price that he'd like to sell the property for.
- **Contract price** or **sales price:** The final sale price of the property agreed upon between the seller and the buyer after negotiating back and forth on the terms of the sale.
- **Appraised value:** The current market value of the property as determined by a licensed home appraiser.
- **Loan:** When money is given to another party in exchange for repayment of the amount borrowed plus interest. Loans fall into two main categories: **unsecured** and **secured**.
    - **Unsecured loans** are not attached or backed by any collateral. A personal loan or a credit card is an example of an unsecured loan/debt.
    - **Secured loans** are attached and backed by collateral. A car loan or a home loan is an example of a secured loan.
- **Lien:** A type of financial encumbrance that ties the performance of paying a debt to ownership of a specific property. For home loans, liens are placed by lenders against properties that are being used as collateral for a loan.
- **Collateral:** Something pledged as security for repayment of a secured loan, to be forfeited in the event of a default, usually property in a loan used to purchase real estate.
- **Principal:** The total amount of money borrowed.
- **Principal Balance:** The unpaid part of the amount borrowed.
- **Interest:** A fee charged by the lender to use borrowed money. Interest is always paid in arrears, meaning the month after.
- **Discount points:** A fee charged by the lender to "lower" the interest rate of the loan and increase the yield.
- **Term:** The length of time the borrower has to repay the lender.
- **Down payment:** A percentage that the buyer puts down on the sale of the property that he pays out of pocket. The down payment amount depends on the type of loan used.
- **Equity:** The difference between the current market value and any liens on the property.
- **Loan-To-Value Ratio (LTV%)** is an expression of the ratio between the loan and the contract price or appraised value expressed as a percentage.
    - For example, if a loan has a 90%LTV, that means the lender will provide a loan for 90% of the contract price. The borrower must supply the other 10% out-of-pocket as a down payment.
    - What percentage of a down payment must the borrower provide if she has secured a home loan with an 85%LTV? *That's right! 15%*

## Discount Points: What's the point?

Lenders make money on loans in two basic ways: origination fees and interest.

An **origination fee** is a fee for the creation of the loan: taking the application, pulling the credit, calling the borrower for documents and such tasks related to taking a loan application from start to finish.

The other way that lenders make money from loans is by charging **interest**, a fee charged by the lender for borrowing their money. The interest rate for the loan is primarily based on the borrower's credit score and financial history.

Over the lifetime of the loan, lenders profit from the interest earned on the loans they underwrite (meaning approve and provide). This earned interest is referred to as the **yield**. The amount of yield earned typically is determined by the interest rate the lender charges on a loan. The lower the interest rate, the lower the yield. The higher the interest rate, the higher the yield.

### *Where do discount points fit into this system?*

Purchasing **discount points** is a way for the borrower to lower his interest rate over the lifetime of the loan (and thus lowering the monthly payments) and for the lender to "increase" the yield.

Discount points are also referred to as **points**. However, the term "discount" is misleading in this situation. When the borrower buys discount points to lower his interest rate, he is merely paying his interest upfront when the loan is created, NOT actually receiving a lower interest rate and saving money. (We'll talk about how points are purchased in a moment.)

In turn, the lender is technically accelerating the yield, meaning collecting a portion of the interest to be earned over the lifetime of the loan EARLY when the loan is created, not actually increasing the amount collected. The term "increase" means something different in this situation.

So, while this is referred to as "discount points" because the lender is decreasing the interest rate, in reality it can best be described as an "up-front" payment of interest.

### *Why would a borrower want to pay discount points?*

If the borrower does not have a strong credit or earning history and experiences difficulties in qualifying for financing, paying discount points may increase the lender's willingness to fund the loan.

Since a lower interest rate means lower payments, it makes it easier for the borrower to repay the loan and therefore funding the loan becomes less risky to the lender. Plus, since the lender will be receiving a portion of their interest payment upfront, this also makes funding the loan a little less risky for the lender. This type of discount is often referred to as a loan buydown.

For example, if the borrower is given an interest rate of 5% for a loan and can purchase enough discount points to lower is his rate to 4.5%, over the lifetime of the loan he is still paying a total of 5% interest. He just paid 0.5% of it upfront at closing so he could enjoy a lower payment over the lifetime of the loan.

We'll cover the steps for calculating discount points in detail in **Chapter 16: Real Estate Calculations.**

## Basic Types of Loan Financing

**Financing** is the act of providing funds in the form of a loan, but not all loans and loan payments are the same.

- **Amortized loan:** A loan that is paid back in **installments** (payments) over a set amount of time.
  - **Fully-amortized loan:** During the lifetime to the loan, payments were made in equal installments and at the end of the loan period (term), the principal balance is zero meaning the loan is paid in full on the final payment.
  - **Partially-amortized loan:** Loans that are made in payment installments for the majority of the term of the loan, but the remaining balance must be paid in one large payment, called a **balloon payment**, to completely pay off the loan.
  - **Non-amortized loan:** Loans in which payments only cover interest, but nothing is applied towards the principal. At the end of the loan term, the principal balance is due in the form of one large payment, called a **balloon payment**. Also referred to as **interest-only loan, straight loan** or **term loan.**
  - **Balloon payment:** A large payment usually at the end of a loan to that pays the remaining principal balance due on the loan.
- **ARM (Adjustable Rate Mortgage) loan:** A home loan with an interest rate based on an **index** and **margin** which causes the interest rate to vary making payments amounts change throughout the life of the loan. The margin is constant throughout the life of the mortgage, while the index value is variable.
  - **Index:** A variable financial marker to which the interest rate is tied making monthly payments go up or down.
  - **Margin:** A fixed percentage rate that is added to an index value to determine the interest rate.
- **Reverse mortgage loan:** A type of loan for senior homeowners (ages 62 and older) that allows them to convert their home equity into cash income with no monthly mortgage payments.

## The Difference Between a Loan and Lien

A **loan** is when money is given to another party in exchange for repayment of the loan principal amount plus interest. It is a form of debt incurred by an individual or other entity. The lender—usually a corporation, financial institution, or government—advances a sum of money to the borrower.

In return, the borrower agrees to a certain set of terms including any finance charges, interest, repayment date, and other conditions. In some cases, the lender may require collateral to secure the loan and ensure repayment.

On the other hand, a **lien** is a type of financial **encumbrance** that ties the performance of paying a debt to ownership of a specific property.

**The mortgage, deed of trust or contract for deed (land contract) are considered to be liens.**

A **lien** provides a creditor with the legal right to seize and sell the collateral property or asset of a borrower who fails to meet the obligations of a loan or contract. The property that is the subject of a lien cannot be sold by the owner without the consent of the lien holder.

Liens can be voluntary or consensual, such as a lien on a property for a loan. However, there are also involuntary or statutory liens whereby a creditor seeks legal action for nonpayment, and as a result, a lien is placed on assets including property and bank accounts.

## Security Instruments (Finance Instruments)

### Basic Elements and Provisions of a Home Loan

Lenders, whether banks or individual sellers, typically require the persons who are borrowing money to finance the purchase of real estate to sign a **promissory note**, or "note" for short, and a **security instrument**. Thus, a home loan typically contains two elements, a **promissory note** and a **security instrument**. A **security instrument** is also referred to as a **finance instrument**. Both play an important part in the home loan.

- **Promissory note:** A legal financial document in which one party promises in writing to pay a determinate sum of money to the other under specific terms. Because the borrower might be cash poor or have other debts, lenders will secure the note with a **security instrument**, such as a **mortgage** or a **deed of trust**.
- **Security instrument (finance instrument):** A legal financial document that stipulates the borrower is pledging his interest as **collateral** for a loan and grants the lender the rights to take the property if the borrower goes into default and does not pay under the terms of the **promissory note**.

#### *Promissory Note*

Often called "note" for short, a **promissory note** is a note is a written, unconditional promise to pay a certain sum of money at a certain time or within a certain period of time.. This agreement will contain important loan specification, such as the loan amount, interest rate, due dates, late charges, and the terms of the mortgage.

#### *Security Instrument*

A **security instrument** is a legal document that serves two very important functions for the lender:

- Stipulates that the borrower is pledging their title of the property as collateral for a loan.
- Grants the lender the rights to take the property if the borrower goes into default and does not pay under the terms of the promissory note.
- Three main types of security instruments: a **mortgage**, a **deed of trust**, and a **contract for deed (land contract).**
- Before we learn about the differences between a **mortgage**, a **deed of trust**, and a **contract for deed (land contract),** we must understand the different types of title: **full legal title**, **equitable title** and **bare title (naked title or legal title)**.

## Types of Title

We know that ***title means ownership***, but let's take that one step further. In the previous chapters, title was just called ***title***, but it technically is called **full legal title**.

- **Full legal title:** Interest in the property with a full bundle of rights which includes three important rights: **ownership** (meaning you own it), **enjoyment** (you can enjoy/live in it) and **disposition** (you have the right to convey the title).

**Full legal title** can be split into two types: **equitable title** and **bare title (naked title/legal title)** in certain security instruments.

While the payments are being made, the borrower will hold **equitable title** and the lender or another party will hold **bare title.**

- **Equitable title:** Title that has the **rights of enjoyment**, but *not* **ownership** and **disposition**, that is held by the borrower in certain security instruments.
    - While making payments, the borrower only has right to enjoy (live in) the property.
    - The lender or another party will hold the rights of ownership and disposition while the borrower is making payments.
    - After the loan has been paid in full, the borrower will gain the rights of ownership and disposition and possess full legal title.
- **Bare title (naked title/legal title):** Title that has the rights of ownership and disposition, but not enjoyment. The lender or another party holds the ownership rights and can convey the property while the payments are being made but does not enjoy (live in) the property.

- **To make matter more confusing,** some textbooks refer to **bare title** as **"legal title."** For our course we will refer to it as **"bare title"** so that you don't confuse it with **"FULL legal title."***

| TITLE | Owns it | Can enjoy it | Can convey it |
|---|---|---|---|
| Full Legal Title | ✓ | ✓ | ✓ |
| Equitable Title | *Nope!* | ✓ | *Nope!* |
| Bare Title (Naked Title or Legal Title*) | ✓ | *Nope!* | ✓ |

What type of title an individual holds while making payments is dictated by the type of security instrument used to purchase the property (mortgage, deed of trust or contract for deed).

