Mortgage Lending Principles & Practices
8th edition to 9th edition
With 9th edition errata/corrections at end

Note: Pages numbers indicate page in 8th edition / 9th edition, ie., 243/246

Chapter 1: Mortgage Lending Overview

Page 3/3: Seeds of Todays Mortgage Industry, 3rd paragraph

Most early mortgages were short-term (generally 3-5 years) interest-only loans, which did not pay down the principal of the loan. The loan amounts were usually for no more than 50% of the home's value, requiring homeowners to have substantial assets to qualify for financing. This kept many people in perpetual debt due to the need to repeatedly refinance their home purchase. If they were unable to pay off or reborrow at the end of the 3-5 year loan term, they lost their home in foreclosure. Due to the risks involved, many insurance companies decided to become mortgage lenders and sought out groups of investors to spread the risk and rewards. Building and loan associations (also known as thrifts) were mutually held financial institutions that provided home loans regionally, eventually growing nationally to number over 12,000 by the late 1920s. Many building and loan associations eventually became federally chartered savings and loan associations starting in the mid-1930s following the passage of the Federal Home Loan Bank Act of 1932 during the Great Depression.
First, even before the Great Depression, the Federal Reserve Act of 1913 created the **Federal Reserve System**. This Act established *a federal charter for banks that permitted them to make real estate loans*. Although these loans were initially the short-term, high down payment loans previously referenced, the Act established the framework for government involvement with mortgage lending. Furthermore, the Federal Reserve Act was instrumental in implementing a system for the government to influence interest rates.

Page 4/4: Federal Home Loan Banks, 1st paragraph

Federal Home Loan Banks (FHL Banks), established in 1932 by the Federal Home Loan Banking Act, are ~~*twelve*~~ *eleven regional cooperative banks that U.S. lending institutions use to finance housing and economic development in their communities.* . FHL Banks have been the largest source of funding for community lending for eight decades. The purpose of the ~~twelve~~ FHL Banks is to use their collective resources to expand credit opportunities throughout all markets.

Page 5/5: FHA Assistance – Insured Mortgages, 2nd paragraph

In 1965, the FHA became part of the Department of Housing and Urban Development (HUD). Today, the FHA is the largest insurer of mortgages in the world, insuring over ~~34~~ 47 million properties since its inception.

Page 6/6: Federal Deposit Insurance Corporation, 1st paragraph, last line

As of ~~2010~~ 2017, the FDIC insured deposits for ~~nearly 8,000~~ over 5,000 institutions. The FDIC insures deposits only. It does not insure securities, mutual funds, or similar types of investments that banks and thrift institutions may offer.

Page 6/6: Office of Thrift Supervision

The **Office of Thrift Supervision** (OTS), a division of the U.S. Department of the Treasury, was established in 1989 in response to the savings and loan crisis to replace the Federal Home Loan Bank Board for the purpose of supervising, chartering, and regulating federal and state-chartered savings institutions that belong to the Savings Association Insurance Fund (SAIF). Savings banks, savings and loans, cooperative banks, and credit unions are classified as thrift institutions (the word "federal" or the initials "F.S.B." appear in the federal institution's name). Although initially seen as an aggressive regulator, shutting down many troubled savings and loans, it became more neglectful over time. It was the primary regulator for American International Group (AIG), Countrywide Bank, F.S.B., Flagstar Bank, F.S.B., and IndyMac Bank, F.S.B. to name a few. The OTS ceased to exist on October 19, 2011 as it was merged with the Office of Comptroller of Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board of Governors, and the Consumer Financial Protection Bureau (CFPB) by the mandates of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Page 6/6: Office of Comptroller of Currency

The **Office of Comptroller of Currency** (OCC), an independent bureau within the Treasury Department, charters, regulates, and supervises all national banks, thrift institutions, and federal branches/agencies of foreign banks (the word "national" or the initials "N.A." appear in or after the bank's name). It is headed by the Comptroller, who is appointed by the President to a five-year term.

Page 6/7: National Credit Union Administration

The **National Credit Union Administration** (NCUA) is the independent federal agency that charters and supervises federal credit unions. The NCUA, backed by the full faith and credit of the U.S. government, operates the National Credit Union Share Insurance Fund (NCUSIF), which insures the savings of more than 100 million account holders in all federal credit unions and many state-chartered credit unions. The NCUA originally began as the Bureau of Federal Credit Unions in 1934 and changed its and the scope of its powers in 1970 as the number of credit unions increased.

Page 7/7: Federal Financial Institutions Examination Council

The **Federal Financial Institutions Examination Council** (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the FDIC, the NCUA, the OCC, and the CFPB. The FFIEC is made up of representatives from these five agencies as well as the Commissioner of Banks and makes recommendations to promote uniformity in the supervision of financial institutions.

Page 7/7: Federal Housing Finance Agency, 1st paragraph, last line

To that end, the FHFA has broad powers similar in function and structure to federal banking regulators, including expanded legal and regulatory authority over the secondary mortgage markets and oversight of the 14 housing-related GSEs—including Fannie Mae and Freddie Mac—and oversight of the ~~twelve~~ eleven FHL Banks. It currently has conservatorship over Fannie Mae and Freddie Mac.

Page 7/7: Exercise 1.2 Knowledge Check

The ____ was created in 1933 to insure consumer deposits.

A. Department of Housing and Urban Development
B. Federal Deposit Insurance Corporation
C. Federal Housing Finance Agency
D. National Credit Union Administration

[Answer is B. The FDIC was created in 1933 as part of the New Deal, to insure commercial bank deposits against bank failures and bank runs.]

Page 9/9: Mortgage Banker, 1st paragraph

A **mortgage banker** is a *company, individual, or entity that originates, processes, underwrites, closes/funds, and services mortgage loans.* While mortgage bankers close loans in their own name, they may fund loans with the company's own capital or through a warehouse line of credit until it is sold in the secondary market, often immediately. If they do sell the loans, they are referred to as correspondent lenders.

Page 11/12: Exercise 1.3 Knowledge Check, question 2

2. Mortgage bankers fund mortgage loans with all the following EXCEPT

A. borrowed capital.
B. in house cash.
C. hedge funds.
D. warehouse lines of credit.

Correct answer is C. - The mortgage banker, as a correspondent, closes the loan with internally generated funds in its own name or with funds borrowed from a warehouse lender.

Page 13/14: Secondary Market Participants, 1st paragraph

Secondary markets are generally defined as *private investors, government-sponsored enterprise (GSE), and government agencies that buy and sell real estate mortgages,* although private investors tend to be a much smaller percentage of the secondary markets. These private investors can be Wall Street or investment brokers, high-risk investors, insurance companies, or pension plans, for example. The three organizations responsible for the vast majority of the secondary mortgage market activity include:

Page 16/17: Mortgage Loan Market History, paragraph after bullet points

Impact of Credit Crunch

As of the 1st Quarter of 2019, the outstanding amount of mortgage debt on one-to-four family residences was **$10,904,999,000,000**. This number includes all loan types. Those mortgages held by the FNMA accounted for 26.9% of the outstanding loans or $2,930,649,000,000. The Federal Home Loan Mortgage Corporation accounted for 17.2% of the outstanding loans or $1,886,134,000,000. Other loan types, such as government-insured loans, FHL Bank loans, and private loans, make up the other 55.8% of the loans outstanding.

According to the most recent Home Mortgage Disclosure Act (HMDA) data for the year 2017, the number of mortgage originations nationwide equaled 6.114 million loans. Government-backed loans (FHA, VA, or RHS) accounted for about 36% of the origination volume for 2017. Conventional loans accounted for 64% of the origination volume in 2017.

Page 19/19: Exercise 1.5 Knowledge Check, questions revised (Answer key page 415)

1. The Dodd-Frank Act established the
   - **A. Consumer Financial Protection Bureau.**
   - B. Federal Deposit Insurance Corporation.
   - C. National Credit Union Administration.
   - D. Nationwide Multistate Licensing System & Registry.

[Section 1011 of Subtitle A of Title X under the Dodd-Frank Act created the Consumer Financial Protection Bureau whose task is to enforce consumer financial protection laws.]

2. The Mortgage Reform and Anti-Predatory Lending Act (Title XIV under the Dodd-Frank Act) requires MLOs to apply qualifying minimum standards and defines a category of qualified loans to prevent
   - *A.* borrower fraud.
   - *B.* high-cost home loans.
   - *C.* mortgage fraud.
   - ***D.* predatory lending practices.**

[The Mortgage Reform and Anti-Predatory Lending Act addresses abusive or predatory lending practices in the mortgage industry. For example, Subtitle B of Title XIV requires MLOs to apply minimum qualifying standards and defines a new category of "qualified" loans.]

Chapter 2: The Mortgage Lending Process

Page 26/26: Origination

Origination is *the process of making or initiating a new loan.* Origination involves being the initial contact for a consumer, counseling them on the advantages and disadvantages of available loan programs and then taking a loan application. Mortgage loan originators (MLO) may also be required to order a credit report and assemble all the other forms and documents required by the person or company who is underwriting the loan.

Page 28/28: Pre-Approval, 2nd-3rd paragraphs

Of course, a borrower's circumstances can and do change, which is why there are always conditions listed on a pre-approval. Depending upon internal pre-approval procedures, some pre-approvals are more specific about conditions than others. This is where experience is helpful, and an MLO should take advantage of the wisdom and experience the employer and other senior mortgage professionals can offer to assist in explaining the conditions to customers and in getting the conditions cleared. Pre-approvals are always in writing and must are issued pursuant to the policies and procedures established by the employer or mortgage lender.

A request for a pre-approval is not considered a loan application since an actual property and loan amount applied for have not been identified. As you will learn, completing an application in anticipation of a credit decision triggers federally-mandated disclosures. For example, in order to submit a loan application for pre-approval, the borrower must be given a **Loan Estimate**, which binds the MLO to its terms.

Page 30/30: Common Fees Associated with Real Estate Loans
In addition to interest, there are **loan fees** associated with processing a real estate mortgage loan, including fees for obtaining a borrower's credit bureau report, securing a property appraisal report, and completing necessary property inspections. Other items like title insurance and recording fees are paid if and when a loan closes. Fees that occur only when a loan closes are likely to be paid out of closing funds, but other early expenses incurred must be paid even if the loan doesn't close and are referred to as "POC" or *paid outside of closing* costs.
Lender's return (lender's yield) is the *total amount of money the lender can make from a loan in relation to the amount invested.* There are several methods for lenders to realize a return on their investment (ROI).

A lender is generally interested in the total amount of money it will make from the loan, not necessarily its source. Unlike MLOs, lenders may earn profit both from upfront fees as well as the level of interest being charged to the borrower.

Page 30/30-31: Loan Origination Fees
For loans that actually close, lenders may charge a loan **origination fee** to *cover the administrative costs of making and processing the loan*, including setting up the loan on the lender's books. Such fee may be expressed as a fraction, whole, or multiple origination **points**. A point is simply *one percent of the loan amount*. So, for example, on a $120,000 loan, the borrower would have to pay an additional $1,200 for every point the lender charged as an origination fee. Origination fees are charged for lender services, such as closing fees, underwriting fees, documentation fees, etc. It serves to offset the lender's overhead and to increase the lender's return. These fees are based on what the current market will bear.

Page 35/36: Redesigned URLA Coming soon!, Replace with
Redesigned URLA
Before discussing the format and information requested in the current URLA, which has been in use since 2009 it should be noted that a completely redesigned URLA with a corresponding dataset – the Uniform Loan Application Dataset (ULAD) - was scheduled to become available for use starting July 1, 2019. The form was substantially updated to support changes in mortgage industry credit, underwriting, eligibility policies, and regulatory requirements. The redesigned format was intended to be more efficient, to support accurate data collection, and to provide borrowers with a cleaner overall look and clearer instructions. Obsolete fields were eliminated and new fields were introduced, including updated monitoring information under the Home Mortgage Disclosure Act (HMDA).
Use of the redesigned URLA was scheduled to become mandatory beginning February 1, 2020, with an optional use period from July 1, 2019 until January 31, 2020. The optional use period was implemented for lenders, brokers, and MLOs to:

- Test internal systems to determine the existence of potential issues.
- Evaluate process and procedures in preparation of the changes.
- Conduct necessary training to implement rollout.

