

MORTGAGE LOAN BROKERING AND LENDING

CHAPTER 1: THE SCOPE OF MORTGAGE LOAN BROKERAGE

PREVIEW

The purpose of this unit is to acquaint the learner with the development of finance and describe how the industry has evolved into current banking and lending practices for use in our society. The licensing and legal requirements are outlined in addition to the introduction of professional mortgage organizations.

To succeed in achieving your goals, you need the following traits:

(1) positive attitude (2) patience and persistence (3) time management (4) a strong “WORK” ethic (5) a business plan, and (6) a comprehensive marketing plan.

STUDENT LEARNING OUTCOMES: At the end of this chapter you will be able to:

1. describe general information about the mortgage loan business, including how the mortgage loan broker helps the market and the types of loans.
2. acquaint the learner with the history of financing and the evolution of banking and lending practices.
3. differentiate between Hard Money loans and seller carry-back financing.
4. better understand the importance of financing and careers to the field of real estate.
5. discuss the basic exemptions to California license requirements for lenders.
6. identify various organizations involved with mortgage loan brokerage.

SECTION 1: WHAT IS THE SCOPE OF MORTGAGE LOAN BROKERAGE?

I. DESCRIBING THE MORTGAGE LOAN BUSINESS

A. The M _____ L _____ B _____ helps:

1. Buyers obtain the best f _____ to purchase property
2. Existing property owners to obtain the best loan program available for funds to r _____ property
3. Real estate agents pre-qualify prospective purchasers and complete their transaction

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4. Provides service by informing borrowers about the costs and terms of loan packages.
 5. Borrowers chose from a variety of loans
 6. Connect borrowers with available l_____ who have funds to lend
 7. Provide lenders with a completed loan p_____ to reduce employee overhead by using outside, independent contractors to facilitate submitting, approving, and handling loans
- B. Real estate loan t_____ consist of conventional and government-backed, primary and secondary, senior and junior, original and refinance, residential and non-residential, owner-occupied and non-owner-occupied, and require disclosures and compliance with many laws and regulations.

II. TERMS USED IN THE LOAN BUSINESSES.

1. Originator. The person or entity who h_____ a prospective borrower apply for and obtain a loan. A loan officer or loan broker or loan broker.
2. Principal. The b_____ of the loan funds is the debtor who promises to repay the loan funds. The party represented by an agent.
Principal. The unpaid loan b_____ of the loan.
3. Lender. The entity that creates the loan by giving the funds for the loan.

SECTION 2: WHAT IS THE HISTORICAL BACKGROUND OF FINANCE?

I. EARLY HISTORY OF FINANCING.

- A. Development of Financial I_____ (Pre 1600's to 1863)
1. Originally money or things of v_____ were hidden in or about the home
 2. Funds were later deposited into the King's t_____
 3. Individuals d_____ their wealth with goldsmiths
 4. Excess funds lead to the need to i_____ funds with money holders
 5. With the increase in volume came the development of c_____
 6. The English system was imported to the early American colonies
 7. The N _____ B _____ A _____ was passed

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- B. Early Business Savings (Before the 1930's)
1. Federal Reserve System established in 1910's
 2. Savings and Loan Association began
 3. In 1928 the housing market crashed, followed in 1929 by the stock market crash.
 4. Rapid growth in demand for money as the country grew
- II. EVOLUTION OF BANKING AND LENDING PRACTICES
- A. Early real estate loans were predominately made by family members
- B. Real estate finance was largely haphazard until the advent of banking conformity practices were established by lending institutions
- C. Both the Federal Housing Administration (FHA) and the Federal National Mortgage Association (FNMA) emerged in the 1930's to aid home buyers
- D. After World War II both the Veterans Administration (VA) began in the 1940's and the Government National Mortgage Association (GNMA) began in the 1960's to help financing of real estate.
- E. Lending practices had to conform to FHA, FNMA, VA, GNMA or similar government agencies, such as the Federal Home Loan Mortgage Corporation (FHLMC), known as Freddie Mac, set standards for lending practices.
- III. MODERN REAL ESTATE FINANCE
- A. Regulated Banking System (1930's collapse reshaped finance)
1. Emergence of finance used for real estate loans
 - a. Land used as collateral for loans
 - b. Valuation and underwriting requirements for real estate loans
 - c. Land use, permits, and minimum housing standards compliance for real estate backed loans
 2. Secondary market develops to move funds across the country using interstate commerce of funds, both national and international levels

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1930's: FNMA, 1932 Federal Home Loan Bank Act, Freddie Mac; 1968 GNMA.