Let's review each type of security instrument to learn how title is divided up in each financing situation.

## Types of Security Instruments

There are three basic types of security instruments:

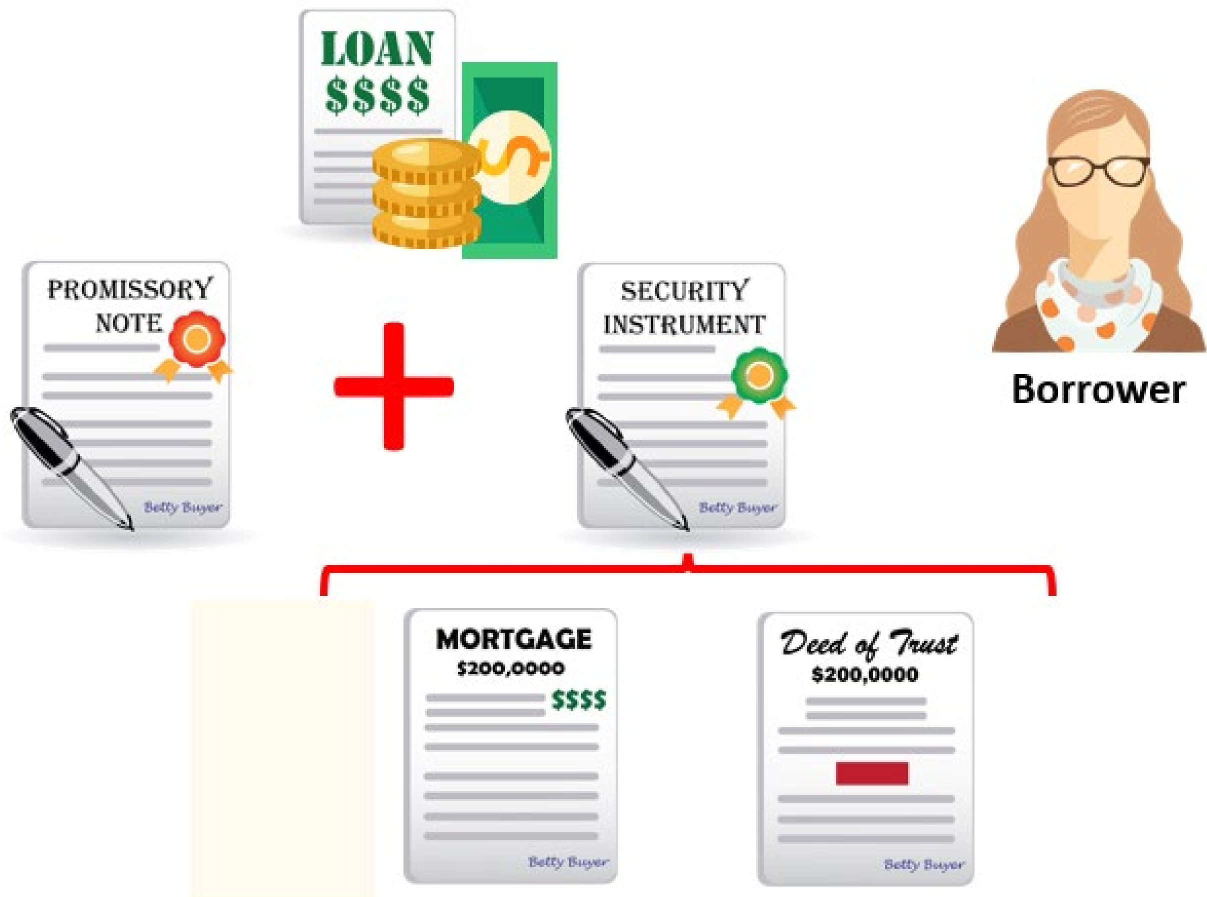
- **Mortgage**
- **Deed of trust**
- **Contract for Deed (Land contract)**

The mortgage, deed of trust or contract for deed (land contract) is the document that pledges the property as security for the loan.

It is the mortgage, deed of trust or contract for deed (land contract) that permits a lender to foreclose if a borrower fails to make the monthly payments or breach the loan contract in some other way.

**The mortgage, deed of trust or contract for deed (land contract) are considered to be liens.**

A **lien** provides a creditor with the legal right to seize and sell the collateral property or asset of a borrower who fails to meet the obligations of a loan or contract. The property that is the subject of a lien cannot be sold by the owner without the consent of the lien holder.



## Mortgages

A mortgage is a security instrument that involve two parties:

- **Lender**, called the **mortgagee**
- **Borrower**, called the **mortgagor**

A **mortgage** is a lien that the borrower is obliged to repay in set of payments amounts and terms. It is understood that the money borrowed is going to be used to purchase a specific property and in return that property will be pledged as security for the loan, called **collateral**.

The lender will record the mortgage in the public records to protect their interest in the property and to let everyone know that there is a lien on the property. The recorded lien would be revealed in a **title search**. The act or recording the mortgage in the public records provides **constructive notice** that the lender has a financial interest in the property.

In a residential mortgage, a home buyer pledges his or her house to the lender as collateral for the loan.

While payments are being made:

- The **mortgagee (lender)** holds a **note.**
- The **mortgagor (borrower)** holds **full legal title**.

If the borrower stops paying the loan, the lender can foreclose on the property using a **judicial foreclosure** because of a specific clause in the mortgage, called an **acceleration clause**.

An **acceleration clause** is verbiage in the mortgage that states upon default the lender can demand immediate payment of the entire amount owed (the remaining principal balance and interest).

A **judicial foreclosure** is a foreclosure carried out under the supervision of a court.

A judicial foreclosure must be used because the lender needs to get **full legal title** from the borrower. Remember, full legal title includes the right to convey. Only the person holding that right can transfer title the property.

When the loan has been paid in full, the mortgage is considered "**satisfied**." The lender will issue a document called a **satisfaction** that states the mortgage lien has been paid in full and confirms that the mortgage has be discharged.

The borrower can then record the satisfaction in the public records to provide **constructive notice** that the loan has been paid in full. In the real world, however, the lender typically records the satisfaction.

## Deed of Trust

A **deed of trust** is a security instrument that involves three parties:

- The lender, called a **beneficiary**
- The borrower, called the **trustor**
- An impartial third-party, called a **trustee**

**While payments are being made, full legal title is split into equitable title and bare title (legal title):**

- The **beneficiary (lender)** holds a **note**
- The **trustor (borrower)** holds **equitable title** (right to enjoy)
- A **trustee (impartial third party)** holds **bare title (legal title)** (ownership and right to convey)

At the closing, the borrower signs a promissory note and a **trust deed**. A **trust deed** is another type of deed that transfers bare title to the trustee which is typically a title company. (A **trust deed** is also referred to as a **deed of trust**, but a ***trustee's deed*** is another type of deed that is completely unrelated.) The trust deed will be recorded in the public records.

***The trustee holds bare title until the borrower pays the loan in full.***

If the borrower stops paying the loan, the trustee can foreclose using a **non-judicial foreclosure** because of a specific clause in the trust deed called a **power-of-sale clause**.

A **non-judicial foreclosure** is a foreclosure that typically is executed without the involvement of the courts. The reason that the trustee may proceed with the foreclosure process without the involvement of the courts is because the trustee, not the trustor (borrower), holds bare title.

A **power-of-sale** is a clause written into a promissory note authorizing the lender to sell the property without court oversight in the event of default in order to repay the debt. Power-of-sale is permitted in many states as part of a lender's rights to seek a foreclosure. This clause, which is legal in many U.S. states, allows for a foreclosure process that circumvents the courts for speedier outcomes.

If the **beneficiary (lender)** notifies the trustee that the **trustor (borrower)** has defaulted on the loan (stopped making payments), the **trustee (impartial third party)** may advertise the property and sell it to satisfy the outstanding debt.

On the other hand, once the loan is repaid in full, the trustee will transfer bare title to the trustor (borrower) using a **release deed**. The release deed will be filed in the public records and the borrower will now hold full legal title.

## Contract for Deed (Land Contract)

A **land contract** is a type of **purchase-money mortgage (**owner-financing arrangement) that involves two parties:

- The **owner/seller,** called the **vendor**
- The **borrower,** called the **vendee**

A **contract for deed** is also called **land contract, owner-financing**, **installment contract, lease to own** or **installment plan.** Since the details are specific to each situation, there is no one type of contract for deed and many variations of terms exist between seller and borrower.

***Since a contract for deed is complete financial arrangement and payment plan in itself, a note is not used in conjunction with a contract for deed.***

A **purchase-money mortgage** is a blanket term used to describe owner-financing arrangements in which a buyer cannot secure a traditional home loan from a bank and the seller agrees handle the mortgage process instead of a financial institution; also referred to as owner financing and seller financing.

**While payments are being made:**

- The **vendor (owner/seller)** holds full legal title
- The **vendee (borrower)** holds no type of title.

The **vendor (owner/seller)** agrees to finance a portion or the entire purchase price using a **partially amortizing loan** because the buyer cannot secure a traditional loan. Typically, the owner/seller will require a sizable down payment from the **vendee (borrower)** (usually 10% to 20% of the contract price). The **vendee (borrower)** will make monthly payments for three to five years and the final payment will be a large balloon payment.

While the vendor and vendee will meet to sign the land contract and exchange the down payment, but a traditional closing is not held. Since legal title is not being transferred when the land contract is signed, an actual closing is not held and no deed is issued at this time. A closing will not be held until all of payments have been made and all of the terms of the contract have been fulfilled. Only then will the title be transferred from the **vendor (owner/seller)** to the **vendee (borrower)**.

While payments are made by the **vendee (borrower)**, the **vendor (owner/seller)** continues to hold legal title.

In order to pay the large balloon payment at the end of the term, the **vendee (borrower)** is expected to secure more traditional financing from a lender. Once the borrower secures a traditional home loan so that the debt to the seller can be paid in full, a formal closing will be held, and the **vendor (owner/seller)** will transfer legal title to the **vendee** *(the same as what happens in a traditional mortgage)*.