Just a few weeks prior to the start of the optional use period, the Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to postpone the implementation of the redesigned URLA. At present, there is no established date for such implementation and further changes to the form may be made. For that reason, we will not review how the new redesigned form differs from the current one. It is anticipated that sometime before the end of 2019 further guidance will be provided by Fannie Mae and Freddie Mac.

Page 36/36, Insert Head before Section I: Type of Mortgage and Terms of Loan
Uniform Residential Loan Application

Page 46/41: Processing the Loan application, 3rd paragraph
An approved **appraisal management company** is also contacted to appraise the property. Appraisal management companies (AMC's) were initially mandated by the Federal Deposit Insurance Corporation (FDIC) and are now regulated by the Consumer Finance Protection Bureau (CFPB) pursuant to specific AMC guidelines and rules. The guidelines require that appraisers have independence from other parties and regulates MLO communication with the appraisal firm when placing an order for the property appraisal (i.e., an MLO cannot directly contact an appraiser/can not place an order).

Page 46/41: The Four C's of Underwriting
2 paragraphs above moved under this head
A borrower's ability to qualify for a mortgage loan depends on *many* factors related to income, credit history, and assets. Although, as discussed, there are guidelines for determining what sufficient income for a given housing expense is, it would be wrong to apply these figures too rigidly. **All aspects of the borrower's financial situation must be considered before a loan decision is made.** Quality, quantity, and durability of income are important. A borrower with a higher debt-to-income ratio may still qualify for a loan if he has substantial assets, indicating an ability to effectively manage his financial affairs.
Conversely, strong earnings and substantial assets may not be enough to offset the damage caused by poor credit paying habits. A borrower must be both *able and willing* to pay the housing expense. Past lending experience shows that, in general, a borrower who makes large investments in his property is far less likely to default than those with little or no equity. That is why 20% down payments on new home purchases are the industry standard and anything less usually involves a mortgage insurance requirement by the lender.

Page 49/44: Rental Income
Income from rental properties can be counted if a stable pattern of positive **cash flow** can be verified. **Cash flow** is *money available to an individual on a regular basis after subtracting all expenses*. Rents must cover all expenses and mortgage payments while still leaving excess cash for the owner. Since 100% occupancy of all rental units at all times is rare, underwriters infer a 25% vacancy rate and will only allow 75% of the net income to be used as effective income. Tax returns are used for verifying rental income and expenses. If rental income is not reported on current tax returns, rental leases, and PITI documentation must be obtained.

Page 51/46: ~~VA~~ Veteran Benefits Income
Veterans may receive various forms of benefits from the Veterans Administration (VA). While military pension, survivor benefits, and other similar stable and durable forms of payment are considered part of effective income, VA education benefits are *not* considered acceptable income as they are offset by education expenses.

Page 54/50: Credit history, 2nd bullet point

- Utilities and automobile and health insurance premiums are *not* considered debts because they can, in theory, be cancelled. Lenders assume borrowers would turn off their phones or cable service before losing their houses.

Page 59/55: Down Payment, 3rd paragraph
Gifts. If an applicant lacks the necessary funds to close a transaction, a gift of the required amount is usually acceptable to the underwriter. The gift should be confirmed by means of a **gift letter** signed by the donor. The letter should clearly state that the money represents a gift and *does not have to be repaid.* The gift is usually from a family member, but may be acceptable if made by others depending upon program guidelines, which can vary. In addition to the gift letter, lenders want to verify that the donor has the funds available to provide the gift by seeing a copy of the gift check, , a recent bank statement from the donor showing he has the ability to give the gift and a copy of the deposit receipt showing funds have been deposited and are available for closing (sourcing the funds).

Page 64/60: Automated Underwriting Systems, 3rd paragraph
Both Fannie Mae and Freddie Mac have proprietary AUSs and they charge lenders for the privilege of using them. Fannie Mae uses two automated underwriting systems: Desktop Originator**®** (DO®) for brokers, and **Desktop Underwriter®** (DU®) for lenders. Freddie Mac has a similar direct AUS called **Loan Product Advisor** which is used by both brokers and lenders.

Page 65/61: Summary, Line item #7, last line
AUSs offer computerized analysis to recommend accepting the loan or refer it to a human underwriter for further consideration. Fannie Mae's AUS is **Desktop Underwriter**®; Freddie Mac's system is Loan Product Advisor.

Page 67/63: Chapter Quiz
2. ***Mary receives a monthly child support payment from her ex-husband pursuant to a Judgment of Divorce. Bob receives a monthly check because of a service-connected injury from his days in the military. John is a minister and receives money every month for living expenses. These payments are examples of***

A. gross-up income.
B. nontaxable income.
C. public assistance payments.
D. unemployment compensation.

Correct answer is B. A regular source of a borrower's income may be nontaxable—such as child support payments, Social Security benefits, a minister's housing allowance, disability retirement payments, workers' compensation benefits, certain types of public assistance payments, and food stamps.

Chapter 3: Finance Instruments

Page 70/66: Exercise 3.1 Knowledge Check, replace with (Answer key page 418)

What statement is TRUE as it relates to a note? *Select all correct responses.*

A. gives evidence of a debt
B. is a borrower's promise to repay a debt
C. should be signed by the payee
D. should be signed by the payor

Rationale: Correct answers are A, B, and D. A note is a document that gives notice of evidence of a debt and is the borrower's promise to repay the debt. The maker is also known as the payor, who is the person who makes the promise to repay the funds by signing a promissory note. The payee is the person or institution lending the money thus does not need to sign the note.

Page 75/71: Judicial Foreclosure Procedure, 2nd paragraph

Under a **foreclosure action**, the *court determines whether the lender is rightfully owed the money and whether the debtor is in default.* If the court finds in favor of the creditor, the judge issues an order of execution directing an officer of the court, usually the county sheriff, to seize the property for the purpose of public sale. The most common process for a judicially-ordered foreclosure sale includes the following:

Page 77/73: Mortgage Lien Position, 1st paragraph and last paragraph

Lien position establishes the *order in which liens are paid off out of the proceeds of a foreclosure sale*. By law, real estate tax liens always have the highest priority and get paid first, followed by the first recorded lien. Then, if there's money left, the second lien gets paid, and so on. Once the funds are exhausted, liens in a later position get nothing. Liens will generally acquire their position based upon the chronological order in which they are filed.

It's important to note that a mortgage would not necessarily be the first recorded lien on a property. For example, if someone purchases a new home from a builder who did not pay all the subcontractors or suppliers prior to the borrower purchasing the home, any lawsuit for collection from the builder may relate back to when the work was commenced, which puts a mechanic's or materialman's lien ahead of the lender. Also, since the date of lien filing generally dictates lien position, there are situations where, due to clerical errors, first mortgage liens are filed at a date later than the filing of junior mortgages, thus losing first lien position. In such circumstances, efforts must be made to correct the situation in order to preserve a lender's rights.

Page 78/74: Exercise 3.3 Knowledge Check, replace with (Answer key page 418)

A ______clause is used to place a superior lien in a junior lien position.

A. foreclosure
B. priority
C. subordination
D. superior

Rationale: The correct answer is C. An agreement or clause in a security instrument that keeps a lien in a subordinate or junior position is called a subordination clause. A subordination agreement is a written agreement between lienholders on a property that changes the priority of mortgages, judgments, and other liens.]

Page 81/77: Chapter Quiz, Questions 3 and 4 stems revised

3. Which document normally accompanies the mortgage?
   A. abstract of title
   B. contract of sale
   C. deed
   D. promissory note

Correct answer is D. - The promissory note provides the evidence of debt and the mortgage provides the creditor security for the note.

4. To foreclose a mortgage as opposed to a trust deed, a creditor
   A. files an attachment in the amount of the debt.
   B. files a court action.
   C. notifies the debtor of the default, waits ten days, publishes a notice of default in the paper, then claims a forfeiture.
   D. notifies the trustee of default.

Correct answer is B. - A mortgage requires judicial foreclosure. To begin the judicial foreclosure process, a lender must file an action in court.

Chapter 4: Conventional Loans/Financing

Page 84/80: Traditional Conventional Loans

Traditional conventional loans are typically **long-term, fully amortizing, fixed-rate real estate loans**. The SAFE Act defines a nontraditional loan as any loan other than a 30-year fixed-rate fully amortizing loan. Therefore, a traditional loan is a 30-year fixed-rate fully amortizing loan. This is the type of loan with which borrowers are most familiar.

Page 84/80: Fully Amortizing, paragraphs after chart

This partial example of an amortization table demonstrates a very different repayment structure in contrast to how mortgage loans were repaid before FHA introduced full amortization loans when loans were only partially amortizing or non-amortizing.

Negative amortization, another type of mortgage offered, occurs anytime the monthly payment is not sufficient to cover the accrued interest from the previous month. A reverse mortgage is an example of a negatively amortizing loan.

Page 86/82: Exercise 4.1 Knowledge Check, replace with (Answer key page 419)

1. A _____ loan is BEST defined as a loan that meets the criteria necessary to be sold in the secondary market.
   A. conforming
   B. conventional
   C. fixed rate
   D. nonconforming

Rationale: The correct answer is A. A conforming loan, a loan that conforms to the standards of FNMA or FHLMC, can be sold on the secondary market.

2. A self-liquidating loan
   A. requires a balloon payment to be made at the end of the loan term.
   B. is one where the borrower's monthly payments reduce the principal balance of the loan over the term of the loan.

Rationale: The correct answer is B. A self-liquidating loan is one where the borrower's monthly payments reduce the principal balance of the loan over the term of the loan.

Page 87/83: Conventional Loan Products, 5th bulleted item

- High LTV Refinance Option (FNMA) and Enhanced Relief Refinance (FHLMC) offer loans for borrowers who have a consistent mortgage repayment history, but the property has negative equity (mortgage balance exceeds appraised value). Often there is no requirement for an appraisal and income verification of the borrower is limited. **The programs replaced the Home Affordable Refinance Programs (HARP), which expired on December 31, 2018.**

Chapter 5: Government Loan Programs

Page 97/93: Key Terms, add
Mutual Mortgage Insurance Fund

Page 99/95: Exercise 5.1 Knowledge Check, replace with (Answer key page 420)
If they meet the lending guidelines, who can qualify for an FHA-insured loan? *Select all correct responses.*

A. all non-permanent residents
B. non-permanent residents with a qualifying work visa
C. permanent residents
D. U.S. citizens

Rationale: The correct answers are B, C, and D. Anyone who is a U.S. citizen, permanent resident, or non-permanent resident with a qualifying work visa, and who meets the lending guidelines, can qualify for an FHA-insured loan.

Page 99/95: Limited Denial of Participation (LDP)

A **Limited Denial of Participation** (LDP) is *an action taken by a HUD Field Office or the Deputy Assistant Secretary for Single-Family or Multi-Family Housing that excludes a person or company who fails to comply with HUD program standards from further participation in a HUD program area*. This list may include borrowers, mortgage professionals, title agencies and appraisal companies. Unless otherwise noted, LDPs are effective nationwide and generally expire in one year. Going forward, parties issued an LDP are prevented from new participation in the HUD program. Therefore, MLOs need to check the LDP list before attempting to process an FHA loan application.
In addition to the LDP list, the General Services Administration (GSA), which is primarily in charge of procurement for the federal government, provides the **System for Award Management** (SAM) website [see https://www.sam.gov/portal/public/SAM/#1], which is used to determine if individuals or companies on the government's Lists of Parties Excluded from Federal Procurement or Nonprocurement Programs and are, therefore, suspended or debarred from further participation in HUD programs.

Page 100/96: FHA TOTAL Mortgage Scorecard

The **Technology Open to Approved Lenders** (TOTAL) Mortgage Scorecard was developed by HUD to evaluate the credit risk of FHA loans that are submitted to an automated underwriting system (e.g., Desktop Underwriter®, Loan ~~Prospector~~ Product Advisor). TOTAL evaluates the overall creditworthiness of the applicants based on these variables:

Note added at end of section:
Note: Beginning March 18, 2019 FHA's TOTAL Mortgage Scorecard was updated to address the higher default rate of manually underwritten mortgages. Specifically, loans with a combination of less than 620 credit scores and greater than 43% DTI ratios that received a Refer will be required to undergo a higher level of underwriting scrutiny and documentation in order to gain approval.

