

General Industry Knowledge	Guidelines	Cash/Funds
<p>Conventional-NOT Government Conforming - FHLMC/FNMA – purchase loans and securities meeting guidelines FHLMC- Federal Home Loan Mortgage Corporation – aka “Freddie Mac” FNMA– Federal National Mortgage Association – aka “Fannie Mae” PITI – Principal, Interest, 1st & 2nd Mtg., Taxes, Insurance, HOA, Condo, PMI, Ground Rent – no maintenance or other Front Ratio – Housing expense divided by income Back Ratio – Total long term debts and housing expense divided by Income LTV – Loan to Value – Ratio of property value to loan amount. PMI - Private Mortgage Insurance – Federal law, must cancel at 78% LTV may cancel at 80% (of original value) s price Mortgage Broker – Originates and Processes mortgage applications, compensated through fees from borrower and rebate pricing from lenders. Mortgage Lender – Originates, processes, approves, funds, services applications through own funds or borrowed funds. Table Funding – Practice of Closing Loans with purchasing wholesaler’s funds to earn Servicing Release Premium and avoid YSP disclosure Lock-in - Guarantees rate for specific time Float – Defers lock-in until later Amortization – scheduled payments paying loan off over time Point – 1% of loan amount, referred to as discount point when used to reduce rate, origination fee or broker fee when used to compensate loan officer. Yield Spread Premium – a.k.a. rebate, Servicing Release Premium (SRP), above par pricing, overage, “back-end”; points paid to originator for higher interest rate Late Charge - % of the P&I payment 1003 – Uniform Residential Loan Application (1008 – Transmittal Summary)</p>	<p>Conforming FNMA/FHLMC –</p> <ul style="list-style-type: none"> • 28/36 Income Ratios • Loan limits set by Congress annually • 95% - 100% LTV • PMI (Private Mortgage Insurance) required over 80% LTV • DU – Desktop Underwriter - FNMA • LP – Loan Prospector – FHLMC • Post Closing Reserves – 2 mos PITI • Exclude Installment Debts < 10 mos. • Min Score > 620 – Primary Earner • Non-Occupant Co-Borrower – 5% own funds, Qualify 38/43 • Gifts – Family member, 5% own funds < 20% down • Seller Contributions – 95% LTV 3%, <90% 6% • 0 x 30 Mortgage • BK – Ch 7 > 4 Yrs., Ch 13 >2 Yrs. • FCL - > 4 Years <p>FHA - Federal Housing Administration 29/41 Income Ratios (31/43 as of 5/05) Insures Loans – FHA MIP Up Front MIP – 1.5% of Loan Amount may be financed above base loan FHA Monthly MIP - .5% of balance 30 yr, .25% - 15 Year LTV – basic - 97.75% LTV – 3% Borrower Cash Investment (<i>different for low cost states, small loan amounts</i>) Scores – no minimum – <i>Secondary Market applies a minimum of 620-580</i> Gifts – OK from any non-interested source Loan Amounts – 87% of Conforming, adjusted by SMSA Eligible Borrowers – Social Security number, 2 Year history in US, no other restrictions VA – Department of Veteran’s Affairs Loan Guaranty for Veterans – Income Ratios 41/41 (housing/debt are the same) VA Guaranty Formula based on entitlement Funding Fee – Loan Guaranty Fee 0.5 – 3.3% of loan may be financed LTV – up to 100% LTV – Funding Fee may be financed above max base loan Scores - No Minimum <i>Secondary Market applies minimum of 620-580</i> Sub Prime Borrower with sub-standard credit Jumbo – Non-Conforming – Conventional loans not meeting FNMA/FHLMC guidelines</p>	<p>Gifts – Verify Relationship, Source, Donor’s Ability, Transfer and Receipt Seller Contributions – Seller-paid closing costs – may not include property repairs Appraisals – opinion/estimate of market value VALUE – ALWAYS based on LESSER of sales price or appraised value. Sales Comparison approach – use closed sales to estimate value – principle of substitution Comparable Analysis – Gross Adjustments, Proximity, Style Income Approach – indicate value based on market rentals and comparable rentals Cost Approach – indicate value by determining cost to rebuild Property Condition – minimum rating “good”; Gross Adjustments < 25%, Net Adjustments <10% Condominium – Common ownership of entire project – Investor % concentration – must be approved PUD – Planned Unit Development – common ownership of common elements – Mandatory HOA (Home Owner’s Association) FHA/VA must be approved. SFD – Single Family Detached</p>