A land contract generally offers more benefits to the **vendor (owner/seller)** because of the way title is held during the term of the loan, which arguably provides more security for the **vendor (owner/seller)** and less security for the **vendee (borrower)**. However, fundamentally speaking, it's not a huge variation from what usually happens in a typical lending/borrowing relationship. Even though the legal title doesn't change hands until the loan is paid in full, both parties still have the same general rights to the property during the term of the loan.

| Basic Types of Security Instruments | | | | |
|---|---|---|---|---|
| **Security Instrument** | **LENDER** | **SELLER** | **BUYER** | **THIRD-PARTY** |
| **MORTGAGE** | ***MORTGAGEE*** <br> **Holds the NOTE** <br> **Uses judicial foreclosure** <br> **Issues satisfaction** | **N/A** | ***MORTGAGOR*** <br> **Holds FULL LEGAL TITLE** | **N/A** |
| **DEED of TRUST** | ***BENEFICIARY*** <br> **Holds the NOTE** <br> **Non-judicial foreclosure** | **N/A** | ***TRUSTOR*** <br> **Holds EQUITABLE TITLE** | ***TRUSTEE*** <br> **Holds BARE TITLE** <br> **Issues Release Deed** |
| **CONTRACT for DEED** <br> **(LAND CONTRACT)** | ***VENDOR*** <br> **Holds LEGAL TITLE** <br> **Uses non-judicial foreclosure** | | ***VENDEE*** <br> **Holds a NOTE** | **N/A** |

*Be sure to know the specific name of each party (lender, seller, buyer, third-party) in each security instrument, who holds which title and what type of foreclosure process is used in case of default.*

## Important Clauses in Security Instruments

Security instruments contain important clause to address specific "what if" situations that could occur during the term of the loan such as "What if a payment is missed?" or "What if the loan is paid off early?"

- **Due-on-Sale clause (alienation clause)**: States that the lender must be paid in full when the property is sold. The property can be sold ONLY if the existing loan is paid off in full. It doesn't prevent the property from being sold; it just requires that the loan be paid off when it is sold.
- **Prepayment clause:** Allows the borrower to pay the loan in full before the maturity date or to make additional payments to reduce the principal balance ahead of schedule without penalty. *FHA-insured and VA-guaranteed loans do not have prepayment penalties of any kind.*
- **Default clause:** Outlines the situations that will constitute an "Event of Default" under the agreement. To avoid default, typically a borrower must make timely mortgage, property tax and insurance payments, keep the property in good repair and gain permission from the lender before making any major improvements on the property.
- **Acceleration clause (In case of default):** States upon default the lender can demand immediate payment of the entire amount owed (the remaining principal balance and interest).
- **Power-of-sale:** A clause written into a promissory note authorizing the lender to sell the property without court oversight in the event of default in order to repay the debt.
- **Assumption clause:** A clause that allows a second purchaser/borrower to assume a loan becoming primarily liable, but the original purchaser/borrower remains secondarily liable in case the second purchaser defaults.
- **Defeasance clause (Paid in full):** States that when the loan debt has been paid in full, the lender must release the property from the lien.
  - **Satisfaction:** For a mortgage, instructs that after the loan has been paid in full to the mortgagee (lender), the mortgagee issues a **satisfaction** (also referred to as a release or discharge), which the mortgagor (borrower) may record to remove the lien.
  - **Reconveyance clause:** For a deed of trust, instructs that after the loan has been paid in full to the beneficiary (lender), the bare title will be released from the trustee (the 3rd party) to the trustor (borrower). The beneficiary issues a **release deed** (or deed of reconveyance), which the borrower may record to remove the lien.

***Payments and PITI Loans***

We know that a payment is the amount due to the lender each month, but not all payments are the same. The two basic types of payments are **P&I** and **PITI.**

- **P&I Payment:** A type on amortized loan payment that consists of two amounts: a portion for the **principal balance** and a portion for the **interest** due.

| | Applied to: | Amount: |
|---|---|---|
| | Principal | $500 |
| | Interest | + $120 |
| Total Monthly Payment: | P&I | $620 |

- **PITI Payment:** A type on amortized loan payment that covers **principal, interest, taxes,** and **insurance**, referred to as **PITI**.

| | Applied to: | Amount: |
|---|---|---|
| | Principal | $500 |
| | Interest | $120 |
| | Taxes | $100 |
| | Insurance | + $80 |
| Total Monthly Payment: | PITI | $800 |

The portion of the payment of taxes and insurance are held in an escrow account by the lender until the property tax bill and the annual homeowner's insurance bill comes due. At that time the lender will pay the bills on behalf of the borrower from the funds set aside in the escrow account.

A loan that required the borrower to pay a portion for the **principal, interest, taxes,** and **insurance** is referred to as **PITI loan** or **budget loan**.

In the real world what is included in the payment depends on the lender, the type of loan and the needs of the borrower. More experienced homebuyers may be comfortable making separate property tax and homeowner's insurance payments, while new homebuyers may prefer to have the lender collect that portion each month on their behalf or the lender may require it as a stipulation of the loan.

## Default of a Loan

When a borrower doesn't make payments on time or makes payments for less than the amount due, the mortgage is considered to be "**in default**."

### Foreclosure

**Foreclosure** is the legal process in which a lender takes possession of a financed property because of the borrower's failure to make timely loan payments.

***Types of foreclosure:***

- **Judicial foreclosure:** A foreclosure carried out under the supervision of a courts. Most security instruments typically contain an acceleration clause that demands the unpaid balance to paid if the loan goes into default. If the borrower can't pay the balance due, then the judicial foreclosure process begins with oversight of the courts. Mortgages typically use judicial foreclosures.
- **Non-judicial foreclosure:** A foreclosure that typically is executed without the involvement of the courts. A deed of trust typically contains power-of-sale clause that demands the unpaid balance to paid if the loan goes into default. If the borrower can't pay the balance due, then the non-judicial foreclosure process begins.
- **Strict foreclosure:** A foreclosure of a mortgage without a sale of the mortgaged property. The court orders the delinquent borrower to pay off the loan within a reasonable period of time. If the borrower fails to do this, the borrower gives up all claims to legal and equitable title; meanwhile the lender cancels the debt and takes possession of the property. The lender does not sell in the property in a foreclosure sale.

  In a strict foreclosure, the foreclosing party (the "lender") goes to court to ask for an order declaring the borrower to be in default on the mortgage and permitting the lender to foreclose. If the court agrees that the borrower is in default, it will approve the foreclosure and give title to the home directly to the lender. There is no foreclosure sale like with a judicial or nonjudicial foreclosure.
- **Deficiency judgment:** A court judgment that allows the lender to collect the deficiency from the original borrower.

  When a home is sold at a foreclosure sale, but it does not sell for enough to cover the amount owed on the loan, the difference is called a deficiency.

  If the mortgage agreement allows the lender to collect this deficiency, the lender may pursue the matter through the courts and seek a deficiency judgement from the courts.

### Alternates to Foreclosure

If a borrower is unable to make timely payments on the mortgage or simply does not wish to continue making payments on a property that is underwater, a borrower has a number of possible alternatives to avoid foreclosure.

- **Loan modification:** A permanent restructuring of the mortgage where one or more of the terms of a borrower's loan are changed to provide a more affordable payment.
- **Short sale:** Occurs when the lender agrees to let the borrower sell the property for less than what is owed on the loan instead of proceeding with the foreclosure process.
- **Deed in lieu of foreclosure:** A situation in which the borrower voluntarily conveys all interest in a real property to the lender to satisfy a loan that is in default and avoid foreclosure proceedings. Basically, the homeowner willingly hands over the property in exchange for the cancellation of the mortgage. This is a quicker way for a homeowner to get out of a mortgage and avoid damaging one's credit. The homeowner issues a special deed called a "deed in lieu of foreclosure" to the lender.

### Right of Redemption

The **Right of Redemption** allows a borrower a chance to get his home back before or after the foreclosure process if he is able to repay the amount of the debt in full.

- The **equitable right of redemption** is the borrower's right to attempt to keep the home by completely paying off the mortgage *before* the foreclosure process if finalized even if the loan is in default.
- The **statutory rights of redemption** allows borrowers a certain period of time *after* a foreclosure has been finalized to reclaim the property by paying the foreclosure sale price, plus other fees and expenses.

## Legal Principles

Two main theories exist regarding **legal title** of a mortgaged property.

- **Title Theory ("Take Theory"):** When a mortgage is used to finance a property in a title theory state, the lender holds bare title and the borrower holds equitable title. While equitable title still allows the borrower exclusive possession and use of the property, upon default, the lender is entitled to immediate possession of the property and can call the entire note due. A non-judicial foreclosure process is used in case of default.
- **Lien Theory:** When a mortgage is used to finance a property in a lien theory, the borrower retains legal title and exclusive possession and use of the property. The lender receives a promissory note from the borrower with the property offered as collateral for the note. Upon default, the lender must use a judicial foreclosure process via the legal system to regain legal title to the property.

## Common Types of Residential Loans

Loans for residential properties fall into two categories: **government-backed loans** and **conventional loans**.

A **government-backed loan** is a loan subsidized by the government, which protects lenders against defaults on payments. This protection for the lender makes it a lot easier for lenders to offer potential borrowers lower interest rates. Its primary aim is to make home ownership affordable to lower income households and first-time buyers.

The most common types of government-backed loans are:

- **FHA loans**
- **VA loans**
- **USDA loans**

### Comparing FHA, VA and Conventional Loans

This is a quick comparison of the major residential loan types that are currently available. Let's take a closer look at each.

| Loan Type | FHA | VA | Conventional |
|---|---|---|---|
| **Down Payment** | 3.5% | 0% | Varies |
| **Pre-Payment Penalty** | Never | Never | Maybe |
| **Credit Score** | Lower | Lower | Higher |
| **Lender Protection** | MIP for lifetime of loan | One-time Funding Fee | PMI until balance drops to 80% |

## FHA loans

The **Federal Housing Administration (FHA)** is a government agency, established by the National Housing Act of 1934, to regulate interest rates and mortgage terms after the banking crisis of the 1930s.

### *Goals of FHA:*

- Improve housing standards and conditions for loan approval.
- Provide an adequate home financing system through insurance of mortgage loans.
- Stabilize the mortgage market by making homeownership possible for middle to lower income Americans.