Page 107/104: Mortgage insurance Premium, add after chart

Exceptions exist for the following:
Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA-endorsed Mortgage on or before May 31, 2009 – UFMIP is 1 bps (.01%) of loan amount and Annual MIP is 55 bps.
Hawaiian Home Lands (Section 247) – No Annual MIP and UFMIP ranges from 2.344% - 3.8% depending upon loan term and whether or not the MIP is financed.
Indian Lands (Section 248) – No UFMIP but Annual MIP is assessed as shown above.
Home Equity Conversion Mortgage (HECM)(Section 255) – UFMIP is 2% of maximum claim amount. Annual MIP is calculated based on outstanding balance.

Page 110/107: Maximum Loan Limit, 3rd paragraph

In 2019, the single-family home loan maximum for most counties is $484,350. With the loan amount of $484,350, the veteran's eligibility for guarantee will be a maximum of **$121,087** ($484,350 x 25%). This limit is significantly higher in some counties; for example, the 2019 loan limit in Marin County, CA, which is just north of San Francisco, is $726,525. A list of VA annual loan limits by county may be accessed from its website at https://www.benefits.va.gov/homeloans/purchaseco_loan_limits.asp.

Page 111.108: Restoring Entitlement; Case in Point

Let's look at a couple of examples to illustrate. Assume each veteran is buying a home in a county where the current conforming loan limit for a single-family home is $484,350, making the maximum guaranty $121,087 ($484,350 x .25).

Example 1: Veteran Bob has full entitlement available and is purchasing a home for $350,000.

$350,000	Purchase Price
x .25	
$ 87,500	Guaranty Required

Since Bob has his entire entitlement of $121,087 available, he can purchase this house without a down payment. Even though he still has $33,587 in available entitlement, the loan-to-value on this purchase cannot exceed 100%.

Example 2: Veteran Ann wants to buy a house for $380,000. She has already used $29,500 of her entitlement on a prior loan, which has not been restored.

$121,087	Maximum Entitlement
–$ 29,500	Used Entitlement
$91,587	Available Entitlement
$380,000	Purchase Price
x .25	
$95,000	Guaranty Required
– $91,587	Available Entitlement
$ 3,413	Down Payment

If Ann wants to buy this house, she must convince the seller to lower the price, restore some of her entitlement, or make a down payment of $3,413.

Page 119/116: Chapter Quiz, question 7

7. What is the maximum flat fee that a lender may charge for origination on a VA loan?

A. 1%
B. 2%
C. 3.5%
D. There is no limit; the fee is negotiable.

Correct answer is A. - The VA considers a 1% flat fee to be the maximum a lender can charge the veteran for origination services, including processing, document preparation fee, etc. These fees are typically charged to the seller and are not considered part of the 1% flat fee if the seller or interested third party pays the costs.

Chapter 6: Nontraditional/Nonconforming Loans & Financing

Page 122/118: Mortgage Products, added 3rd bullet

- Apply for an interest only mortgage, which generally has a balloon feature.

Page 122/118: Jumbo Loans and B and C Borrowers, 2nd bullet

- **Credit Quality of Borrower.** A borrower who does not meet the minimum standards established by Fannie Mae/Freddie Mac may be classified as a **B or C borrower**. This might be someone who had a credit problem in the past, such as a bankruptcy within the past seven to ten years; someone with late or unpaid medical bills; or someone whose credit scores are low because he owns multiple investment properties, has been self-employed for too short a period of time or for other reasons. These borrowers may still be able to receive mortgage loans through other loan programs, such as FHA-insured mortgages. Lenders, such as neighborhood banks, may also offer loans to these borrowers, but the loans cannot be sold to Fannie Mae or Freddie Mac.

Page 122/119: Alt A and A minus Loans, 2nd paragraph

A-minus loans, on the other hand, are *for borrowers with **credit record blemishes***, such as being 30 days late one or two times over the past year, having lower credit scores (usually under 680 FICO), having limited funds for a down payment, a high debt-to-income ratio, or a record of bankruptcy and/or foreclosure. A-minus loans are riskier than prime mortgages but not as risky as subprime mortgages. The approval can be obtained through an AUS. Since the loan is riskier, the interest rate is higher.

Page 124/120-121: Fannie Mae/Freddie Mac, 1st paragraph and note

Fannie Mae and Freddie Mac guidelines impose limits on discounts, buydowns, and other forms of interested party contributions to help buyers get into homes. These other contributions include finance costs, such as prepaid interest, and escrows for property taxes, hazard insurance, and mortgage insurance. IPCs may not be used to make the borrower's down payment, meet finance reserve requirements, or borrower minimum contribution requirements.

Note: Contributions made by lenders, employers or immediate family members usually are not subject to these limits unless they are also the seller.

Page 125/121: Exercise 6.2 knowledge Check, replace with (Answer key page 421)

Fannie Mae/Freddie Mac guidelines limit loan purchase contributions by sellers or other interested parties to a percentage of the property sale price or its appraised value,

A. whichever is lower.

B. whichever is higher.

Rationale: The correct answer is A. Fannie Mae/Freddie Mac guidelines limit loan purchase contributions by sellers or other interested parties to a percentage of the property sale price or its appraised value, whichever is lower. The limits are in place to determine whether the buyer can afford to make the monthly loan payments.

Page 127/123: Index

Once the initial interest rate for the loan is set, the rate of the loan is tied to a widely recognized and published index. The **index** is often referred to as the *cost of money*.

At the time a loan is made, the index preferred by the borrower is selected based upon what the lender offers. Because of market forces, the index fluctuates during the term of the loan, causing the borrower's actual interest rate to increase and decrease. The index moves in step with other short-term interest rate debt instruments. The index should be one that is determined and affected by market conditions and regularly listed in a major publication, such as The Wall Street Journal.

Common indices include:

- Treasury Bill Index (MTA) – based on 12 month moving average of certain treasury bonds
- 11th District Cost of Funds Indexes (COFI) – based on monthly average of interest rates paid on checking and savings accounts offered by Arizona, California and Nevada financial institutions
- Constant Maturity Treasury (CMT) – based on weekly or monthly average yields on U.S. Treasury securities
- London Interbank Offered Rate (LIBOR) – average interest rate which global banks borrow from one another based on 5 currencies (euro, British pound, Japanese yen, Swiss franc and U.S. dollar)

Indices have rates that are published. The index is subject to change over time and is, therefore, likely to be different each time there is an adjustment to the loan's interest rate. In general, indices with longer terms offer borrowers more protection from short-term fluctuations in the economy than indices with short terms. For example, a borrower with an ARM that uses a six-month MTA for the index has less protection from increases in the interest rate than a borrower who uses a three-year MTA as the index.

Page 127/123: Margin

A **margin**, which is sometimes referred to as a *spread*, remains fixed or constant for the duration of the loan. The margin is the number of percentage points added to the index and set by the lender. The *index plus the margin* equals the adjustable interest rate or **fully indexed rate** the borrower pays on the loan. The margin can vary greatly between different lenders. Assuming the index to be the actual cost of money, the margin represents the profit margin being made by the lender.

Page 136/132: Today's Subprime Loans, 1st paragraph

Subprime loans are re-emerging as an alternative loan product in today's market, though with a new look and new requirements. Based upon a report from ValuePenguin, the average credit score in the U.S. as of 2019 is 695. Yet many consumers …

Page 138/134: HUD Guidelines for Initial Funds Disbursement to a Borrower, line item 1.

1. Implementation of a maximum initial lump sum disbursements (during the first 12 months of closing) of either 60% of the principal limit (total proceeds available at loan closing) or the sum of the mandatory obligations (closing costs, mortgage insurance, etc.) plus 10% of the principal limit to the borrower.

Page 143/139: Amount Available with a Reverse Mortgage, 3rd bullet, last line

The nationwide maximum loan amount for a reverse mortgage for 2019 is **$726,525**.

Page 143/140: Exercise 6.7 Knowledge Check, replace with (Answer key page 422)

Property homeowner Alice must be at least ___ years old to qualify for a reverse mortgage.

A. 55
B. 60
C. 62
D. 65

Rationale: The correct answer is C. The guidelines call for the homeowner to be at least 62 years old to be eligible for the reverse mortgage.

Page 150/146: Chapter summary, item #6

6. A HECM is a reverse mortgage insured by the FHA. A reverse mortgage borrower may initially only draw a lump sum which is the greater of 60% of the principal limit; or 10% of the principal limit plus mandatory obligations and payoffs, as determined by many factors, including appraised value, the age of borrowers, type of payment received, etc.

Chapter 7: Federal Financial Disclosure Laws

Page 154/150: Real Estate Settlement Procedures Act (RESPA – Regulation X

The Real Estate Settlement Procedures Act of 1974 (RESPA) (12 U.S.C. §2601 et seq.) became effective June 20, 1975. The U.S. Department of Housing and Urban Development (HUD) promulgated Regulation X [see 12 CFR Part 1024], which is now enforced and interpreted by the Consumer Financial Protection Bureau (CFPB). The purpose of RESPA is to help consumers become better shoppers for settlement services and to eliminate unnecessary increases in the costs of certain settlement services due to kickbacks and referral fees.
There are four sections to RESPA that impact and guide the mortgage industry in protecting borrowers from abuses.

- Section 6— Provides borrowers with important protections relating to the servicing of their loans. Mandates that homeowners be given 15-days prior and post notice before there can be a change in loan servicers. Also provides a 60-day window for payments made to the old servicer to be forwarded on to the new servicer.

Page 155/151: Covered Transactions

RESPA, also referred to as Regulation X (12 CFR §1024.5) applies **to any federally-related mortgage loan (including refinancing) secured by a first or subordinate lien on a residential real property located within a State upon which is constructed or will be constructed a one-to-four families structure (including condos, co-ops and manufactured homes)**. The rules and regulations of RESPA apply to:

- Conventional loans;
- FHA, VA, and other government-sponsored loans;
- Purchase loans;
- Reverse mortgages;

- Assumptions;
- Refinances;
- Property improvement loans
- Equity lines of credit.

The following types of transactions are **not** covered:

- All-cash sale;
- Sale where the individual home seller takes back the mortgage;
- Business purpose loans;
- Assumptions not requiring lender approval;
- Loan conversions;
- Temporary construction loans as long as permanent financing of 1-4 family residential property is not anticipated;
- Bridge Loans;
- Vacant or unimproved property, unless a dwelling will be constructed or moved onto the property within two years;
- Bona fide transfers of a loan obligation in the secondary market.

Page 155/151: Exercise 7.1 Knowledge Check, question 2 replaced with (Answer key page 423)

2. According to RESPA, which of the following are considered settlement service providers? *Select all correct responses.*
   A. appraisers
   B. attorneys who prepare loan documents
   C. escrow agents
   D. landscaping companies

Rationale: Correct answers are A, B, and C. Any entity that provides a service after the loan closes is not a settlement service provider, according to RESPA guidelines.

Page 165/160-161: The TILA-RESPA Integrated Disclosures, insert before Overview of Truth in Lending Act (TILA)

Due to certain changes implemented following passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) the disclosure forms were changed for most closed-end credit transactions secured by real property. The TILA-RESPA rule (TRID) consolidated four existing disclosures, to wit: Good Faith Estimate, Initial Truth in Lending Disclosure, HUD-1 Settlement Statement, and Final Truth in Lending Disclosure, into two forms: a Loan Estimate and a Closing Disclosure. The TRID rules and new disclosures do not apply to reverse mortgages, which must continue to use the four disclosures and HELOCs and chattel mortgages (mobile home and unattached premises), which must use both TILs but not the GFE or HUD-1. [See 12 CFR §1026.19(e) and (f).]

Consistent with current rules under RESPA and TILA, the TRID rule does not apply to loans made by persons or entities not meeting the definition of creditor under 12 CFR §1026.2(a)(17).

Since most mortgage transactions are covered by the TRID rule, the discussion below will primarily focus upon the disclosure forms and requirements under this rule. However, aside from the forms themselves, most of the provisions of both RESPA (Regulation X) and TILA (Regulation Z) apply to all the disclosures.