<p>Loan Products</p> <p>Prepayment Penalty - Points or interest charged at pay off to make it unfeasible to refinance a loan Negative Amortization – Deferred Interest added to the loan balance Fixed Rate – 5 to 30 Years Fixed Balloon - 5/25 & 7/23 - Amortized over 30 years; Balance due at 5/7 years with conditional refinance; 5/30, 7/30, 10/30, 15/30 – straight balloon Bi-Weekly Payments – Payment plan with 26 annual payments Temporary Buydown - 2/1, 3/2/1 Buydown reduces payment rate for first 2 or 3 years for qualifying purpose Interest Only – Interest-only payments for a specific period of time - Payment only covers interest due, no principal. Adjustable Rate Mortgage - Interest rate changes at various frequencies Index (Basis for Adjustment) + Margin (Spread) = New Rate FIAR = Fully Indexed Accrual Rate is index plus margin Caps limit change up or down Hybrid/Option ARM – Adjustable Rate Mortgage which offers low teaser rates and payment caps – 3 options, 1.) Negative am., 2.) Interest only, 3.) Fully amortized. 2nd Mortgages - Mortgage recorded after 1st mortgage, may be fixed or ARM– Home Equity Line of Credit - (HELOC) is 2nd mortgage ARM which may be borrowed against and paid down. CLTV – Combined LTV ratio of all mortgages - 1st 80% + 2nd 10% = 90% cltv. Reverse Mortgages - Loan for seniors with no borrower repayments; borrower takes equity out of property in lump sum or payment stream, or combination thereof.</p>	<p>Industry Guidelines</p> <p>Credit History/Debts Installment Debts (Car Loan, Child Support, etc.) < 10 mos. (FHA/VA 6 mos.) may be excluded from ratios Bankruptcy – Chapter 7; discharge – 4 years, Ch 13; Repayment Plan – 2 years. BK remains on credit 10 years Foreclosure – Home repossessed – 4 years Late Mortgage – 0 x 30 days late Co-signed Loan – Borrower is liable Investment Property 25% Vacancy Factor Collection/Counseling – must be resolved Income Income from non-salary – must continue 3 years – Note, Trust, Alimony, Child Support Non-Taxable Income – “Gross-up” 25% (use 125% of Amount) Self-Employment – 25% or more ownership or variable income – require federal business tax returns Calculation – weekly/bi-weekly based on 52 weeks/year, NOT 4 weeks month Documentation – 1 mo. Pay stubs, 2 years W-2’s or Tax Returns, 2-3 mo. Bank statements VOE/VOD – Direct verification of employment, deposits (assets) - form sent</p>	<p>Mortgage Process</p> <p>Processing – ordering credit report, appraisals, assembling loan documents in file, submitting to underwriting Underwriting – Approves loan - Automated Underwriting (AU) DU, LP not final until docs reviewed **Loan Officer is always responsible for outcome of loan process** Closing Documentation Flood Cert – if property in Flood Zone A, need Federal Flood Insurance Hazard Insurance – Coverage = Loan Amount or “Guaranteed Replacement Cost” – Loss Payee is lender and borrower Title Insurance – Protects borrower (owner’s) and lender (lender’s) against undisclosed defects in title. Title Search or abstract shows status of title, unpaid liens, encumbrances (restrictions or covenants) Survey – Drawing of property lines and improvements showing encroachments (over the line), easements (legal access to property), set-backs (building restriction lines). Termite/Wood Destroying Insect Report – Inspectors report showing no infestation. At Closing - Borrower signs Promissory Note – promise to repay Mortgage/Deed of Trust – borrower gives property as collateral for loan. Secures note. Mortgagor – Borrower is mortgagor Mortgagee – Lender is mortgagee HUD-1 Settlement Statement – final disbursement of funds After Closing – Loan Servicing Servicing – collecting monthly PITI payments, remitting P&I to investor, paying taxes and insurance, managing escrows.</p> <p>General Items</p> <p>Benefits of Homeownership – Appreciation of value, leverage, Tax Benefits Usury – Charging a higher than legal rate Bait/Switch – Offering products or pricing the lender does not have and changing the offer after the customer has applied. Flipping – Re-refinancing a customer with no financial benefit to the customer. Assure compliance by calculating tangible net benefit. Single Premium Credit Life Insurance – Debt Repayment Insurance, may be monthly, semi-annual, or annual. Requiring financing of Credit Life may be a prohibited practice.</p>