An **FHA loan** is a home loan issued by an FHA-approved lender and **insured** by the Federal Housing Administration (FHA). The FHA does not make loans directly to consumers. Designed for low-to-moderate-income borrowers, FHA loans require a lower minimum down payments and credit scores than many conventional loans.

A basic FHA loan is referred to as an **FHA 203(b) loan**.

FHA loans are insured to protect the lender from default. This type of insurance is referred to as **mortgage insurance premium (MIP).**

### *Important Details About FHA loan*

- Can be used to purchase residential properties of single-family houses, 1-to-4 dwelling units that owner-occupied, such as a duplex, condominiums, co-ops and vacant residential lots.
- Property financed must be owner-occupied; cannot be used for commercial, agricultural or investment properties.
- Provides a loan for 96.5% of the contract price (96.5%LTV)
- Minimum down payment is 3.5% of the contract price.
- No prepayment penalty.
- The debt-to-income ratio is 31%/43%.
- Requires **MIP (mortgage insurance premium)** payments during the lifetime of the loan.

### *Mortgage Insurance Premium (MIP) & FHA Loans*

**MIP** is an insurance policy required by lenders from borrowers using FHA loans if the down payment is less than 20% of the contract price.

There are two types of **MIP**:

- **Upfront MIP:** A percentage of the loan amount paid when the loan is originated and is calculated into the total loan amount. Currently the percentage is 1.75% of the loan amount and is financed into the loan.
- **Annual MIP:** A fee that is paid over the lifetime of the loan. It is called "annual," but the borrower actually makes monthly payments on it. This monthly amount is added to the PITI payment.

## Veteran's Association (VA Loan)

**The Department of Veteran Affairs** is a cabinet-level government agency that provides near-comprehensive healthcare services to eligible military veterans at medical centers and outpatient clinics located throughout the country and several non-healthcare benefits including disability compensation, vocational rehabilitation, education assistance, home loans, and life insurance.

The Department of Veteran Affairs is commonly referred to as simply the **VA**.

A **VA loan** is a loan program especially for active duty and retired military. While the VA does not lend money directly to veterans, it does guarantee loans made by local lending institutions to veterans. These loans made to eligible active-duty military personnel and retied veterans are called VA loans.

### *Important Details About VA loans*

- Can be used to purchase residential properties of single-family houses, 1-to-4 dwelling units that owner-occupied (such as a duplex, condominiums, co-ops and vacant residential lots.
- Property financed must be owner-occupied; cannot be used for commercial, agricultural or investment properties.
- Provides 100% of the contract price (100%LTV).
- No down payment required (0% down payment).
- No prepayment penalty.
- VA loans are guaranteed with a one-time funding fee
  - Paid for by a **one-time funding fee** that is charged by the lender at the creation of the loan
  - Currently **2.3% for the first-time use; 3.6% for subsequent uses**
  - If the veteran is receiving any disability, the funding fee is waived.
- Requires a **Certificate of Eligibility**, a document issued by the VA that proves to a lender that the applicant has met the VA's service requirement.
- Uses a **Certificate of Reasonable Value**, a document issued by the Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA loan.

### *VA Eligibility Requirements*

- Must have received an honorable discharge AND
- Served 90 consecutive days of active service during wartime, OR
- Served 181 days of active service during peacetime, OR
- Have more than 6 years of service in the National Guard or Reserves, OR
- If the unmarried widow or widower of a service member who has died in the line of duty or as a result of a service-related disability.

### *More Details About VA Loans*

The VA loan is a 0% down mortgage option available to veterans, active-duty service members and select military spouses. VA loans are guaranteed by the U.S. Department of Veterans Affairs (VA) and issued by private lenders, such as a mortgage companies and credit unions.

The VA home loan program was created after World War II by the United States government to help returning service members purchase homes without needing a down payment or excellent credit. Since its creation in 1944, this program has guaranteed more than 25 million VA loans, helping Veterans, active-duty military members and their families purchase or refinance a home.

### *Certificate of Eligibility*

After a veteran determines that he or she is eligible for a VA loan, the next step is to apply for a **Certificate of Eligibility (COE)**, a document generated by the U.S. Department of Veterans Affairs (the VA) that will informs the VA loan lender that the applicant meets the necessary VA eligibility requirements to obtain a VA loan. Additionally, it provides the lender with the necessary information in terms of the applicant's entitlement and fees.

**Entitlement** is the total amount the VA will guarantee for the VA loan. Veterans who are eligible for a VA loan have VA loan entitlement, which is basically a dollar amount the VA promises to repay back to a lender in the event the veteran defaults on the home loan.

The basic entitlement for a VA home loan is $36,000, but lenders typically will lend up to four time that amount, $144,000. Does this mean that VA loans are capped at $144,000? No, it does not!

In the past, when veterans were attempting to "use their entitlement" for the first time, were limited to a maximum loan amount of $144,000, which (obviously) was not enough to purchase a useful-sized home in most areas of the country.

In order to make VA loans more useful and allow veterans to purchase more appropriate homes, the VA began to align its guaranty amounts with the Federal Housing Finance Agency (FHFA) limits (conforming loan limits) for conventional financing (private mortgages), which for most states is currently $647,200. This action created a second layer of entitlement and allowed lenders to make loans for more than the $144,000 basic entitlement level. The second layer of entitlement is commonly referred to by lenders as an "additional entitlement," "bonus entitlement," or "tier 2 entitlement."

### *Loan Limits*

The amount of the loan is determined by WHEN the veteran is using their entitlement. Is it a first-time usage or a subsequent usage? The VA loan limits only affect for buyers with less than their full entitlement, either because they have one or more active VA loans or because of a foreclosure on a previous VA loan.

**For first time applicants:**

There are no loan limits for qualified veterans with their full VA loan entitlement. Veterans with their full entitlement can get as much as a lender is willing to give them without needing a down payment.

**For returning applicants with a current VA loan:**

Veterans with one or more active VA loans or who have defaulted on a previous VA loan will encounter the limits and may be required to pay a down payment, based on how much of the entitlement remains.

- The standard VA loan limit (without requiring a down payment) in 2022 is $647,200 for most U.S. counties, increasing from $548,250 in 2021.
- VA loan limits (without requiring a down payment) also increased for high-cost counties, topping out at $970,800 for a single-family home.

### *Financial Requirements*

Although the VA determines the guidelines for VA loan eligibility, the veteran must still financially qualify for the loan. The lender will also have a set of financial requirements that borrowers must satisfy to be approved for the loan. These typically include a credit score that meets the lender's credit requirements, sufficient reliable income to repay the loan, and acceptable levels of debt. Additionally, the veteran must plan to occupy the property. A VA loan cannot be used to purchase an investment property.

For information on calculating loan amounts and eligibility, visit https://www.va.gov/housing-assistance/home-loans/eligibility/

### *Funding Fees*

VA loans are guaranteed by the U.S. Department of Veterans Affairs (VA). This guarantee provides a “safety net” to lenders supplying the loans which (in turn) makes the lenders more receptive to taking a chance on borrowers with less than perfect credit.

But how is this guarantee being provided? The guarantee on VA loans is provided by fee that is charged at the creation for the loan called a **funding fee**. The VA funding fee is a one-time payment that the borrower pays on a VA loan. According to the VA.gov website, this fee helps to lower the cost of the loan for U.S. taxpayers since the VA home loan program doesn’t require down payments or monthly mortgage insurance (such as PMI or MIP).

### *Funding Fees (cont'd)*

The current funding fee amounts are as follows:

- 2.3% of the contract price for first time users
- 3.6% of the contract price for second and subsequent uses

The funding fee is based off the sales contract price and is (usually) rolled into the loan amount. The veteran has the option to pay the funding fee at closing if he or she chooses to do so.

**Calculating the Actual Loan Amount with Funding Fee**

Based on a $100,000 contract price using the minimum 0% down payment:

- $100,000 contract price x 0.023 = $2,300 Funding Fee
- $100,000 contract price + $2,300 Funding Fee = $102,300 actual loan amount

***The funding fee is waived if the veteran is receiving VA compensation for a service-connected disability.***

### *Seller Concessions*

According to VA loan regulations, the seller can only contribute **up to 4%** of the purchase price or appraised value of the property.

For example, if a home is appraised at $240,000 value, the seller concessions cannot exceed $9,600 ($240,000 x 0.04 = $9,600).

The VA considers the following items to be contributable seller concessions:

- VA funding fee payments
- Escrow for property taxes and homeowner's insurance
- Credit balance payoffs or judgments on behalf of the buyer

### *Help with Closing Cost Expenses*

Beyond the 4% of allowable seller concessions, there are no limits on what the seller can contribute to certain closing-related expenses. This means that sellers can contribute an unlimited amount towards closing costs in the following categories:

- Discount points
- Origination costs
- Miscellaneous fees such as a property survey, appraisal, credit report and other things associated with obtaining the loan

### *Certificate of Reasonable Value*

Once the appraisal has been performed by a VA-approved appraiser on a property being financed with a VA loan, the VA issues a **Certificate of Reasonable Value (CRV)**, a Veterans Administration appraisal certificate that states a property's current market value. For the loan to be approved, the CRV must prove that the value of the property to be equal to or greater than the sales price. If the sales price exceeds the CRV value, the veteran may proceed with the purchase but will be required to pay the difference in cash. The source of the cash must be approved by the VA. The veteran also has the option to withdraw from the contract if the CRV is not equal to or greater than the sales price.

## USDA home loan

**USDA loans** are mortgages backed the **U.S. Department of Agriculture** as part of its USDA Rural Development Guaranteed Housing Loan program. USDA loans meant for low- to moderate-income home buyers, offering 100% financing with reduced mortgage insurance premiums and featuring below-market mortgage rates.

### *USDA Eligibility*

USDA eligibility is based on the buyer and the property. First, the home must be in a qualified “rural” area, which USDA typically defines as a population of less than 20,000. Second, the buyer must meet USDA income caps. To be eligible, a borrower cannot make more than 15% above the local median salary. Borrowers also must use the home as their primary residence (no vacation homes or investment properties allowed).