Summary of Applicable Disclosure Requirements:

Use TILA-RESPA Integrated Disclosures (See Regulation Z):

• Most closed-end mortgage loans, including:
o Construction-only loans
o Loans secured by vacant land or by 25 or more acres

Continue to use existing TIL, RESPA Disclosures (as applicable):

• HELOCs (subject to disclosure requirements under Regulation Z, 12 CFR 1026.40)
• Reverse mortgages (subject to existing TIL and GFE disclosures)
• Chattel-secured mortgages (i.e., mortgages secured by a mobile home or by a dwelling that is not attached to real property, such as land) (subject to

existing TIL disclosures, and not RESPA)

But note: in both cases, there is a partial exemption from these disclosures under 12 CFR §1026.3(h) for loans secured by subordinate liens and associated with certain housing assistance loan programs for low- and moderate-income persons.

Page 177/172: Lender Tolerances and Revised Estimate, moved after Tolerance guidelines for the Loan Estimate section, and the following added at end (page 174 9th ed.)

Good Faith Revisions

Revisions of the estimate may be considered to be made in good faith as long as the revised charges are based upon:

a. Changed circumstances affecting settlement;
b. Changed circumstances affecting eligibility;
c. Revisions requested by the consumer;
d. Interest rate dependent charges;
e. Expiration of 10 business day period; or
f. Delayed settlement date on construction loans.

While items c through f are fairly clear in what would justify a revision of settlement charges, items a and b require further discussion.

Page 177-178/174-175: Valid Changed Circumstances and Bases for Revision, added 4th bullet

- Consumer became ineligible for an estimated charge previously disclosed because of creditworthiness or value of the security for the loan.

Added to: Timing and Delivery Requirements for Revised Loan Estimate

Once a creditor determines that a valid changed circumstance or other basis for revision exists, the creditor must provide a set of revised disclosures, including a revised Loan Estimate, within three business days of receiving information sufficient to make that determination.

Page 189/186: Revisions and Corrections to the Closing Disclosure, replace with

There are three categories of changes that require a corrected Closing Disclosure containing all changed loan and settlement terms. They are:

- Changes that occur prior to loan consummation requiring a new three-business-day waiting period;
- Changes that occur prior to loan consummation that do not require a new three-business-day waiting period; and
- Changes that occur after consummation.

[*For more information, see Regulation Z, 12 CFR § 1026.19(f)(2)*]

Page 189: Changed Circumstances Prior to Loan Consummation

Section deleted

Page 189/186: Changes to Correct or Revise Closing Disclosures Prior to Consummation

Paragraph 2

If other types of changes occur, creditors must ensure that the consumer receives a corrected **Closing Disclosure** at or before **consummation** but are not subject to a new three-day waiting period.

Page 190, paragraph 2, 3, and 4 from top, deleted

Page 190/187: ~~Timing of Revisions and Redisclosure of the Closing Disclosure~~ Changes to Correct or Revise Closing Disclosure after Consummation

When a Closing Disclosure is discovered to have an inaccuracy, whether numerical or clerical, or an event in connection with the settlement occurs within 30 calendar days after consummation that caused the Closing Disclosure to become inaccurate as to an amount paid by the consumer or seller, a corrected disclosure must be made within 30 days of discovering the inaccuracy. The consumer may receive a corrected Closing Disclosure **after consummation** as follows**:**

- Corrects a numerical error – corrected disclosure within 30 days.
- May include proceeds for a lender tolerance cure – corrected disclosure and refund within 60 days.
- Corrects a non-numerical clerical error that corrects the inaccuracy – corrected disclosure within 60 days.

Page 193/188: 7.7 Knowledge Check, Question 1

1. When a changed circumstance has occurred to the loan product after the Closing Disclosure has been delivered to the borrower, the creditor must

Page 193/190: 7.8 Apply Your Knowledge , Questions 3 and 4

3. **If the dollar amounts shown on Loan Estimate for items listed on Page 2, Section B of the "Services You Cannot Shop For" total $4,625, what is the maximum amount the borrower can be charged on the final Closing Disclosure?**

   [Response] *The closing costs shown in Section B of the Loan Estimate have zero tolerance for change; therefore, the maximum amount for these charges to the borrower is $4,625.*

4. **If the actual fees charged on the Closing Disclosure for items listed on Page 2, Section B of the Loan Estimate total $6,000 rather than $4,625, what must the mortgage broker do?**

[Response] The mortgage broker must pay a tolerance cure of $1,375 at closing or within 60 days of consummation because no increase is allowed on Section B fees at consummation y

Page 194-195/192: Disclosures, 2nd to last paragraph

Evidence of Disclosure Compliance As a general rule, a creditor must retain evidence of compliance with most disclosure requirements for at least **two years** after the disclosures were required to be made. The following disclosures must be kept for a longer period:

- Loan Estimate and related documents – 3 years after consummation
- Closing Disclosure and related documents – 5 years after consummation
- Loan originator compensation documents – 3 years after date of payment
- Minimum qualification standards for most closed-end transactions secured by a dwelling – 3 years after consummation

Page 215-217/211-213: Chapter Quiz

1. **Which law requires MLOs to provide borrowers with a Loan Estimate of closing costs?**
   A. FCRA
   B. HMDA
   C. SAFE
   D. **TILA**

Correct answer is D. - TILA requires the disclosure of the Loan Estimate to borrowers within three business days of a completed application.

6. **Which regulation mandates the use of the Closing Disclosure?**
   A. Regulation B
   B. Regulation C
   C. Regulation V
   D. Regulation Z

Correct answer is D. - Regulation Z - Regulation Z implements the Truth In Lending Act, which requires the use of the Closing Disclosure.

9. The APR on a Loan Estimate for a 30-year fixed-rate loan is 6.25% and the APR on the Closing Disclosure is 6.5%. After redisclosure, how long must the borrower wait to close the loan?

A. one business day
B. three business days
C. seven business days
D. There is no waiting required since the difference is within the acceptable tolerance.

Correct answer is B. - The Truth In Lending Act states that if the final annual percentage rate shown on the Closing Disclosure varies by more than 1/8% for a regular transaction or 1/4% for an irregular transaction from the initial disclosure on the Loan Estimate, then the borrower must be given an additional three-day rescission period to review the new disclosure (Truth in Lending Statement).

10. Which statement about loan origination fees on a Loan Estimate is FALSE?

A. The fee cannot change unless there is a changed circumstance.
B. The fee includes services performed by or on behalf of the MLO.
C. Lender and mortgage broker fees for the same transaction must be separately itemized.
D. Origination fees must be expressed as a lump sum.

Correct answer is C. - According to TILA, mortgage broker fees and lender fees must be combined on Page 2, Section A of the Loan Estimate.

13. The requirements for a "Complete Application" includes all the following EXCEPT the

A. address of the subject property.
B. gross monthly income.
C. most recent two months of bank statements.
D. name of the borrower.

Correct answer is C. - A "complete application" is defined as the receipt of a borrower's name, social security number (s), gross monthly income, the subject property address, the loan amount, and an estimate of value of the subject. An MLO is prohibited from collecting documents that verify the information related to the application before providing the Loan Estimate.

23. A Loan Estimate that is made in good faith is determined by the closing costs quoted on the Loan Estimate and on the Closing Disclosure. For a Loan Estimate to be considered made in good faith, the costs on the Loan Estimate can be which of the following:

A. disclosed on a changed circumstance form.
B. higher than what is charged on the Closing Disclosure.
C. lower than what is charged on the Closing Disclosure.
D. redisclosed on a revised Loan Estimate delivered to the borrower at least one business day before loan consummation.

Correct answer is B - If a loan estimate is made in good faith, the closing costs on the estimate will be higher than what the borrower is actually charged at loan consummation and documented on the Closing Disclosure. If the costs are higher on the Closing Disclosure, then the Loan Estimate was under-quoted.

25. When a borrower completes a loan application and receives disclosures but does not lock the interest rate at the time of application, and instead, locks the rate at a later date, a lender has _____ business days to redisclose the terms of the locked loan.

A. There is no requirement to disclose.
B. 1
C. 2
D. 3

Correct answer is D – When a borrower completes a loan application/disclosures but instead of locking the interest rate at the time of application, locks the rate at a later date, a lender has three business days to redisclose the terms of the locked loan.

Chapter 8: Federal Privacy Protection and Consumer Identification Laws

Page 220/216: Consumer Rights, last paragraph

As of September 21, 2018, pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act, nationwide consumer reporting agencies are now required to provide "national security freezes" free of charge to consumers.

Page 223/219: Consumer Reporting Agency Obligations

[See Consumer Credit Protection, Ch. 41 (15 U.S.C. Subchapter III Credit Reporting Agencies): http://www.gpo.gov/fdsys/pkg/USCODE-2012-title15/html/USCODE-2012-title15-chap41-subchapIII.htm] In May 2018, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act. Section 301 of the Act amended the FCRA with regard to fraud alerts, credit freezes and protecting credit records of minors. Under the Fair Credit Reporting Act, consumer reporting agencies:

- **May not report outdated negative information**. In most cases, a consumer reporting agency may not report negative credit information that is more than **seven years old** or bankruptcies that are more than **ten years old**. There is no time limit on the reporting of criminal convictions [see 15 U.S.C. §1681c].
- **Must limit access to a credit report**. A consumer reporting agency may provide information to people with a legitimate business need—usually to consider an application with a creditor, insurer, employer, landlord, or other business. The FCRA specifies those with a valid need for access [see 15 U.S.C. §1681d].
- **May not give out consumer credit information** to an employer, or a potential employer, without written consent given by the consumer [see 15 U.S.C. §1681b].
- Must include initial fraud alert in a consumer's file for a minimum of one year (was 90 days prior to 9/18). [see U.S.C. §1681c-1].
- Must provide a national credit freeze free of charge to consumers [see U.S.C. §1681c-1].
- **Must provide the following disclosures:**
    - Summary of Consumer Rights – (revised September 2018) – summarizes a consumer's right to obtain and dispute information in consumer reports and to obtain credit scores.
    - Summary of Consumer Identity Theft Rights – (revised September 2018) – summarizes a consumer's rights when a victim of identity theft.
    - Notice of National Security Freeze Right – new disclosure that must be provided when consumer receives either of the above summaries.

https://files.consumerfinance.gov/f/documents/bcfp_consumer-rights-summary_2018-09.docx
https://files.consumerfinance.gov/f/documents/bcfp_consumer-identity-theft-rights-summary_2018-09.docx

PAGE 224 (9TH ED)

CONSUMERS HAVE THE RIGHT TO OBTAIN A SECURITY FREEZE

' You have a right to place a 'security freeze' on your credit report, which will prohibit a consumer reporting agency from releasing information in your credit report without your express authorization. The security freeze is designed to prevent credit, loans, and services from being approved in your name without your consent. However, you should be aware that using a security freeze to take control over who gets access to the personal and financial information in your credit report may delay, interfere with, or prohibit the timely approval of any subsequent request or application you make regarding a new loan, credit, mortgage, or any other account involving the extension of credit.

' As an alternative to a security freeze, you have the right to place an initial or extended fraud alert on your credit file at no cost. An initial fraud alert is a 1-year alert that is placed on a consumer's credit file. Upon seeing a fraud alert display on a consumer's credit file, a business is required to take steps to verify the consumer's identity before extending new credit. If you are a victim of identity theft, you are entitled to an extended fraud alert, which is a fraud alert lasting 7 years.

' A security freeze does not apply to a person or entity, or its affiliates, or collection agencies acting on behalf of the person or entity, with which you have an existing account that requests information in your credit report for the purposes of reviewing or collecting the account. Reviewing the account includes activities related to account maintenance, monitoring, credit line increases, and account upgrades and enhancements.' .

Page 227/226: Fraud Alerts and Freezes, 1st paragraph after note

The FACT Act also allows consumers to place a **credit freeze**, free of charge, to prevent the information from showing on a credit report. When applying for a loan, the consumer may then temporarily "thaw" the credit report by contacting the credit bureau that is "freezing" the report to obtain a temporary password, which allows a credit reporting agency to access the report. Recent amendments have given very specific time deadlines for credit bureaus to place and remove credit freezes when requested by the consumer.

Page 229/227: 8.3 Knowledge Check, replace with (Answer key page 427)

1. The primary purpose of the Fair and Accurate Credit Transactions Act (FACT Act) is to protect consumers from

   A. credit agency fraud.
   B. identity theft.
   C. mortgage fraud.
   D. predatory lending.

Correct answer is B. The primary purpose of the FACT Act is to protect consumers from identity theft by ensuring that consumers' credit information is accurately maintained and recorded.