TO DETERMINE MAXIMUM LOAN AMOUNT: Working backwards from income to determine maximum loan amount requires examining whether the front or back ratio is the limiting qualifying factor. To determine this

- 1.) Multiply Total Monthly Income (#5) by 28%. Enter Result as Total Housing Payment. Deduct real estate taxes and hazard insurance (#1)
- 2.) Multiply Gross Monthly Income (#5) by 36%. Enter Result as Total Monthly Obligations (#2). Deduct all debts. Enter Result as Total Housing Payment.

The smaller of these two numbers is the maximum PITI. Subtract all components (real estate taxes, insurance, etc.) from the smaller number. Result is Maximum P&I. Enter result as P&I in financial calculator and use maximum loan amount formula.

Borrower Prospect Name _____ Social Sec. # _____	
Coborrower _____ Social Sec. # _____	
Property/Mailing Address _____	
Single Family/TH/Condo _____	Phone (Home) _____
Current/Requested Loan Amount _____	Phone (Work) _____
Value or Sales Price _____	LTV _____
1. PROPOSED MONTHLY PAYMENTS	
a.) First Mortgage P & I	\$ _____
b.) Second Mortgage P & I	\$ _____
c.) Mo. Hazard Insurance	\$ _____
d.) Mo. Real Estate Taxes	\$ _____
e.) Condo/Association Fees	\$ _____
f.) Mortgage Insurance(PMI)	\$ _____
g.) TOTAL HOUSING PAYMENT	\$ _____
2. TOTAL MONTHLY OBLIGATIONS	
a.) Housing Payment (#1g)	\$ _____
b.) Other Mortgages (Rent Income-Payments = Negative)	\$ _____
c.) Auto Loans	\$ _____
d.) Other Installment Loans	\$ _____
e.) Charge Card (5% of Balance)	\$ _____
f.) Other Monthly Payments	\$ _____
g.) TOTAL MONTHLY OBLIGATIONS	\$ _____
3. FRONT RATIO CALCULATION	
(#1) Total Housing Payment	_____
divided by (#5) Total Income	% _____
4. BACK RATIO CALCULATION	
(#2) Total monthly obligation divided by	_____
(#5) total income	% _____
5. MONTHLY INCOME	
	Borrower Co-Borrower
Base Income	\$ _____ \$ _____
Other Income	\$ _____ \$ _____
Total Income	\$ _____ \$ _____
6. DOWN PAYMENT	
a.) Down Payment	\$ _____
b.) Closing Costs	\$ _____
c.) Less Seller Contribution	\$ _____
d.) Total Cash Required	\$ _____

Suggested Needs Analysis Questions

Thank you for taking the time to speak with me. Are you purchasing or refinancing?