## Conventional/Non-Government-Backed Loans

A **conventional loan** is a non-government-backed loan that is not guaranteed or insured by any government agency. Basically, it is a loan product offered from a private lender such as bank or credit union that has no government “safety net” in case the borrower defaults.

Since each lender creates its own loan products, conventional loans vary widely in the real world.

- Typically requires a higher credit score
- Typically has fixed terms and rates
- **Requires a 20% down payment** OR **PMI**
- **Private Mortgage Insurance** (**PMI)** is an insurance required by lenders for conventional loans when the buyer pays a down payment of less than 20%.
- **PMI** *protects the lender*, not the borrower, in case of default.

## Loans Typically Used in Building Projects:

Now let's take a look at types of loans primarily used for commercial building projects.

- **Blanket Loan/Blanket Mortgage:** A type of loan used to fund the purchase of more than one piece of real property that will serve are collateral for the loan. Blanket loans are popular with builders and developers who buy large tracts of land, then subdivide them to create many individual parcels to be gradually sold one at a time. Once a parcel is sold, a portion of the loan collateral is released, with the rest of the loan collateral remaining intact.
- **Construction Loan ("short term" loan):** A non-amortized, short-term loan with a high interest rate used to finance building projects for new homes or remodels for short period of time. Also referred to as an **interim loan**.
  - Funds are dispersed to the borrower as needed in payments called **draws**.
  - When the building is finished, the borrower is expected to arrange for a lower interest permanent loan (called a **take-out** loan) in order to pay off the unpaid principal balance.
- **Take-Out Loan:** A type of long-term financing for real property with amortizing fixed payments and a lower interest rate typically used to replace interim financing like short-term construction loans.
  - *For example*, if a spec or model home doesn't immediately sell, the builder will acquire a take-out loan with a lower interest rate to replace the high interest construction loan that was used to build the spec home.
- **Bridge loan:** A short-term loan used until a person or company secures permanent financing or removes an existing obligation. This type of financing allows the user to meet current obligations by providing immediate cash flow. The loans are short term, up to one year, with relatively high interest rates and are usually backed by some form of collateral such as real estate or inventory.

Loans for construction projects also have special clauses in the security instruments:

- **Subordination Clause ("Backseat Clause"):** Subordination is the act of yielding priority. A subordination clause allows the new loan to take priority over any previous loans that have seniority. A subordination clause is common in mortgages securing unimproved land, making it far easier for the borrower to obtain a construction loan to improve the property.
- **Release clause:** Most often part of a blanket mortgage, a clause that allows individual parcels to be sold according to a release schedule and prevents the entire loan amount from becoming due. Developers use blanket mortgages to buy large tracts of land with the intention of subdividing them into many individual parcels to be sold individually over a period of time.

The Lending Process

The lending process involves four main phases:

1. Application
2. Loan Processing
3. Underwriting Analysis
4. Loan Approval, Funding and Closing

### *Step 1: Application: Pre-Approval vs Pre-qualification*

The first step of the home loan process involves inquiring or applying for a mortgage. A potential borrower can receive either a **loan pre-qualification** or a **loan pre-approval**.

- **Loan Pre-qualification:** A potential borrower supplies the lender with his financial basics, including debt, income and assets. From this information, a lender estimates the mortgage amount for borrower may qualify, however, this amount is subject to the borrower providing proof of income and funds.
- **Loan Pre-approval:** The borrower submits an official mortgage application along with an application fee. The **1003 mortgage application form** is the industry standard form used by nearly all mortgage lenders in the United States. The borrower must also provide the required documentation (pay stubs, tax returns, W2s, verification of employment, most recent federal tax return, two months of bank and investment statements, etc.) necessary to complete an in-depth investigation into the borrower's financial background and current credit rating.

### *Step 2: Loan Processing (Loan Originator and Processor)*

The processor's other job is to review the mortgage application package submitted by the loan officer and assemble a complete loan application package that may be underwritten (reviewed by underwriters).

### *Step 3: Underwriting the Loan (Underwriter)*

During **underwriting**, the loan application package is reviewed with a fine-tooth comb to see if there are any hidden tangles. The **underwriter** is responsible for reviewing the entire loan package and issuing an approval. The underwriter makes a decision based on **debt ratios**, **credit scoring** and **credit history**.

### Debt ratios (Debt-to-Income Ratios)

Also known as debt-to-income ratios, **debt ratios** are a percentage that represents the borrower's monthly financial obligations versus his monthly income. It's basically a way for lenders to tell if a borrower can afford a monthly mortgage payment AND still meet his existing monthly financial obligations before approving the loan. There are two types: **front-end ratio** and **back-end ratio**.

**Front-end ratio:** The anticipated monthly housing PITI payment divided by a borrower's gross income from all sources before taxes. An average limit for this ratio is 28% but varies by lender and type of loan.

**PITI payment / Monthly gross income = Front-end ratio**

#### *Front-end DTI Example*

For example, an individual applies for a $100,000 loan with a projected monthly PITI payment of $700 with a front-end ration of 28%:

- If the individual makes $2,000 before taxes, the front-end DTI is 35% ($700 / $2,000 = 0.35) which is too high.
- If the individual makes $2,500 before taxes, the front-end DTI is 28% ($700 / $2,500 = 0.28) which is acceptable.

**Back-end ratio:** The sum of all recurring debt payments, including the proposed PITI payment, student loan payments, auto loan payments, other loan payments, credit card minimum payments and any other monthly debt obligation like wage garnishment or lien repayment divided by the gross monthly income from all sources. An average limit for this ratio is 42%, but varies by lender and type of loan.

**Sum of all debt payments / Monthly gross income = Back-end ratio**

#### *Back-end DTI Example*

For example, an individual's total monthly debt obligation is $1,050 (including the $700 for housing and other monthly payments) and applies for a $100,000 loan with a rear-end ratio of 42%:

- If the individual makes $2,000 before taxes, the rear-end DTI is 53% ($1,050 / $2,000 = 0.525), which is too high.
- If the individual makes $2,500 before taxes, the rear-end DTI is 42% ($1,050 / $2,500 = 0.42), which is acceptable.

Remember, each lender set its own DTI limits based on the type of loan. This means an individual may qualify for some loan programs, but not for others.

## Credit Scoring

A FICO score is a type of credit score created by the Fair Isaac Corporation. Lenders use borrowers' FICO scores along with other details on borrowers' credit reports to assess credit risk and determine whether to extend credit. FICO scores take into account various factors in five areas to determine credit worthiness: payment history, current level of indebtedness, types of credit used, length of credit history and new credit accounts.

FICO scores range between 300 and 850. In general, scores above 650 indicate a very good credit history. In contrast, individuals with scores below 620 often find it difficult to obtain financing at favorable rates. To determine credit worthiness, lenders take a borrower's FICO score into account but also consider other details such as income, how long the borrower has been at his job and type of credit requested.

### *Calculating FICO Scores*

To determine credit scores, the Fair Isaac Corporation weighs each category differently for each individual. However, in general, payment history is 35% of the score, accounts owed is 30%, length of credit history is 15%, new credit is 10% and credit mix is 10%.

- **Payment History:** Payment history refers to whether an individual pays his credit accounts on time. Credit reports show the payments submitted for each line of credit, and the reports indicate if the payments were received 30, 60, 90, 120 or more days late.
- **Accounts Owed:** Accounts owed refers to the amount of money an individual owes. Having a lot of debt does not necessarily equate to low credit scores. Rather, FICO considers the ratio of money owed to the amount of credit available. To illustrate, an individual who owes $10,000 but has all of his lines of credit fully extended and all of his credit cards maxed out may have a lower credit score than an individual who owes $100,000 but is not close to the limit on any of his accounts.
- **Length of Credit History:** As a general rule of thumb, the longer an individual has had credit, the better his score. However, with favorable scores in the other categories, even someone with a short credit history can have a good score. FICO scores take into account how long the oldest account has been open, the age of the newest account and the overall average.
- **Credit Mix:** Credit mix is the variety of accounts. To obtain high credit scores, individuals need a strong mix of retail accounts, credit cards, installment loans such as signature loans or vehicle loans, and mortgages.
- **New Credit:** New credit refers to recently opened accounts. If the borrower has opened a bunch of new accounts in a short period of time, that indicates risk and lowers his score.

### Credit History

**Credit history** is a record of a consumer's ability to repay debts and demonstrated responsibility in repaying debts. A consumer's credit history includes the following:

- Number and types of credit accounts
- How long each account has been open
- Amounts owed
- Amount of available credit used
- Whether bills are paid on time
- Number of recent credit inquiries

It also contains information regarding whether the consumer has any bankruptcies, liens, judgments or collections. This information is all contained on a consumer's credit report.

#### *Step 4: Loan Approval, Funding and Closing the Loan*

After underwriting is completed, loan approval, funding and **closing the loan** occurs. Once the loan is approved, the file is transferred to the closing and funding department. The funding department notifies the broker and closing attorney of the approval and verifies broker and closing fees. The closing attorney then schedules a time for the borrower to sign the loan documentation, commonly called the **closing** or **closing day**. The closing is also called a **settlement**, **completion**, or **consummation**. The closing attorney and the lender will coordinate the details of transferring the funds to the closing attorney so that the funds can be dispersed at closing.