2. To properly dispose of a consumer's loan file, the FACT Act identifies reasonable methods for security and disposal including which of the following? *Select all correct responses.*

   A. burning or shredding papers that contain consumer report information so that information cannot be reconstructed
   B. destroying or erasing electronic files or media so that information cannot be recovered or reconstructed
   C. keeping borrower loan files at an offsite secure location
   D. not maintaining loan documents via electronic storage methods
   E. placing all pending loan documents in locked desks, cabinets, or storage rooms at the end of the workday

Correct answers are A, B, and E. Reasonable methods for security and disposal include burning or shredding papers that contain consumer report information so that information cannot be reconstructed; destroying or erasing electronic files or media so that information cannot be recovered or reconstructed; and placing all pending loan documents in locked desks, cabinets, or storage rooms at the end of the workday.

Page 230/229: Gramm-Leach-Bliley Act (GLB Act), 3rd paragraph

The GLB Act gives authority to the Federal Trade Commission (FTC) and several other federal and state agencies to administer and enforce **Title V – Privacy**. These regulations apply to financial institutions, which include not only banks, securities firms, and insurance companies, but also companies providing many other types of financial products and services to consumers, such as:

Page 232/230: Safeguards Rule, add after bullets

This aspect of the GLB Act is probably the most onerous for businesses covered since it requires a security infrastructure to be designed, implemented and audited continuously. On March 5, 2019, the FTC proposed changes to the Safeguards Rule that would significantly increase security and require a higher level of compliance by institutions affected.

Page 235/233: National Do Not Call Registry, add to end of 3rd paragraph, revise last paragraph
Also, since the Telemarketing Sales Rule applies to consumers, calls to businesses are not protected.

A consumer who receives a telemarketing call despite being on the registry is able to file a complaint with the FTC. Violators could be fined up to **$41,484 per call**, as each call, not each day, is considered a separate incident.

Page 236/234: 8.7 Knowledge Check, replace with

The National Do Not Call Registry regulations require companies to update their national customer lists every

A. 15 days.
B. 31 days.
C. 6 months.
D. year.

Correct answer is B. A company's federal as well as their internal DNC lists must be updated every 31 days.

Page 238/236: Chapter quiz

8. The penalty per occurrence per day for violating the National Do Not Call regulations is

A. $16,000.
B. $24,144.
C. $41,000.
D. $41,484.

Correct answer is D. - The National Do Not Call Registry regulations, administered by the FTC, set the maximum penalty for violations at $41,484 per incident.

Chapter 9: Federal Prohibition of Predatory Lending

Page 240/238: High-Cost Loans

HOEPA provisions must be complied with after the triggers for a "high-cost loan" have been met. A **high cost loan** (also known as a Section 32 loan), according to HOEPA, is *a closed-end loan or open-end credit plan secured by a borrower's principal residence*. This includes purchase-money mortgages, refinances, closed-end home equity loans and open-end home equity lines of credit (HELOC). With some exceptions, reverse mortgages, construction loans, HFA and USDA loans are exempt from HOEPA coverage, as are loans made on second homes and vacation homes.

A loan is considered a High-Cost Loan if any of these thresholds are met:

- The first lien on the property has an APR that exceeds the value of the APOR Index (as of the loan lock-in date) by more than 6.5 percentage points.
- A second mortgage has an APR that exceeds the value of the APOR Index (as of the loan lock-in date) by more than 8.5 percentage points.
- When the total loan amount for a transaction is $21,549 or more, and the points and fees amount exceeds 5 percent of the total loan amount, the transaction is a high-cost loan. When the total loan amount for a transaction is less than $21,549, and the points and fees amount exceeds the lesser of the adjusted points and fees dollar trigger of $1,077 or 8 percent of the total loan amount, the transaction is a high-cost loan. The loan amount border changes each year. $21,549 is the border for 2019.

[See 12 CFR, Part 1026, Truth in Lending – Regulation Z §1026.32(a)(1)]

Page 242/239: Registered Disclosures, 1st paragraph

Creditors granting loans hitting HOEPA thresholds must disclose certain facts about the loan as part of the loan package at least *three business days* prior to consummation of a mortgage transaction. The disclosure notice generally follows a certain format.

Page 243/241: Higher-Priced Mortgage Loans, add to last list item b.

b. An escrow account for property taxes, homeowner's insurance, private mortgage insurance, etc. for a five-year term. Cooperatives, construction loans, bridge loans and reverse mortgages are exempt from the escrow requirement and other exceptions do exists, and
c. A full appraisal with a physical visit of the interior of the property has been performed by a certified or licensed appraiser. An additional appraisal may be required if the property was acquired less than 180 days prior to the sales contract.

Note: In 2019, mortgage loans below a $26,700 threshold are exempt from all HPML requirements. This threshold is adjusted on a yearly basis.

Page 244/242: Exercise 9.1 Knowledge Check, replace with (Answer key page 429)

A higher-priced mortgage loan is defined as a loan where the APR, as disclosed by the Truth In Lending statement, of a mortgage loan exceeds the average prime offer rate by _____ for a first mortgage lien.

A. 1.0%
B. 1.5%
C. 2.5%
D. 3.5%

Correct answer is B. A higher-priced mortgage loan is defined as a loan where the APR, as disclosed by the Truth In Lending statement, of a mortgage loan exceeds the average prime offer rate by 1.5% for a first mortgage lien.

Page 245/242: Prohibited Acts and Practices, add after last bullet

- Grant loans solely on the collateral value of the borrower's property without regard to the borrower's ability to repay the loan. [§1026.34(a)(4)].
- Extend credit without required certification of pre-loan counseling. [§1026.34(a)(5)].
- Recommend default on an existing loan to be refinanced by a high-cost mortgage loan. [§1026.34(a)(6)].
- Charge any fees to modify, defer, renew, extend or amend a high-cost mortgage. [§1206.34(a)(7)].
- Assess late fees in excess of 4 percent of past due payments or pyramid late fees. [§1026.34(a)(8)].
- Charge a fee for generating payoff statements, with limited exceptions. [§1026.34(a)(9)].
- Finance lender points and fees into the loan. But bona fide third-party charges may. [§1026.34(a)(10)].

Page 245/243: Verifying Repayment Ability, add to 2nd paragraph

Although HOEPA's ability to repay rules have similar requirements to the Dodd-Frank Act ability to repay requirements for Qualified Mortgages, they are not the same. Income and assets can include:

Delete 2nd to last paragraph, add following to last paragraph

The requirement to prove ability to repay does **not** apply to temporary or "bridge" loans *with terms of 12 months or less*, such as a loan to purchase a new dwelling where the borrower plans to sell a current dwelling within 12 months [see 12 CFR, Part 1026, Truth in Lending – Regulation Z §1026.43(a)(3)(ii)]. In contrast to the Dodd-Frank ATR rules, where HELOCs are not required to comply, HOEPA does require HELOCs to meet its ATR rules.

Page 246/243: Escrow Account Restriction

Escrow Account – The rule requires the originating lender to establish and maintain an escrow (impound) account for property taxes and insurance (hazard, flood, mortgage, etc.). Cooperatives, construction loans, bridge loans with terms of 12 months or less and reverse mortgages are completely exempted. Condominiums, PUDs and other communities with master insurance policies are exempted from escrowing insurance premiums but still must escrow hazard taxes. [see 12 CFR, Part 1026, Truth in Lending – Regulation Z §1026.35(b)]. Additionally, creditors that meet certain requirements may be exempt from these rules. [see https://www.federalregister.gov/articles/2013/01/22/2013-00734/escrow-requirements-under-the-truth-in-lending-act-regulation-z].

Escrow Account Cancellation – once established for higher-priced mortgage loans, a creditor or servicer may cancel an escrow account under the following circumstances:

1. Termination of the underlying debt;
2. At least 5 years after consummation upon receiving a request to cancel from the consumer as long as the principal balance has been reduced to 80% of the original value of the property and the consumer is not currently in default or delinquent on the loan..

Page 246: (Delete Escrow Requirements for Jumbo Loans section)

Page 247/243: Exemptions

The rule exempts several types of loans, such as: qualified mortgages, temporary bridge loans (*12-month term or less*), construction loans, reverse mortgages, loans for new manufactured homes, loans for mobile homes, trailers, and boats that are dwellings, loans below the $26,700 loan amount threshold for HPML. The rule also exempts certain refinances where the existing creditor retains the loan or, if currently a government insured/guaranteed loan, it remains a government loan, the loan balance does not increase, and the loan is not interest only or negatively amortizing.

The rule also has exemptions from the second appraisal requirement to facilitate loans in rural areas, government and non-profit sales and other transactions. [see §1026.35(c)(4)(vii)].

Page 247: (Delete Balloon Payments, Late Fees, and Other loan Terms section and Example)

Page 248/245: Loan Originator Compensation Rule, replace 5th paragraph

"… a person who, in expectation of direct or indirect compensation or other monetary gain or for direct or indirect compensation or other monetary gain, performs any of the following activities: takes an application, offers, arranges, assists a consumer in obtaining or applying to obtain, negotiates, or otherwise obtains or makes an extension of consumer credit for another person; or through advertising or other means of communication represents to the public that such person can or will perform any of these activities. The term "loan originator" includes an employee, agent, or contractor of the creditor or loan originator organization if the employee, agent, or contractor meets this definition. The term "loan originator" includes a creditor that engages in loan origination activities if the creditor does not finance the transaction at consummation out of the creditor's own resources, including by drawing on a bona fide warehouse line of credit or out of deposits held by the creditor. All creditors that engage in any of the foregoing loan origination activities are loan originators for purposes of paragraphs (f) and (g) of this section . . ."

Page 253/250: 9.4 Knowledge Check, replace with (Answer key page 429)

MLOs ____ receive compensation based on the type or terms of a loan.

A. can

B. cannot

Correct answer is B. MLOs cannot receive compensation based on the type or terms of a loan. This requirement, which protects the borrower's interests, is codified under the Dodd-Frank Act and prohibits compensation based on any other term other than the loan amount.

Page 253/250: Guidelines for Registered Loan Originators, line items 1 - 3

1. Comply with all state law requirements for legal existence.
2. Ensure that each individual loan originator that is required to be licensed or registered under the SAFE Act and state implementing laws is, in fact, licensed or registered as required.
3. Obtain for any originator *hired after January 10, 2014* who is not licensed or required to be licensed pursuant to CFR §1008.103 or state implementing law:

Chapter 10: The SAFE Act

Page 259/257-258: Mortgage Loan Originator Definition, 1st line, addition to second set of bulleted items, 4th paragraph

The SAFE Act defines a licensed **mortgage loan originator** [12 CFR §1008.103(b)] as an individual who:

- An individual who is a registered MLO, employed by a covered institution, and who has a unique identifier through NMLS.
- An individual who is employed by a government agency to act as a loan originator.
- An individual employed by a bona fide nonprofit organization to act as a loan originator.
-

Note: This definition differs from the definition of a loan originator under TILA [See 12 CFR §1026.35(a)(1)].

An **independent contractor** may **not** engage in residential mortgage loan origination activities as a loan processor or underwriter *unless* such independent contractor is a state-licensed mortgage loan originator. The same exclusions listed above that apply to licensed mortgage originators above also apply here. [See 12 CFR §1008.103(d)(1) & (e)].

The SAFE Act requires all residential mortgage loan originators to be issued and be identified by a unique identifier through NMLS as either:

- **Federally-registered**—A mortgage loan originator employed by a depository institution, a subsidiary that is owned and controlled by a depository institution and regulated by a federal banking agency, or an institution regulated by the Farm Credit Administration.
- **State-licensed**—A mortgage loan originator not employed by a depository institution, a subsidiary that is owned and controlled by a depository institution and regulated by a federal banking agency, or an institution regulated by the Farm Credit Administration and is licensed by a State.