PURCHASE

- Have you been pre-qualified for this mortgage?
- Do you have a minute to do this now?
- Do you know about Pre-Approval?
- How much are you putting down?
- How many points is the seller paying?
- Any closing cost contributions?
- What is the settlement date?
- Are you currently renting/or owning?
- If you own, what kind of loan do you have now?
- Will you sell your current home first?
- What is your current payment?
- How long do you think you will be in this property?

REFINANCE

- What is the amount of your current mortgage?
- Is there a second mortgage/home equity line? What are the payments? Are you planning to pay off your home equity line?
- Would you like to take cash out with this transaction? What will you pay off?
- What are your current payments?
- Does this include taxes and insurance?
- Are you more interested in lowering your payments or paying the loan off faster?

Monthly Payment (P&I)		Blended Rate Comparison		What is the Interest Rate	
Loan Amount _____	(PV)	a.) 1st Trust Rate	8.25% (I%)	Payment _____	(PMT)
Interest Rate _____	(i%)	b.) 1st Trust Amount	\$200,000 (PV)	Loan Needed _____	(PV)
# Payments _____	(N)	c.) 1st Trust Payment	\$1,502.53 (CPT)	Loan Term _____	(N)
Compute _____	(CPT) (PMT)	d.) 2nd Trust Rate	9.50%	Compute _____	(CPT) (i%)
Max Loan for Income		e.) 2nd Trust Amount	\$25,000	Record Result	
Income from #5 _____	(#1g)	f.) 2nd Trust Payment	\$210.21	Amortized Balance	
x DI Ratio _____	(#4)	Combined Loan (b+e)	\$225,000 (PV)	Loan Amount _____	(PV)
Subtract Expenses _____	(#2b-f & 1b-f)	Combined Pmt. (c+f)	\$1,712.75 (PMT)	Interest Rate _____	(I%)
Available for P&I _____		Compute Rate _____	(CPT) (I%)	Loan Term _____	(N)
Enter a term _____	(N)	Record Result		Compute _____	(CPT) (PMT)
Enter a rate _____	(i%)			Remaining Mos. _____	(N)
Compute _____	(CPT) (PV)			Balance _____	(CPT) (PV)

FHA Loan Amount Calculation

Loan to Value Formula				
Sales Price x LTV				
Low Cost States		High Cost States		
x 98.75% < \$50,000		x 98.75% if <\$50,000		
x 97.65% < \$125,000		x 97.75% if >\$50,000		
x 97.15% above				
Up Front MIP	Monthly	>95%	90-95%	<90%
1.50%	30 Years	.50% Life of Loan	.50% 12 Years	.50% - 7 Years
	15 Years	.25% - 8 Years	.25% - 4 Years	None

VA Loan Amount Calculation

Sales Price	
x75%	
Plus Entitlement	
Max Base Loan	
x Funding Fee	
Total Loan	
Funding Fee	
< 5% Down	2.20%
< 5% Restored	3.30%
<10% Down	1.50%
>10% Down	1.25%
Streamline	0.50%

Tangible Net Benefit Refinance Calculation			
	Current Mortgage	Proposed	
Balance	\$ 100,000.00	\$ 100,000.00	
Closing Costs		\$ 2,000.00	
Loan Amount		\$ 102,000.00	
Interest Rate	9.50%	8.50%	
Term in Months	360	360	
Monthly Payment	\$ 840.85	\$ 784.29	
Monthly Savings		\$ 56.56	
Number of Months before Closing Costs are Repaid		35.36	

Using Factors to Compute Payments and Loan Amounts			
Determining the Payment		Determining the Loan Amount	
Loan Amount	150000	Payment	750
Multiplied by Factor	6.99	Divide By Factor	6.99
Result	1048500	Result	107.296137
Divided by	1000	Multiply by	1000
Approx Payment	1048.5	Maximum Loan	107296.137

Monthly PMI/MIP Calculation	
Loan Amount	\$ 250,000.00
Multiply by Premium	0.52%
Annual Premium	\$ 1,300.00
Divide by 12	12
Monthly Premium	\$ 108.33