# Methods of Financing

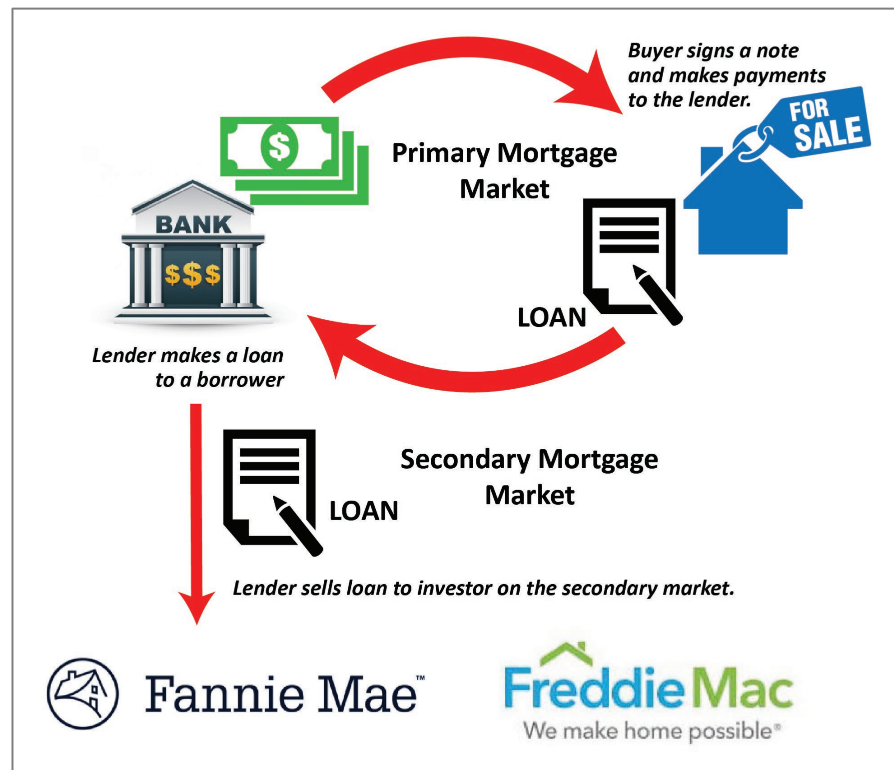
## The Federal Reserve System

**The Federal Reserve System (**often referred to as the **Federal Reserve** or simply "**the Fed**") is the central bank of the United States. The Fed is often referred to as "the bank for the banks." It was created by Congress to provide the country with a safer, more flexible, and more stable monetary and financial system. The Fed regulates the flow of money through member banks by controlling reserve requirements and discount rates.

## The Primary and Secondary Housing Mortgage Markets

There are two main sides of the modern housing mortgage market: the **primary market** and the **secondary market**.

- **Primary Market:** Where borrowers and lenders connect for the purpose of securing a home loan. Homebuyers, mortgage brokers, mortgage bankers, credit unions and banks are all part of the primary mortgage market.
- **Secondary Mortgage Market**: The resale market of loans where lenders can sell their loans to certain government agencies and investors.




**Within days of the closing, a loan is usually sold on the secondary market.** This practice transfers the risks of loans from the primary lenders to players in the secondary market and allows lenders to have stable cash flow allowing them to write new loans which subsequently places more qualified buyers into more homes.

### Freddie Mac, Fannie Mae and Ginnie Mae

Fannie Mae and Freddie Mac are government-sponsored entities (GSEs) that act as links between banks and lenders, the federal government, and private investors. Their mission is to provide easy access to funds, or "liquidity", to thousands of banks, savings and loans entities, and other mortgage companies that lend to homebuyers.

Fannie Mae and Freddie Mac do this by purchasing most of the home loans in the United States. They then hold them as their own investments, or package them into mortgage-backed securities that are sold to investors on what is known as the secondary mortgage market.

- **Freddie Mac** and **Fannie Mae** are known as Government Sponsored Enterprises (GSEs), private companies that are sponsored by the US Government. *Freddie Mac and Fannie Mae are not government agencies.* Freddie Mac and Fannie Mae are publicly-traded corporations that buy conforming loans, combining them into pools to be sold to investors as mortgage-backed securities.
- **Ginnie Mae** is a government agency housed within the Department of Housing and Urban Development (HUD). Ginnie Mae provides guarantees on conforming loans to cover loses lenders would suffer should a residential homeowner default on their loan.

| Formal Name | Nickname | Acronym | Ownership | Purpose |
|---|---|---|---|---|
| Federal National Mortgage Association | Fannie Mae | FNMA | Privately held | Purchases loans |
| Federal Home Loan Mortgage Corporation | Freddie Mac | FHLMC | Privately held | Purchases loans |
| Government National Mortgage Association | Ginnie Mae | GNMA | Government owned | Guarantees loans |

### Conforming loans

- **Conforming loans** are loans must conform to Fannie Mae and Freddie Mac lending guidelines so that they can be sold on the secondary mortgage market.
- Conforming loans are generally limited to $417,000 for single family homes in the continental US.

## Government Oversight

Extensive federal and state legislation exists to regulate modern lending practices in order to protect consumers from lending practices that are unfair, deceptive, or fraudulent.

### Truth-In-Lending Act (TILA) and Regulation Z

The **Truth-In-Lending Act (TILA)** is a federal consumer protection law that was enacted in 1968 created to help borrowers understand the costs of borrowing money by requiring certain disclosures about loan terms and costs. The set of regulations that implemented TILA is known as **Regulation Z.** Thus, the terms TILA and Regulation Z are often interchanged.

| Regulation Z | |
|---|---|
| **Main Objective:** | • Requires creditors to provide full disclosure of the terms of a loan. |
| **Applies to:** | • Loans for primary residences<br>• Certain refinancing of primary residential loans<br>• Junior mortgages on a primary residences (home equity loans, known as HELOCS) |
| **Does Not Apply to:** | • Business loans<br>• Commercial loans<br>• Agricultural loans |
| **Before a loan is closed, lender must disclose:** | • Annual Percentage Rate (APR)<br>• Terms of the Loan<br>• Total Costs to the Borrower |
| **For Refinancing:** | • Allows the borrower a **3-Day Right of Rescission** ("Cooling Off" period) for a refinance or a junior mortgage on a primary residence. |
| **In Advertising & Triggering Terms** | • Affects how lenders may advertise their loans by mandating that if any advertising contains a **triggering term**, additional terms of the loan must be disclosed, including the APR.<br>• A **triggering term** is any verbiage that is vague and "triggers" the need for more information and typically applies to payment amounts, finance charges (interest rate), down payment and terms.<br>• **Stating ONLY the APR in an advertisement does not trigger the requirement for additional financial term disclosures.** |
| **Penalties:** | • $10,000 per offense<br>• A fine of twice the amount of the finance charge or minimum $100 to $1,000.<br>• Criminal penalties include a $5,000 fine and/or one year in jail. |

### Triggering terms

**Regulation Z** also affects how lenders may advertise their loans. Regulation Z mandates that any advertising that contains a **triggering term** must disclose more detailed and specific information about the credit terms. A **triggering term** is any verbiage that is vague and "triggers" the need for more information. Examples of triggering terms are "low," "short" or any other word that is not specific. Triggering terms normally appear in conjunction with:

- Payment amounts ("low payments")
- Finance charges ("minimal finance charges")
- Interest rate ("competitive interest rate")
- Down payment ("small down payment")
- Terms ("short terms")

However, **using only the APR** in advertising is allowable and does not trigger the need for more information.

### Annual Percentage Rate (APR)

The **Annual Percentage Rate (APR)** expresses the effective annual rate of the cost of borrowing, which includes all finance charges such as interest, prepaid finance charges, prepaid interest, and service fees. Since these items can vary from lender to lender, the APR is a way to express the cost of borrowing with one number rather than having to compare several numbers.

*For example*, a lender may charge an interest rate of 3.35% on a loan with an APR of 6% while another lender may offer a similar loan with a higher interest rate of 3.95%, but with a lower APR of 4.75%. Since the APR on the second loan is lower, it would be the better deal for the consumer.

| | Loan #1 | Loan #2 |
|---|---|---|
| **Interest Rate** | 3.35% | 3.95% |
| **APR** | 6% | 4.75% |

Based on the chart above, which is the better loan?

## Real Estate Settlement and Procedure Act (RESPA)

The **Real Estate Settlement Procedures Act (RESPA)** was passed in 1974 with the main objective to protect homeowners by educating them about their settlement costs when obtaining a home loan and to eliminate kickback practices and referral fees that can inflate the cost of obtaining a mortgage.

| Real Estate Settlement and Procedure Act (RESPA) | |
|---|---|
| **Main objective:** | To protect homeowners through education about the lending process and to regulate the lending process by eliminating kickbacks and referral fees. |
| **Prohibits:** | Kickbacks and unearned fees (which add unnecessary costs to settlement services) between agents and real estate-related service providers like appraisers or contractors. |
| **Applies to:** | Purchases of **owner-occupied residences of 1 to 4 units** that use funds from institutional lenders regulated by the federal government. |
| **Requires that lenders:** | **Within 3 business days of receiving a loan application**, provide:<br>• A **Good Faith Estimate (GFE)** and a **Truth-in-Lending disclosure** of all costs related to a loan;<br>• An information booklet entitled *Shopping for Your Home Loan: HUD's Settlement Cost* booklet that explains RESPA, the settlement statement and closing costs.<br>• A mortgage servicing disclosure that discloses whether the lender will service the loan or transfer the servicing of the loan to another entity.<br>**Within 3 days prior to closing**:<br>• A uniform settlement statement called a **HUD-1** and another **Truth-in-Lending disclosure**. |

**RESPA Disclosures:**

**Good Faith Estimate (GFE):** A form used by lenders given to mortgage applicants after applying for a new home loan that provides a breakdown of the mortgage payments due and the charges associated with the loan.

**Truth-in-Lending disclosure:** A required disclosure statement that includes information about the amount of the loan, the **annual percentage rate (APR),** finance charges (including application fees, late charges, prepayment penalties), a payment schedule and the total repayment amount over the lifetime of the loan.

## CFPB and TRID

In response to the financial crisis of 2007–08 and the subsequent Great Recession, **the Dodd–Frank Wall Street Reform and Consumer Protection Act** was passed in 2010. This act authorized the creation of the **Consumer Financial Protection Bureau (CFPB)**.

Before CFPB was established, seven different Federal agencies were responsible for various aspects of consumer financial protection. No single agency had effective tools to set the rules or oversee the whole market, and that is part of what led to an economic crash of epic proportions.

CFPB is charged with overseeing the Federal financial laws that specifically protect consumers—people who keep their money in banks and credit unions, pay for goods and services with their credit cards, and rely on loans to buy homes or pay for college, among other services. CFPB's jurisdiction includes banks, credit unions, securities firms, payday lenders, mortgage-servicing operations, foreclosure relief services, debt collectors and other financial companies operating in the United States.

Basically, the CFPB is tasked with making sure people understand the fine print that explains the risks involved in using these services, and ensuring the banks, credit unions, and other financial companies that provide them play by the rules.