3. G _____ involvement in lending.
 - a. Lenders regulated to include fair housing, credit reporting, disaster and health issues with loan r _____
 - b. Numerous types of loan programs to assist in home ownership
 - c. 1944 – DVA; 1950 FDIC; 1970 RESPA

B. Modern Banking System (1980's deregulation)

1. D _____ I _____ D _____ a _____ M _____
C _____ A _____ (DIDMCA) changed practices
 - a. Federal override of state u _____
 - b. T _____ -i _____ -l _____ simplified
 - c. Jumbo loans created
 - d. G _____ lending restrictions removed
2. Government mandate of the F _____ I _____ s R _____,
R _____ a _____ E _____ A _____ (FIRREA)
 - a. Created O _____ o _____ T _____ S _____ (OTS) to replace Federal Home Loan Bank (FHLB)
 - b. Mortgage i _____ requirement for loans over 80% of appraisal
 - d. Appraisal l _____ laws and standards of practice (a 1989 law; state licensing required as of 1993)
 - e. 2001 Predatory lending law; 2002 Fair Credit Repository Act; 2008 SAFE Act; 2009 HOPE; 2010 TARP; Appraisal management firms.

C. Restructure of lending industry since 1990

1. Increase in consumer d _____, decrease in home ownership and change in employment due to restructuring of employment
2. Increased s _____ in loan types by mortgage loan brokers: equity loans, “B” and “C” paper lenders have increased demand and multicultural first time home buyers
3. Better-informed public with easier access to information on property and loans for real estate finance.

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4. Credit and rent play a major role in loan qualification

Chronology of U.S. Banking System

- 1930's Federal Home Loan Bank Act (FHLB)
National Housing Act
Federal Housing Administration created (FHA)
Federal National Mortgage Association (FNMA)
- 1940's Serviceman's Readjustment Act
Veterans Administration changed name
to Department of Veterans Affairs (DVA)
- 1950 & 60's Federal Deposit Insurance Act (FDIC)
Housing and Urban Development Act (HUD)
Fair Housing Act
Fair Credit Reporting Act
National Environmental Policy Act
Interstate Land Sales Full Disclosure Act
Government National Mortgage Association (GNMA)
Consumer Credit Protection Act (Truth in Lending -
Regulation Z)
- 1970 & 80's Real Estate Settlement Procedures Act (RESPA)
Equal Credit Opportunity Act (ECOA)
Home Mortgage Disclosure Act
Fair Lending Practices Act
Community Reinvestment Act (CRA)
Financial Institution Regulatory & Interest Rate Control
Act (FIRIRCA)
Depository Institutions Deregulation & Monetary Control
Act (DIDMCA)
- 1990-2000's Financial Institutions Reform, Recovery & Enforcement
Act (FIRREA)
Housing & Community Development Act (HCDA)
Fair Credit Reporting Act (FCRA)
Predatory Lending Law
- 2008-2010 Housing & Economic Recovery Act (HERA)
Registration of appraisal management companies
Reverse mortgage elder protection act
High priced mortgage loans
License law for California Financial Lenders (CFL) &
Residential Mortgage Lending Act (RMLA)
Good Faith Estimate (GFE) – HUD-1 form
Troubled Asset Relief Program (TARP)

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SECTION 3: WHAT ARE THE BASIC INFORMATION YOU NEED TO KNOW?

I. HARD MONEY VERSUS SELLER CARRY-BACK MONEY

A. Hard money loans:

1. Are loans deemed to be any i_____ or n_____ loans for which the lenders placed their cash funds on the table in a transaction.
2. Because of higher r_____ involved, some hard money lenders place more weight on the equity in the property rather than the borrower.