Page 260/258: Exercise 10.1: Knowledge Check, replace with (Answer key page 430)

The SAFE Act defines a licensed mortgage loan originator as an individual who takes a residential mortgage loan application and offers or negotiates terms of a residential mortgage loan for

A. a fee.
B. compensation or gain.
C. personal gain.
D. profit.

Correct answer is B. The SAFE Act defines a licensed mortgage loan originator as an individual who takes a residential mortgage loan application and offers or negotiates terms of a residential mortgage loan for compensation or gain.

Page 265-266/260: SAFE Act Licensing Requirements
Moved to top of page before MLO Prelicensing Requirements

Page 266/262Character and Fitness
Moved to After Retaking the Exam

Page 263 (9th ed.) Insert after Character and Fitness
Prohibited Conduct and Practices

It is a violation of the SAFE Act for a person or individual subject to the SAFE Act to:

- Directly or indirectly employ any scheme, device, or artifice to defraud or mislead borrowers or lenders or to defraud any person.
- Engage in any unfair or deceptive practice toward any person.
- Obtain property by fraud or misrepresentation.
- Solicit or enter into a contract with a borrower that provides in substance that the person or individual

subject to this Act may earn a fee or commission through "best efforts" to obtain a loan, even though no loan is actually obtained for the borrower.

- Solicit, advertise, or enter into a contract for specific interest rates, points, or other financing terms, unless the terms are actually available at the time of soliciting, advertising, or contracting.
- Conduct any business covered by the SAFE Act without holding a valid license as required under the Act, or assist or aide and abet any person in the conduct of business under the SAFE Act without a valid license as required under the Act.
- Fail to make disclosures as required by the SAFE Act and any other applicable state or federal law, including regulations thereunder.
- Fail to comply with the rules or regulations promulgated under the SAFE Act, or fail to comply with any other state or federal law, including the rules and regulations thereunder, applicable to any business authorized or conducted under the SAFE Act.
- Make, in any manner, any false or deceptive statement or representation, or optional add-on, including, with regard to the rates, points, or other financing terms or conditions for a residential mortgage loan, or engage in bait and switch advertising.
- Negligently make any false statement or knowingly and willfully make any omission of material fact in connection with any information or reports filed with a governmental agency or the Nationwide Mortgage Licensing System and Registry or in connection with any investigation conducted by the Commissioner or another governmental agency.
- Make any payment, threat or promise, directly or indirectly, to any person for the purposes of influencing the independent judgment of the person in connection with a residential mortgage loan, or make any payment threat or promise, directly or indirectly, to any appraiser of a property, for the purposes of influencing the independent judgment of the appraiser with respect to the value of the property.
- Collect, charge, attempt to collect or charge or use or propose any agreement purporting to collect or charge any fee prohibited by the SAFE Act.
- Cause or require a borrower to obtain property insurance coverage in an amount that exceeds the replacement cost of the improvements as established by the property insurer.
- Fail to truthfully account for monies belonging to a party to a residential mortgage loan transaction.

Page 266/262: Exercise ~~10.3~~ 10.2: Knowledge Check (Answer key page 430)
Changed to 10.2, replaced with and moved

If an individual fails the national component of the SAFE Mortgage Loan Originator Test with Uniform State Content, he can repeat taking the test up to how many more times as part of the same enrollment?

A. one
B. two
C. four
D. five

Correct answer is B. An MLO candidate is entitled to try passing the test three times; if he fails all three times, then the candidate must wait at least six months before trying it again.

Page 263/264: License Maintenance Requirements, add after last bullet

- The MLO has applied for renewal within the annual renewal period and no later than December 31 of each year.

Page 263/264: Failure to Satisfy Minimum Standards, delete last line - replace with

State agencies may adopt procedures for reinstatement of expired licenses consistent with NMLS standards.

Page 265 (9th ed.): Add before Lapse in License

MLO Transitional Authority

The SAFE Act was amended in 2018 with the passage of The Economic Growth, Regulatory Relief, and

Consumer Protection Act of 2018 to mandate that all states implement transitional authority to MLOs seeking to become licensed in other states or who seek to move from a bank to a non-bank lender. Pursuant to the Act, such MLOs would be allowed to originate loans for up to 120 days while they are applying to the state agency for their new license. All states have until November 24, 2019 to implement such authority. At this time many states have already done so.

Page 265/266: Lapse in License, add to end of 2nd paragraph

Once an individual is unlicensed for 3 years as an MLO, most states require that they retake the 20 hours of pre-licensing education in order to have their license reinstated. Once unlicensed for 5 years, the individual must retake and pass the National Test with UST. If an individual has worked as a registered MLO during this unlicensed period, he is credited for that time.

Page 266 (9th ed.): Exercise ~~10.2~~ 10.3: Knowledge Check,

Changed to Exercise 10.3, moved to before Chapter Summary

Chapter 11: Ethics in Mortgage Lending

Page 270/270: Ethical and Legal Considerations, 1st paragraph after 1st set of bullets

The standards of conduct for the mortgage industry are not a matter of law. There are no statutes or regulations that codify ethical behavior. The laws and regulations merely outline which specific acts are required or prohibited under the law. However, several professional associations do have standards and guidelines that they expect their members to adhere to. The most prominent example of such guidelines is presented by the National Association of Mortgage Brokers (NAMB), which is the leading national trade association for the mortgage industry. The following ideals are found in NAMB's code of ethics:

Page 271/271: Ethics in Advertising, 3rd paragraph

The **Federal Trade Commission** has the authority to act in the interest of all consumers to prevent deceptive and unfair acts or practices. Section 5 of the Federal Trade Commission Act (Title 15 USC §41-58) prohibits unfair or deceptive practices of *any kind*, which includes advertising in any medium. Therefore, advertising must be designed to tell the truth and not mislead consumers. A claim can be misleading if either it implies something that is not true or if relevant information is left out. For example, an advertisement for a loan that promotes "$0 Down" may be misleading if significant charges that are due at closing are not disclosed in the advertisement.

Page 271/272: Regulation N: Prohibited Representations

As part of the Credit Card Accountability Responsibility and Disclosure Act of 2009, the FTC implemented and the CFPB adopted additional rules under Regulation N – Prohibited Representations [see Appendix F, Mortgage Acts and Practices—Advertising (Regulation N), 12 CFR §1014.3 *Prohibited representations*]. These Advertising Rules (MAP Rules) are designed to prohibit misrepresentations in a commercial communication regarding mortgage products.

Page 272/272: Misrepresentation and Material Facts, 3rd paragraph

When pursuing a claim of fraud or deception, it may not be necessary to prove that the person to whom the deliberate misstatement, misrepresentation, or omission was made was harmed financially in the transaction, or that the person relied upon such misstatement, misrepresentation, or omission to make a decision in the transaction. While criminal claims may require a higher standard of proof to establish fraud or deception, administrative claims may only require that the bad actor deliberately sought to mislead about a material fact. This brings us to the next key concept: What is a "material fact?" A **material fact** is generally defined as *a fact that, if known, might have caused a reasonable consumer to make a different decision*. For example, when offering a mortgage loan, material facts may include the loan's:

Page 273/274: Switch After Sale, insert before last paragraph

Remember, these actions are merely indications of a possible bait and switch ploy. There may be innocent reasons for these actions as well. In general, patterns of conduct must be shown in order to prove a claim that an advertiser has engaged in this type of illegal act.

Page 274/274: Exercise 11.1: Knowledge Check, replace with (Answer key page 431)

MLO Jack advertises refinance loans with 0 points and 3.8% APR just to get prospective borrowers in the door and then tells them that such terms are not available because of their debt, income, or another factor. In reality, Jack did not intend to originate any loan with those terms. Jack is guilty of

- **A. bait and switch advertising.**
- B. predatory lending.
- C. puffing.
- D. steering.

Correct answer is A. No advertisement containing an offer to sell a product should be published when the offer is not a bona fide effort to sell the advertised product. Jack baited consumers with his advertisement, which is a violation of 16 CFR §238.1.

Page 274/275: Unfair and Deceptive Practice, insert after 1st paragraph

Unfair, deceptive, or abusive acts and practices (UDAAPs) can cause significant financial injury to consumers, erode consumer confidence, and undermine the financial marketplace. Under the Dodd-Frank Act, it is unlawful for any provider of consumer financial products or services or a service provider to engage in any unfair, deceptive, or abusive act or practice. The Act also provides the Consumer Financial Protection Bureau (CFPB) with rule-making authority and, with respect to entities within its jurisdiction, enforcement authority to prevent unfair, deceptive, or abusive acts or practices in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. In addition, the CFPB has supervisory authority for detecting and assessing risks to consumers and to markets for consumer financial products and services.

Page 280/280: Civil Rights Act of 1866, 3rd paragraph

The 1866 Civil Rights Act applies to all property—real or personal, residential or commercial, improved or unimproved. The Act prohibits any discrimination against U.S. citizens based on race or ancestry and was upheld in 1968 by the United States Supreme Court in the landmark case of *Jones v. Mayer.* The court ruled that the 1866 federal law "prohibits all racial discrimination, private or public, in the sale and rental of property". Enforcement of the Act by the federal government is based on section 2 of the 13th Amendment to the U.S. Constitution, which empowers Congress to prohibit slavery.

Page 282/283: Discriminatory practices, 3rd bullett

- **Redlining.** Redlining is *a refusal to make loans—or making loans on less favorable terms—on property located in a particular neighborhood for discriminatory reasons*. In the past, many lenders assumed that an integrated or predominantly minority neighborhood was automatically a place where property values would decline over time. Based on that assumption, lenders refused to make loans in those neighborhoods. Since it was very difficult for borrowers to obtain purchase or renovation loans, it became the inability to properly market, maintain, or improve homes caused neighborhood values to decline even further - a cycle from which few neighborhoods could recover.

Page 286/286: The Equal Credit Opportunity Act, insert after paragraph at top of page

Among its many requirements, the ECOA also:

- Requires creditors to disclose to consumers what their rights are under ECOA, including a notice to the applicant of their right to receive a copy of any appraisal report on the property that was used in the credit decision-making process.
- Requires credit bureaus to maintain separate credit files on married spouses, if requested.
- Allows credit applicants to file discrimination complaints or bring a civil lawsuit for alleged discrimination.
- Requires creditors to maintain records of application and related information for 25 months (12 months for business credit) after notifying the applicant of action taken.

Page 288/288: Credit Decisions, insert at end of section

Credit decisions will generally take the following written form:

- Approved – a Commitment Letter is provided to the applicant
- Incomplete – a Notice of Incomplete Application is provided to the applicant
- Denied (or offered less favorable or different terms) – a Statement of Adverse Action is provided to the applicant

The Statement of Adverse Action must include specific reasons for the decision or inform the applicant of the right to request specific reasons for the decision within 60 days of a credit decision. Additionally, borrowers have a right to a copy of the **appraisal report** used in the decision process upon completion of the appraisal or no later than 3 business days before settlement.

Page 291/291: Other Types of Discrimination

Blatant discrimination still exists but it is less common today. Nonetheless, there are subtler ways—both intentional and unintentional—that may amount to discrimination. Intentional decisions to treat people differently based upon race or other protected characteristics are referred to as disparate treatment. Disparate impact, on the other hand, does not require intention to discriminate. Instead, it refers to practices that are intended to be neutral but are shown to have a negative impact upon a particular protected class. Regardless of intention, it still qualifies as a form of discrimination. If an MLO is ever in doubt about what qualifies as discrimination, she should talk with her broker or an experienced mortgage professional.

Page 297/297: Other Industry Insiders, insert before 1st bullet

Other industry professionals may be involved in fraud to different degrees and in some of the following ways:

Page 297/298: Flipping, line 1 of 1st paragraph, addition to end of 3rd paragraph

Another common and well-known mortgage fraud scheme is **illegal property flipping.**

At the end of the scheme there is usually a mortgage lender forced to foreclose on a property with a value that is insufficient to satisfy its lien.

Page 298/299: FHA Response to Flipping Schemes

The FHA requires sellers to own a property for at least **three (3) months** prior to a new sale involving FHA-insured financing. For resales ranging from 91-180 days, the FHA impose additional requirements to decrease the possibility of illegal flipping. FHA rules include:

- The FHA will not insure any resale properties unless the owner of record is the seller. This prevents thieves from flipping properties without ever having legally owned them.
- Resales that take place 91–180 days after the initial sale can be FHA-insured **only if there is a second appraisal that matches a resale threshold percentage established by HUD**. The second appraisal may *not* be paid for by the borrower. If there is more than a 5% difference in property value between the two appraisals, the lower value must be used by the lender.
- The resale price may not be more than 100% over the price paid by the seller to acquire the property.