## TILA-RESPA Integrated Disclosures (TRID)

In November 2013, the CFPB integrated the Real Estate Settlement Procedures Act (RESPA) and Truth in Lending Act (TILA) disclosures and regulations, under the Know Before You Owe (KBYO) Mortgage Initiative. The new set of rules were named **TILA-RESPA Integrated Disclosures (TRID)** and was designed to make the lending process more transparent for consumers. TRID took effect in 2015.

| | TRID narrowed four separate disclosure forms to two. | | |
|---|---|---|---|
| | **OLD: TILA & RESPA** | **becomes** | **NEW: TRID** |
| **At loan application:** | • Truth in Lending Disclosure<br>• Good Faith Estimate (GFE) | ⇨ | • Loan Estimate (LE)<br>• Within three business days AFTER applying |
| **At closing:** | • Truth in Lending Disclosure<br>• HUD-1 | ⇨ | • Closing Disclosure (CD)<br>• Within three business days BEFORE closing |

***Types of Loans NOT affected by TRID***

- **Home Equity Lines of Credit (HELOCs)**
- **Reverse mortgages**
- **Mortgages secured by a mobile home or dwelling not attached to real property**

### RESPA Disclosures:

**Good Faith Estimate (GFE):** A form used by lenders given to mortgage applicants after applying for a new home loan that provides a breakdown of the mortgage payments due and the charges associated with the loan.

**Truth-in-Lending disclosure:** A required disclosure statement that includes information about the amount of the loan, the **annual percentage rate (APR),** finance charges (including application fees, late charges, prepayment penalties), a payment schedule and the total repayment amount over the lifetime of the loan.

### *TRID Disclosures*

**Lending estimate (LE):** A three-page form the borrower receives from the lender after applying for a mortgage loan that discloses the important details about the loan including the estimated interest rate, monthly payment, and total closing costs for the loan; the LE must be given to the consumer within three business days after applying for the loan.

**Closing Disclosure:** A five-page form that provides final details about the mortgage loan that a borrower has been approved for that includes the loan terms, the projected monthly payments, the fees the borrower will pay and associated closing costs; the CD must be given to the borrower three business days before the closing of the loan.

### CFPB/TRID Rules on Financing and Risky Loan Features

A **subprime mortgage** is a type of mortgage that is normally issued by a lending institution to borrowers with low credit ratings. As a result of the borrower's lower credit rating, a conventional mortgage is not offered because the lender views the borrower as having a larger-than-average risk of defaulting on the loan. Lending institutions often charge interest on subprime mortgages at a rate that is higher than a conventional mortgage in order to compensate themselves for carrying more risk.

The CFPB has issued guidelines for mortgages that qualify as sub-prime (high-cost). Generally, the CFPB:

- Bans balloon payments (a large, lump sum payment usually due at the end of the loan).
- Bans penalties for paying the loan early and fees for modifying loan
- Caps late fees at four percent of the payment that is past due
- Prohibits closing costs from being rolled into the loan amount
- Restricts the charging of fees when consumers ask for a payoff statement (a document that tells borrowers how much they need to pay off the loan)
- Requires housing counseling: The rule requires consumers to receive housing counseling before taking out a high-cost mortgage.
- Requires that lenders provide a list of homeownership counseling organizations to consumers shortly after they apply for a mortgage (so consumers know where to get help when deciding what loan is best for them).
- Requires creditors to establish and maintain escrow accounts for a minimum of five years.

## Equal Credit Opportunity Act (ECOA)

The Federal Trade Commission (FTC), the nation's consumer protection agency, enforces the **Equal Credit Opportunity Act (ECOA)**, which prohibits credit discrimination on the basis of race, color, religion, national origin, sex, marital status, age, or because an individual receives public assistance.

<table>
<tr><th colspan="2">Equal Credit Opportunity Act (ECOA)</th></tr>
<tr><td>Prohibits credit discrimination on the basis of:</td><td>• Race<br>• Color<br>• Religion<br>• Sex<br>• Marital Status<br>• Age (unless a minor)<br>• National Origin<br>• Receipt of public assistance</td></tr>
<tr><td>Applications be considered ONLY on the basis of:</td><td>• Income<br>• The stability of the source of that income<br>• Net Worth (total assets and liabilities)<br>• Credit Rating</td></tr>
<tr><td>Under ECOA, lenders:</td><td>• Cannot ask if the applicant is divorced or widowed…<br>• …but may ask if the applicant is married, unmarried (meaning single, divorced, or widowed), or separated;<br>• Cannot ask about birth-control practices, child-bearing capacity or expectations, or whether a woman of child-bearing age will stop working to raise children;<br>• Cannot ask about the applicant's receipt of alimony or child support unless the applicant is first notified that such information need not be given; however, such questions may be asked if the applicant requests that income from such sources be used to qualify for a loan. Lenders may ask whether the applicant has any obligations to pay alimony or child support; or<br>• Cannot discount income based on sex or marital status.</td></tr>
<tr><td colspan="2">An applicant has the right to receive notification from the lender within 30 days as to what action the lender has taken on a loan application.</td></tr>
<tr><td>If denied, the lender must send the applicant:</td><td>• Specific reasons for the denial of credit;<br>• An ECOA notice about prohibitions against lending discrimination; and<br>• Name of the federal agency that enforces compliance with ECOA.</td></tr>
</table>

## Chapter 11: Financing Exam

1. John borrowed money and gave a mortgage on his family's ancestral home to the lender for security. Due to hard times, he was unable to pay the debt as promised so the mortgagee foreclosed on the property and sold it to Bill to recover the amount owed. Fortunately for John, six months after the foreclosure sale he won the lottery and was able to repurchase the property. His ability to repurchase the property was due to what is called:

   A. A right of equitable eminent domain

   B. A right of equalized escheat

   C. Statutory right of redemption

   D. Equitable right of redemption

2. What is a detailed report used by credit bureaus to collect information and prepare detailed reports that lenders use to determine loan applicants' credit worthiness?

   A. Credit summary

   B. Credit report

   C. Credit collection

   D. Credit brief

3. The Truth in Lending Act and Regulation Z sets rules for advertising credit. Certain credit terms, if used in advertising, are called trigger terms and will "trigger" the need for additional information. Which of the following is NOT an example of a "trigger" term?

   A. "Low payments"

   B. "Minimal finance charges"

   C. "Only 5% APR"

   D. "Competitive interest rate"

4. If a farmer who lives in a lien theory state made the last payment on his mortgage loan, what must the farmer's lender now record so that the lien will be released?

   A. Release Deed

   B. Promissory Mortgage

   C. Reconveyance Deed

   D. Satisfaction

5. States that recognize the lender as owner of property that has been offered by the borrower as collateral for a loan (that is not delinquent but has not yet been fully paid) are called..?

   A. Lien theory states

   B. Statutory redemption states

   C. Title theory states

   D. Equitable redemption states

6. All of the following statements are characteristic of a typical land contract *EXCEPT*?

   A. At the end of the loan term, the seller/lender will deliver legal title to the borrower.

   B. The borrower is granted equitable title and possession while making payments.

   C. In the event of default, the vendor may retain any money already paid.

   D. The vendee holds legal title during the contract term.

7. How long must creditors keep evidence of compliance with Regulation Z after the transaction has been consummated?

   A. Two years

   B. Three years

   C. Four years

   D. Five years

8. Bob's Construction, LLC has a mortgage on a lot downtown and wants to build four 2,000 SF individual retail buildings on it. As each building is completed, Bob plans to offer it for sale. If Bob needs to secure a construction loan for the building phase of this project, what type of clause MOST LIKELY must the mortgage on the lot contain for the construction loan to be approved?

   A. Alienation clause

   B. Release clause

   C. Acceleration clause

   D. Defeasance clause

9. Which of the following transactions would TILA and Regulation Z apply to?
   A. Bob, a property developer, buying a 50-acre lot zoned commercial
   B. Meridian International, Inc. buying a jet airplane for business use
   C. Lisa Palmer, a school teacher, planning to refinance her mortgage.
   D. Lamar buying a 6-unit apartment complex where he plans to reside.

10. Buyers are under contract to purchase a home and the purchase agreement contains a financing contingency clause. If the buyers advise their broker that a lender has orally denied their loan application, which of the following is true?
   A. The licensee should contract the seller to request purchase-money financing.
   B. The buyers are entitled to written notice of the denial of credit.
   C. The sellers are required to extend the financing contingency until written denial is received by the borrower.
   D. The buyers are not subject to specific performance due to the Equal Credit Opportunity Act.

11. The requirements of TILA and Regulation Z would apply to which of the following loans?
   A. A corporation is borrowing $150,000 to remodel their corporate offices; the annual percentage rate on the loan is 6%, and the loan will be paid off in 22 installments.
   B. Smith is borrowing $95,000 from Johnson for the purchase of an airplane.
   C. A homeowner is receiving a $5,000 second mortgage on her home; the annual percentage rate on this second loan is 5%, and the loan will be paid off in 10 installments.
   D. Jones is borrowing $150,000 from a bank to plant corn and soybean crops.

12. The Truth-in-Lending Act applies to which of the following types of credit?
   A. A loan to buy a condominium
   B. A loan to remodel a barber shop
   C. A construction loan to a builder for a model home
   D. A loan to buy a manufactured home

13. A purchaser wishes to assume a seller's mortgage. For the seller to no longer be liable for payment, which of the following must be executed?
    A. A release of liability signed by the seller
    B. An agreement acknowledging the assumption from the lender
    C. A sales contract signed by the purchaser and seller
    D. A release of liability signed by the lender

14. Which of the following types of property can be purchased with an FHA 203b loan?
    A. A farm that has a tenant
    B. A four-unit, owner-occupied residential building
    C. An apartment building of 20 units
    D. Undeveloped commercial land

15. Selling a mortgaged property on a contract for deed will be a problem if the mortgage has which clause?
    A. An acceleration clause
    B. An escalation clause
    C. An alienation clause
    D. A subordination clause

16. Which of the following loans can also be referred to as an interim loan or interim financing?
    A. Package loan
    B. Home equity loan
    C. Construction loan
    D. Adjustable rate loan

17. The loan amount established by a lender is normally based on which factor?
    A. Amount that a ready, willing, and able buyer will pay
    B. Taxable income of the buyer
    C. Contract price or appraised value, whichever is higher
    D. Contract price or appraised value, whichever is lower

18. Which government regulation requires that a Lending Estimate be given to the borrower three days after applying for a residential loan?