B. Careers in Mortgage Loan Brokerage

1. Some individuals are licensed, while others are not required to have any state regulatory license.
2. Most direct employees are not licensed and have very specific job, duties and assignments.
3. Licensed loan personnel are most often paid on a c_____ -o_____ basis and are usually independent contractors.

C. Loan Originators

1. Loan originators are those entities that s_____ others to obtain applications for loans.
2. Loan originators predominantly fall into these groups:
 - (1) the mortgage broker,
 - (2) the mortgage banker,
 - (3) c_____ b_____ or thrift institutions
 - (4) c_____ u_____, and
 - (5) l_____ c_____

SECTION 4: WHO MEETS THE CALIFORNIA LICENSE REQUIREMENTS?

I. LEGAL AND LICENSING REQUIREMENTS

- A. California is the first state to establish a D_____ o R_____ E_____ (DRE)

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- B. Mortgage loan brokers who process loans using other people's money are required to be licensed by the state DRE
- C. Mortgage loan brokers who lend their own funds are acting as direct lenders and are not required to be licensed by DRE. Many mortgage bankers are DRE licensees because they are act as both brokers and bankers for their various loan applicants.
- D. Direct employees of a financial institution lender are not required to have a DRE license, but often do because they may need to put a borrower together with a lender's funds where the money is not the institution's own funds.

II. PROFESSIONAL ORGANIZATIONS

Professional mortgage loan brokerage groups maintain qualifications and standards for their members. The organizations have educational requirements and offer designations that denote competence.

- A. California State Professional Organization. The California Association of Mortgage Brokers (CAMB) in Sacramento, California have many local chapters throughout the state. Local chapters hold seminars and training for their members, in addition to lobby efforts and affiliations within other real estate related communities.
- B. National Professional Organizations. The National Association of Mortgage Brokers (NAMB) and the Mortgage Bankers Association (MBA) both offer professional affiliation with individual state groups. The National Association of Professional Mortgage Workers (NAPMW) has active California members who seek the leadership seminars offered by the organization.

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COMPLETE THE EXERCISES THAT FOLLOW

STUDENT EXERCISES CHAPTER 1

Solve the following problems:

1. List the six (6) factors needed to succeed in achieving goals:

Answers:

- (1) _____
- (2) _____
- (3) _____
- (4) _____
- (5) _____
- (6) _____

2. Describe the changes in lending practices from early borrowing to current institutional practices.

Answers:

- 1. Early home buyers could not obtain _____

- 2. Government regulation _____

- 3. The 1980's deregulation brought about _____

3. Why has the business of the mortgage loan broker increased when borrowers have more access to direct institutional lenders and general loan information?

Answers:

- 1. Many borrowers do not _____

- 2. A mortgage loan broker can submit _____

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3. Institutional lenders _____

4. List the benefits of being associated with a professional mortgage loan brokerage association for the working professional in the industry.

Answers:

1. Affiliation _____

2. Access to _____

3. Lobbying _____

4. Education _____

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STUDENT REVIEW QUIZ UNIT 1

1. T / F Licensed loan personnel are paid most often on a hourly only basis and are fulltime employees.
2. T / F The Federal Home Loan Bank Act provided a central credit clearinghouse for home finance institutions.
3. T / F The Omnibus Reconciliation Act limited housing revenue bond tax exemptions.
4. T / F Mortgage Broker is a firm or individual bringing the borrower and lender together and receiving a commission.
5. T / F Predatory Lending is an abusive practice of targeting subprime borrowers, the elderly, and low income communities by charging excessive fees and interest rates.
6. T / F Mortgage broker always retain the loan servicing.
7. T / F Mortgage broker may lend his/her own funds.
8. T / F California was the first state to enact licenses to persons who practice real Estate.
9. T / F As a consequence of the 1980 crash in Real Estate, Mortgage Insurance for loans over 80% of value was required.
10. T / F Using a mortgage loan broker gives the buyer less loan choices and higher fees.

ANSWERS TO THE STUDENT REVIEW QUIZ UNIT 1

1. F
2. T
3. T
4. T
5. T
6. F
7. F
8. T
9. T
10. F