There are exceptions in cases of relocation, HUD's REO program, approved nonprofits, local, state and federal government agencies, inheritance and disaster areas.

Page 299/300: Disappearing Second

A more common variation on the silent second scheme is when the buyer has *no intention of paying* the second mortgage. For example, schemers find uninformed buyers willing to sign a sales contract beyond market price with an enticement such as "seller will help finance." In these cases, the seller holds a second mortgage and presents it to the lender as if it were an actual mortgage to induce the bank to loan a higher amount without the need for mortgage insurance. Once the …

Chapter 12: Uniform State Test

Page 319/319: Exercise 12.1: Knowledge Check, replace with (Answer key page 434)

1. The SAFE Act requires all MLOS to be _______ with the NMLS.
   A. federally registered
   B. state-licensed
   C. federally registered and state-licensed
   D. federally registered or state-licensed

Correct answer is D. Under the SAFE Act, an MLO is required to be either state-licensed or federally registered.

2. The SAFE Act establishes _____ minimum standards for prelicensing education and annual continuing education of MLOs.
   A. national
   B. state
   C. national and state
   D. national or state

Correct answer is A. The SAFE Act requires national minimum educational standards for MLOs to enhance consumer protection and reduce fraud.

Page 320/320: Exercise 12.2: Knowledge Check, replace question 1 with (Answer key page 434)

1. Under the SAFE Act, the ______is responsible for ensuring the proper and legal control of MLO licensing within the state.
   A. AARMR
   B. CSBS
   C. NMLS
   D. state regulatory authority

The correct answer is D. The state regulatory authority must effectively supervise and enforce the law under the SAFE Act.

Page 321/321: Penalties, 2nd paragraph

*The **maximum** amount of penalty for each act or omission shall be **$28,474 (as of January 12, 2018)**.*

Page 321/322: Exercise 12.3: Knowledge Check, replace with (Answer key page 434)

As set forth by the SAFE Act, a state regulatory authority may impose a civil penalty up to ______ per violation on an MLO found guilty of violating a requirement of the SAFE Act.
   A. $25,000
   B. $20,000
   C. $25,705
   D. $28,474

The correct answer is D. The maximum amount of penalty for each act or omission shall be $28,474 (as of January 12, 1018).

Page 324/324: Exercise 12.4: Apply Your Knowledge, revise 1, 3, 6 (Answer key page 434)

Identify whether the following mortgage related tasks call for License Required (**LR**) or No License Required (**NLR**):

1. Discusses available loan programs with the borrower	***LR***	*NLR*
3. Collect verification of employment	*LR*	***NLR***
6. Receive compensation for originating a mortgage loan	***LR***	*NLR*

Page 329/329: Exercise 12.5: Knowledge Check, replace with

An individual who acts as an MLO in providing financing for the sale of her own residence _____ require licensing as long as it is not a habitual and frequent activity.

A. would

B. would not

Correct answer is B. An individual who acts as an MLO in providing financing for the sale of her own residence would NOT require licensing as long as it is not a habitual and frequent activity.

Page 331/331: Chapter Summary

6. The state regulatory authority may impose a civil penalty on an MLO or mortgage licensee after proper notice and opportunity for an appeal hearing. The maximum amount of penalty for each act or omission shall be $28,474 as of January 12, 2018.

Chapter 13: Selected Consumer Protection Regulations

Page 334/334-335: Mortgage Servicing, replace section with

[See Consumer Financial Protection Bureau website:
http://www.consumerfinance.gov/regulations/2013-real-estate-settlement-procedures-act-regulation-x-and-truth-in-lending-act-regulation-z-mortgage-servicing-final-rules/
http://www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/amendments-2013-mortgage-rules-under-real-estate-settlement-procedures-act-regulation-x-and-truth-lending-actregulation-z/]

The Consumer Financial Protection Bureau (CFPB) released its final rules on mortgage loan servicing on January 17, 2013 and amended them in August 2016. The August 2016 amendment provided additional benefits for small servicers along with changes and new requirements dealing with successors in interest, borrowers in bankruptcy, force-placed insurance, expanded loss mitigation requirements, transfers of servicing, and clarification on the definition of delinquency. Those 2016 amendments became effective in 2018.

These mortgage servicing rules apply to entities that service consumer first lien mortgage loans. The rules apply equally to entities servicing their own portfolios and those servicing loans sold into the secondary market. The rules do not include: reverse mortgages, bridge loans, construction loans, loans for business purposes, or loans secured by agricultural property by lenders qualified under the Farm Credit Act.

Periodic Billing Statements

Mortgage servicers, creditors and assignees are required to provide a monthly billing statement to borrowers that detail:

- Amount due and how much will be applied to principal, interest, and escrow, including sums for any fees, charges and past due payments;
- Due date for payment;
- Late fee information;
- If the mortgage loan has multiple payment options, the statement must show whether the principal balance will increase, decrease, or stay the same for each option listed;
- Payments made since the last statement;
- How previous payments were applied;
- Transaction activity (including any fees or charges to the borrower's account);
- Certain messages, such as detail on the application of partial payments or funds held in a suspense account;
- Contact information for the borrower's servicer;
- Current principal balance;
- Current interest rate;
- Next interest rate change date (if applicable);
- How to contact a housing counselor for help;
- Late payment information (if delinquent on payments); and
- Special requirements for borrowers in bankruptcy (as applicable).
-

Note: The 2016 amendments made clear that small servicers (services 5,000 or fewer consumer mortgages, which they or an affiliate own or originated) are exempt from most of these periodic statement provisions.

Interest Rate Adjustment Notices for ARMs

Mortgage servicers who service ARM loans must send a notice of **first rate adjustment** to the borrower **210-240 days** prior to the first adjustment and **subsequent adjustment** notices **60-120 days** prior those adjustment dates. If an interest rate change does not result in a payment change, then no notice if required.

Crediting Payments and Providing Payoff Statements

Mortgage servicers must promptly credit mortgage payments when received [see 12 CFR Part 1026, Subpart C, §1026.36(c)]. To that end, servicers must:

- give a borrower credit for the full payment *as of the day the payment is received*.
- when a partial payment is made, hold the partial payment(s) in a special suspense account (the servicer must disclose this on the monthly statement). When that special account collects enough money to make a full payment of principal, interest, and any escrow, the servicer must credit that payment to the borrower's account.
- provide an accurate payoff balance *within seven (7) business days of receipt of the request*.

Page 335/335-337: Forced Placed Insurance / Foreclosures/Modifications. Replace page with

Force-Placed insurance

[See 12 CFR Part 1024, Subpart C, §1024.37 Force-placed insurance.]

When a homeowner fails to keep his home insured, the lender has the right to buy and charge for *insurance to cover the lender's interest in the home*. This insurance is called **force-placed insurance**. Force-placed insurance is usually more expensive than a regular homeowner insurance policy, and it generally *only protects the lender's interests*, not the homeowner's, like personal possessions.

The rule says the servicer must:

- Provide a first notice to the homeowner *at least 45 days* before the lender charges for a force-placed insurance policy;
- Provide a second notice *at least 30 days later and at least 15 days prior to charging the borrower* if the borrower still hasn't provided proof of purchasing the needed insurance.
- Cancel force-placed coverage and refund premiums paid during periods of overlapping coverage.
- Continue to accept the existing insurance policy, rather than buy force-placed insurance, if there is an escrow/impound account from which the servicer pays the insurance bill.
- Bill the homeowner only the bona fide cost of the force-placed insurance coverage.
-

General Servicing Policies, Procedures and Requirements

[See 12 CFR Part 1024, Subpart C, §1024.38]

Mortgage servicers must set up their business and adopt policies and procedures designed to:

- Provide timely and accurate information about a borrower's loan, including:
  - Disclosures to the borrower;
  - Investigating and responding to borrower complaints and correcting errors;
  - Information and documents to borrowers;
  - Information and documents to mortgage owners and assignees;
  - Documents or filings for foreclosure processes; and
  - Working with sucessors in interest upon death of a borrower.
- Properly evaluate loss mitigation applications by:
  - Providing borrowers accurate information about available loss mitigation options;
  - Providing access to all documentation needed to evaluate loss mitigation;
  - Identifying documents and information borrower needs to complete loss mitigation application;
  - Properly evaluating a borrower's application for loss mitigation.
- Facilitate oversight and compliance by:
  - Providing appropriate personnel access to documents and information to audit compliance;
  - Performing periodic reviews
  - Sharing information regarding loss mitigation and foreclosure statuses.
- Facilitate transfer of information during servicing transfers by:

    - As transferor, transferring all information and documents in its control to transferee; and
    - As transferee, identifying and requesting any necessary information that was not transferred.
- Keep records for *at least one year* after a mortgage loan is discharged or transferred.
- Inform borrowers of written error resolution and information request policies
- Keep a servicing file for all loans, which includes:
    - Schedule of transactions credited or debited to the account (including escrow);
    - Copy of security instrument establishing lien;
    - Notes created by servicer reflecting communications with the borrower;
    - Copies of any information or documents provided by the borrower.

Requests for Information

Servicers are required to correct errors, provide borrower-requested information, or explain *in writing* the reason the creditor feels that no errors were made. An example of a mortgage servicer error may include:

- Failure to apply a payment correctly
- Charging improper fees
- Starting a foreclosure sale in violation of regulations
- Making an error in the servicing of a mortgage loan
- Failing to properly credit a payment when proof of receipt is provided

Some other requirements for both borrowers and servicers are:

- Information requests from the borrower must be in writing and must include: the name of the borrower, information that enables identification of the loan account, and states the information being requested relating to that account.
- Servicers may establish an address to be used for information requests and must inform borrowers of the address.
- Servicers must provide a written response, acknowledging receipt, within 5 business days of receiving a information request from the borrower.
- Servicers must provide the requested information or, after conducting a reasonable search, inform the borrower that the information is unavailable. In either case the response must be accompanied by a telephone number for further assistance.
- A mortgage servicer must quickly respond to consumer requests for information *in writing within 30 business days* [see 12 CFR Part 1024, Subpart C, §1024.36(d)(2)]. That time limit may be extended by an additional 15 business days, when necessary. Requests for the identity or contact information of the owner or assignee of the mortgage loan must be complied with within 10 business days with no extensions allowed.
- Servicers are not required to provide information or respond to requests for:
    - duplicate of previously provided information,
    - confidential, proprietary or privileged information
    - irrelevant information
    - overly broad or unduly burdensome requests
    - untimely requests made more than one year after discharge or transfer
- Servicers may not charge a fee for responding to requests for information
-

Early Intervention

[See 12 CFR, Part 1024, Subpart C, 1024.39 Early intervention requirements for certain borrowers.]
Part of the amendment to Regulation X implemented rules regarding home foreclosures and requests for modifications. A mortgage servicer is required to:

- Try to establish contact with a delinquent borrower *no later than 36 days* after each missed mortgage payment.
- Provide delinquent borrowers a written notice within 45 days after a missed payment, which encourages contact with the servicer about loss mitigation options that may be available to the borrower.

Note: Exemptions exists to these requirements for borrowers in bankruptcy and those borrowers invoking their right not to be contacted under Fair Debt Collection Practices Act section 805(c).

Page 336/338: ~~Loan Workout~~ Loss Mitigation, revise

If a borrower is experiencing difficulty making payments, he can apply to the mortgage servicer for assistance in a loss mitigation or **loan workout**, which involves *establishing new payment terms that are mutually agreed upon between the lender and delinquent borrower to get payments back on schedule*.

1. The borrower is required to submit an application and supporting documentation for help.
2. The lender, upon receipt of the application, has a *five-day window* to acknowledge receipt and request additional information from the borrower.
3. Within *30 days after submission of a complete loan workout application*, received at least 37 days prior to a foreclosure sale, the mortgage servicer must inform the borrower if there is an option to save the home.

After a loan workout request is received, one of the following will take place:

1. The servicer decides a borrower does not qualify for a loan workout and must provide a written decision including the reasons for denial,
2. The borrower rejects the workout options that are offered by the mortgage servicer, or
3. Borrower is offered and accepts an option that includes retention of the home (modification) or non-retention of the home (short sale).