    A. RESPA

    B. TILA and Regulation Z

    C. TRID

    D. Anti-Sherman Act

19. What is the minimum age for applying for a reverse mortgage?

    A. 55

    B. 60

    C. 62

    D. 65

20. For the past few months Jane has not been able to make her mortgage payments on time. Her loan is now considered to be in default. If she received a certified letter in the mail from her lender demanding the entire unpaid loan amount due immediately, what clause in her mortgage loan made this action possible?

    A. Power-of-sale clause

    B. Due-on-sale clause

    C. Defeasance clause

    D. Acceleration clause

21. Warren Buffet is a real estate investor that is interested in making a 1031 property exchanges. If he wished to do this, his property must have all of the following characteristics EXCEPT?

    A. Be of like kind

    B. Not owner-occupied

    C. Not located in a foreign country

    D. Be valued over $500,000

22. A mortgage and a deed of trust basically serve the same purpose and all of the following are correct EXCEPT?

    A. In a mortgage there are only two parties involved, whereas in a deed of trust there are three parties involved.

    B. While a mortgage should be recorded in public records to establish the lender's priority among creditors in the case of foreclosure, recording is not required of deeds of trust.

    C. In the event of default, the foreclosure process is usually simpler, faster, and less expensive with a deed of trust than with a mortgage.

    D. In a deed of trust, the buyer holds equitable title; in a mortgage, the buyer retains full legal title.

23. Who is the beneficiary in a deed of trust?

    A. The buyer

    B. The lender

    C. The seller

    D. A legal third party

24. Angela was looking to purchase a home and her friend Tom was selling his home. While Tom still had a mortgage on his home, the interest rate was very low. Angela eventually purchased Tom's home and was able to make steady payments for the first year. Unfortunately, Angela was in a car accident and couldn't work. If Tom is receiving notices in the mail that he owes the missed payments and late fees on Angela's mortgage, what is the MOST LIKELY reason this is happening?

    A. There is a novation clause in Angela's mortgage.

    B. There is an assumption clause in Angela's mortgage.

    C. Tom failed to sign the deed at the closing.

    D. Angela failed to record the deed after closing.

25. If a seller wants to allow a buyer to assume the existing mortgage and be sure that he will not be liable for the mortgage after it is assumed, what type of clause must be in the mortgage?

    A. Assumption clause

    B. Novation clause

    C. Acceleration clause

    D. Alienation clause

26. After the local factory shut down, John lost his job and was unable to make his mortgage payments. If his lender is demanding the entire unpaid balance due, what type of clause in his mortgage allows the lender to make these demands?

    A. Assumption clause

    B. Novation clause

    C. Acceleration clause

    D. Alienation clause

27. Ricky was very happy about finally selling his home since the house had been on the market for over three years. With a contract price of $265,000, Ricky was already planning to buy a new condo and move out to the new neighborhoods on the east side. At closing, Ricky received a check for $80,000… far less than he was expecting! What is MOST LIKELY the reason Ricky did not clear the total $265,000?

    A. Ricky had an existing mortgage with an acceleration clause on the home he was selling that stipulated the lender could demand payment of the entire amount owed.

    B. Ricky owed back taxes and child support and the state took the overdue amount from his profits.

    C. Ricky had not filed a homestead exemption on the property and owed several years' worth of *ad valorem* taxes.

    D. Ricky had an existing mortgage with an alienation clause on the home he was selling that stipulated the property could be sold ONLY if the existing loan was paid in full.

28. Most often part of a blanket mortgage, what type of mortgage clause allows developers to buy large tracts of land with the intention of subdividing them into many individual parcels to be sold individually over a period of time?

    A. Release clause

    B. Power-of-sale clause

    C. Subordination clause

    D. Forfeiture clause

29. If Kelly purchases a property using a land contract and fails to make timely payments, what allows the lender to foreclose without court oversight?

    A. Release clause

    B. Power-of-sale clause

    C. Subordination clause

    D. Forfeiture clause

30. Caleb develops subdivisions and has just received some bad news from the bank. While he was able to secure a loan to purchase a 100-acre tract of land for his new subdivision, the bank was unable to approve his construction loan, meaning he cannot build his model home or any homes that a customer orders. Based on the information given, what MOST LIKELY is the reason for the bank's denial of his construction loan?

    A. Caleb was over-extended on his debts.

    B. Caleb has failed to make timely payments on his construction loan.

    C. His construction loan did not contain a subordination clause.

    D. The loan for the 100-acre tract of land did not contain a subordination clause.

31. If the foreclosure sale does not produce proceeds to the balance of the mortgage, what may lienholders seek to recoup the difference from the former property owner?

    A. Start payment order

    B. Stop payment order

    C. Deficiency judgment

    D. Bankruptcy claim

32. Kyle has just made the final payment on his mortgage loan to the bank. Regardless of this fact, the lender will still hold a lien on Kyle's mortgaged property until which of the following documents is recorded?

    A. A satisfaction

    B. A reconveyance

    C. A novation

    D. An estoppel

33. If a mortgage loan requires monthly payments of $639.05 for 20 years and a final payment of $49,386.63, what type of loan is it?

    A. Wraparound loan

    B. Fully-amortizing loan

    C. Partially-amortizing loan

    D. Adjustable-rate loan

34. What type of foreclosure does not allow for a foreclosure sale and allows the lender to take possession of the property and cancel the debt if the delinquent borrower to unable to pay the debt within a specified period of time?

    A. Judicial foreclosure

    B. Strict foreclosure

    C. Non-judicial foreclosure

    D. Deed in lieu of foreclosure

35. What is an alternative to foreclosure that gives the lender the deed to the property in exchange for the lender agreeing not to foreclose?

    A. Strict foreclosure

    B. Non-judicial foreclosure

    C. Judicial foreclosure

    D. Deed in lieu foreclosure

36. When the buyer signs a purchase offer and the seller accepts it, what type of interest does the buyer immediately acquire?

    A. Legal interest

    B. Statutory interest

    C. Defeasible interest

    D. Equitable interest

37. What law that requires lenders to inform sellers and buyers of fees and charges?

A. Equal Credit Opportunity Act (ECOA)

B. Real Estate Settlement Procedures Act (RESPA)

C. Truth-in-Lending Act (Regulation Z)

D. Real Estate Investment Trust (REIT)

38. By paying her debt after a foreclosure sale, the defaulted party has the right to regain her property under which of the following concepts?

A. Alienation and acceleration

B. Equitable right of redemption

C. Remainder and reversion

D. Statutory right of redemption

39. Tonya was unable to make her mortgage payments and her loan was in default, owing $120,000 on her loan. Her best friend always liked the house and offered to purchase it for $70,000. If the lender agrees to accept the offer for $70,000 and release Tonya from her debt, what MOST LIKELY is the lender agreeing to?

A. Statutory Right of Redemption

B. Loan modification

C. Short sale

D. Deed in lieu of foreclosure

40. All of the following are not tax deductible except?

A. Down payment on the property

B. Replacing a roof

C. Discount points paid to obtain the loan

D. Making additional principal payments

41. Which of the following is ALLOWED under RESPA?

A. A referral fee between a licensee and an electrician

B. A referral fee between a licensee and another licensee from another state

C. A referral fee between a licensee and her unlicensed assistant

D. A referral fee between a licensee and a direct family member

42. Regulation Z applies to all of the following situations EXCEPT?
    A. Lois who is securing a mortgage for her first home.
    B. Darrel who is refinancing to obtain a lower interest rate.
    C. Stan who wants to send his son to college using the equity in his home.
    D. Maurice who wants to open a tax consulting business downtown.

43. Which of the government oversight programs allows for a 3-day right of rescission or "cooling off" period for home mortgages?
    A. RESPA
    B. TILA & Regulation Z
    C. TRID
    D. None of the above

44. The following ad appeared in the Saturday paper:

| Shopping for a Home Loan?<br>We offer the lowest APR in town! Only 4%!<br>Call River Region Lenders today!<br>(334) 555-1212 |
|---|

    Does this ad violate any government oversight programs?
    A. Yes, it violates RESPA.
    B. Yes, it violates TILA.
    C. No, it is in accordance with RESPA.
    D. No, it is in accordance with Regulation Z.

45. The following ad appeared in the Sunday paper:

> No down payment? No problem!
> Move into your new home with no money down
> and low monthly payments!
> Call us today!
> (334) 555-1212

Does this ad violate any government oversight programs?

A. Yes, it violates RESPA because it is not informing the consumer of the interest rate.

B. Yes, it violates TILA because it is not informing the consumer of the monthly payment only.

C. Yes, it violates Regulation Z because it is not informing the consumer of the down payment only.

D. Yes, it violates Regulation Z because triggering terms were used and more information needs to be disclosed.

46. According to TRID, what disclosure must lenders issue to a potential borrower no later than three days after loan application?

A. Loan Estimate

B. Good Faith Estimate

C. Closing Disclosure

D. HUD-1

47. While the lender is considering Janice's loan application, the lender may consider all of the following aspects of her application EXCEPT?

A. The fact that she has held the same job for seven years

B. The balance of her savings account

C. Her credit score of 720

D. Her last name (family name) of Wong

48. The court ordered a delinquent borrower to pay off the loan within a reasonable period of time. The borrower failed to do this and eventually gave up all claims to legal and equitable title on the property. Meanwhile the lender canceled the debt, took possession of the property and did not sell in the property in a foreclosure sale. What do these actions describe?

A. A judicial foreclosure

B. A non-judicial foreclosure

C. A strict foreclosure

D. A deficiency judgment

49. If a borrower wished to immediately lower his monthly home loan payments without changing the loan amount, what could he do?

A. Purchase discount points to lower the interest rate

B. Improve his credit score and reapply for the loan when his score improves

C. Pay a larger down payment in cash at closing

D. Apply for another loan with a different lender

50. Mrs. Allison has excellent credit and qualifies for a conventional loan at her local bank. If she can only afford to pay a 10% down payment, what additional fee will be included in her monthly loan payment?

A. PITI

B. PMI

C. MIP

D. P&I

**Exam answers are located on page 383.**