Page 337/339: Exercise 13.1: Knowledge Check, replace with (Answer key page 435)

1. A mortgage servicer must respond to a payoff request within how many days of receipt of the request?
   A. three
   B. five
   C. seven
   D. ten

Correct answer is C. A mortgage service must provide an accurate payoff balance within seven business days of receipt of the request.

2. A mortgage servicer is required to try to establish contact with delinquent borrower Bonita no later than _____ days after she has missed a mortgage payment.
   A. 30
   B. 36
   C. 42
   D. 60

Correct answer is B. Rules were implemented regarding home foreclosures and requests for modifications as part of the amendment to Regulation X. A mortgage servicer is required to try to establish contact with a delinquent borrower no later than 36 days after each missed mortgage payment.

Page 337/340: Exercise 13.2: Knowledge Check, replace with

Which of the following requirements and prohibitions are set forth by the MARS Rule? *Select all correct responses.*

A. mortgage relief companies must disclose key information to consumers to protect consumers from being misled
B. mortgage relief companies must not make any false or misleading claims about their mortgage relief services
C. mortgage relief companies must not advise consumers to discontinue communication with their lenders
D. mortgage relief companies must not collect fees until after homeowners have a written offer from their lender/servicer that is acceptable

All of these are requirements and prohibitions set forth by the MARS Rule.

Page 338/340: Provisions, insert after last paragraph

The FTC has recently proposed additional protections, including:

- Encryption of all consumer data,
- Implementing access controls to prevent unauthorized users from accessing consumer information,
- Implementing multifactor authentication to access consumer data, and
- Requiring periodic reports submitted to the boards of directors to ensure compliance.

Page 341/343: Exercise 13.3: Knowledge Check, replace with

Per the requirement of the Bank Secrecy Act, financial institutions must report financial transactions greater than

- **A. $10,000.**
- B. $15,000.
- C. $20,000.
- D. $25,000.

Correct answer is A. The BSA requires financial institutions to maintain certain financial records and report financial transactions greater than $10,000.

Page 342/345: Exercise 13.4: Knowledge Check, replace with (Answer key page 435)

Select the correct step to show that you know the sequential order of the three steps to money laundering.

Integration Layering Placement

Step 1 ________________________________

Step 2 ________________________________

Step 3 ________________________________

Money laundering involves three steps: 1. Placement: Illegitimate funds are furtively introduced into the legitimate financial system. 2. Layering: Money is moved around to create confusion, sometimes by wiring or transferring through numerous accounts. 3. Integration: The money is integrated into the financial system through additional transactions until the "dirty money" appears "clean."

Chapter 14: Financials and Calculations Review

Page 348/352: PITI Payments, insert before last line of 1st paragraph

Whether paid into an escrow account or directly by the consumer, taxes and insurance must be part of any housing expense calculation. PITI is generally used in conjunction with gross income to determine whether maximum debt ratios allowed by loan programs have been exceeded.

Page 348/352: Down Payment

To calculate the down payment needed for a home purchase, an MLO first must know the minimum requirements for down payments of each individual loan type. For example, a conventional conforming loan requires a minimum of 3% down payment, an FHA-insured loan requires a minimum of 3.5% down payment (can be a gift), and VA and USDA guaranteed loans do *not* require a down payment.

Page 350/354: Income Calculations, top of page

To calculate monthly income for a borrower, use the following methods:

Page 350/355: Debt-to-Income Ratios

The qualifying debt-to-income ratios vary depending upon the loan product the borrower obtains. The MLO should know the debt-to-income ratio guidelines for each loan program and how to correctly calculate the ratios. The **housing expense ratio** (also called front-end ratio) is *the relationship of a borrower's total monthly housing expense (PITI) to gross monthly income, expressed as a percentage (Housing Expense ÷ Income = Ratio %)*. The total debt-to-income rate (also called back-end ratio) includes both PITI as well as all other monthly recurring credit debts appearing on the borrower's credit report. It should be noted that utility bills (electricity, heat, telephone, etc) are not considered. Conventional/conforming …

Page 351/355: Debt-to-Income Ratios, second set of calculations

Assume the borrower had the following additional monthly debt:

Monthly Payment Amount	Outstanding Balance
Auto = $200	$3,600
Child support = $300	15 years remaining

VISA = $50	$350
Furniture Layaway = $120	3 months left on contract
Student loan = $50	$375

The auto payment, the child support payment, and the VISA card payment, which total $550, are the only debt payments required to be used in the calculation. Since the furniture and student loan payments have less than 10 payments remaining at the time of loan closing, they are not counted.

Chapter 15: The Successful Mortgage Loan Closing

Page 360/366: Lender's Interest, 2nd paragraph
Most lenders also require the buyer to pay the first year's insurance premium in full prior to closing. This charge will be found in the Loan Estimate. If there is an escrow account set up for payment of hazard insurance:

Page 361/367: Flood Insurance, 3rd paragraph
A **Special Flood Hazard Area (SFHA)** is defined by FEMA as *the land area covered by the floodwaters of the base flood. Special Flood Hazard Areas represent the area that will be inundated by the flood event having a 1-percent chance of occurring in any given year*. The 1-percent annual chance flood is also referred to as the base flood or **100-year flood**.

Page 363/369: Mortgagee's Policies, 1st paragraph, line 1
The **mortgagee's (lender) policy** *protects the lender's interests in the property*. Sometimes …

Glossary
Acceleration Clause Clause in a promissory note that gives a lender the right to declare the entire loan balance due immediately due to borrower default or violation of other contract provisions.

Alt-A Loan A type of loan in which the risk is greater than prime loans but less than subprime due to a lack of full documentation. The borrower may have a strong credit history but the mortgage may have elements that increase risk, like lack of documentation about the borrower's income.

Annual Renewal Period. November 1 through December 31 of each year.

Correspondent A mortgage banker who originates mortgage loans that are immediately sold to other mortgage bankers or financial institutions.

Credit Freeze Places a credit file 'on ice' by preventing the information from being reported to third parties, including mortgage lenders and other credit grantors. Lenders are not able to gain access to the credit file unless given permission by the account holder. The credit file can still be disclosed in certain situations, such as for companies (e.g., mortgage, credit card, cell phone) doing business with the account holder and for collection agencies working for one of the companies.

Credit Scoring A system created by credit bureaus and used by lenders to make a determination regarding the creditworthiness of a potential borrower. It involves a credit bureau such as Experian, Equifax, or TransUnion assigning numerical values, or scores, to consumers based on factors including payment history on prior credit obligations, utilization of available credit, length of credit history, and type of credit.

Debt (Monthly) Any recurring monthly monetary obligation that will not be cancelled.

Demand Clause Any provision in a contract that enables a creditor to call due a loan before maturity.

Depository Institution Any bank or savings association (the same meaning as in Section 3 of the Federal Deposit Insurance Act) where funds are deposited and includes any credit union.

Discount Points A form of pre-paid interest that is charged by a lender to increase the yield on a lower-than-market interest rate loan so that a borrower may get the benefit of a lower interest rate; one-point equals one percent of the loan amount.

Easement The non-ownership and non-possessory right acquired by a person to use the land of another for a specific purpose.

Force-Placed Insurance Hazard insurance obtained by the lender when the borrower fails to maintain such coverage for the subject property.

Foreclosure, Judicial A lawsuit filed by a lender or other creditor to foreclose on a mortgage or other lien resulting in a court-ordered sheriff's sale of the property to repay the debt.

Government-Sponsored Enterprise (GSE) A group of financial services corporations created by the United States Congress to enhance the flow of credit to targeted sectors of the economy and to make those segments more efficient and transparent. Fannie Mae and Freddie Mac are the most prominent.

Hybrid Mortgage (Hybrid ARM) Mortgage with a combination of fixed and adjustable rate features.

Loan Workout Establishment of new payment terms that are mutually agreed upon between the lender and delinquent borrower to get payments back on some type of schedule.

Mortgage Broker Party who, for a fee, originates loans on behalf of lenders but does not service such loans.

Mutual Mortgage Insurance Fund Fund established to insure mortgage loans underwritten through FHA single-family mortgage and Home Equity Conversion Mortgage (HECM) programs. It is funded with both up front as well as monthly premiums.

Nontraditional Mortgage Product 1. Defined by the SAFE Act as any mortgage product other than a 30-year fixed-rate fully amortizing mortgage. 2. Defined by the Interagency Guidance on Nontraditional Mortgage Product Risk as a mortgage which allows a borrower to defer principal and, sometimes, interest (i.e interest only or negative amortization).

Registered Mortgage Loan Originator A natural person who is employed by a depository institution that is regulated by a federal banking agency and is exempt from state licensing regulations, who takes a residential mortgage loan application and offers or negotiates terms of a residential mortgage loan for compensation or gain.

Reserves Cash on deposit or other highly liquid assets a borrower must have in order to cover PITI mortgage payments for a certain period of time after the borrower makes the cash down payment and pays all closing costs.

State-Licensed Mortgage Loan Originator A natural person who is licensed by any state to take a residential mortgage loan application and offers or negotiates terms of a residential mortgage loan for compensation or gain.

Table Funding Occurs when a mortgage loan is funded by an advance of loan funds and an assignment of the loan to the same entity advancing the funds. Generally undertaken by Correspondent Lenders.

Traditional Mortgage Product Any 30-year fixed-rate fully amortizing loan as defined by the SAFE Act.

Yield Spread Premium (YSP) An amount paid by the lender to a broker in exchange for originating a loan with a higher than market interest rate. It may be used to reduce closing costs or as a source of profit for the broker.

Final Exam 1

Question #7

7. Which is the largest secondary market participant?

A. Federal Home Loan Mortgage Corporation
B. Federal Housing Administration
C. Federal National Mortgage Association
D. Government National Mortgage Association

Answer: C Rationale: According to the report by the Federal Reserve, FNMA (Fannie Mae) purchase the highest number of mortgage loans of all agencies and GSE's.

9th Edition Errata/Updates/Corrections

Chapter 1
Page 7, National Credit Union Administration
Last sentence

The NCUA originally began as the Bureau of Federal Credit Unions in 1934 and changed its name and the scope of its powers in 1970 as the number of credit unions increased.

Page 12, Secondary Mortgage markets
Paragraph one, last sentence

Secondary markets are *private investors, government-sponsored enterprises or government agencies that buy and sell real estate mortgages.*

Chapter 7
Page 185, 3rd paragraph from bottom

The ~~CFBP~~ CFPB provided guidance regarding a bona fide financial emergency,

Chapter 9
Page 246, Prohibition Against Dual Compensation
Last bullet, 2nd sentence

This typically is regulated by ~~Chapter~~ Section 8 of RESPA, but the CFPB made it very clear that if a mortgage entity owns any interest in another settlement service provider and a loan originator refers a borrower to the provider, the loan originator may not receive additional compensation for the referral.

Page 247, Bonuas Compensation and Non-Deferred Compensation Plans
2nd paragraph

If compensation is paid through a profits-based compensation plan that is not based on profits from a ~~mort-gage~~ mortgage-related business, this compensation is *not* considered to be based on terms of multiple transactions conducted by multiple loan originators.

3rd paragraph

Using mortgage-related business profits as described above would still be prohibited, however, if it ~~other-wise~~ otherwise violates the rule, such as where the amount of money that is paid to a loan originator depends on the transaction terms originated by that loan originator. Thus, even if a profits-based bonus is unrelated to ~~prof-its~~ profits on mortgage loans, the bonus *must not vary based on whether the loan originator is making higher-rate mortgage loans*.

Chapter 11
Page 270, Ethical and Legal Considerations
2nd paragraph

The standards of conduct for the mortgage industry are not a matter of law. There are no statutes or regulations that ~~cod-ify~~ codify ethical behavior. The laws and…

Appendix
Page 423
Exercise 7.2: Apply Your Knowledge

When referrals are made in return for a kickback or fee, the borrower's ability to shop for the best service and lowest transaction fees is impacted negatively. Marketing arrangements and agreements, such as the one in this case study, affect the consumer by concealing or omitting information that could cause the consumer to make an erroneous decision or that might cause unreasonable harm to the consumer. When an unearned fee or referral is *paid to a settlement service provider, the costs of the transaction are likely to increase and the probability that the settlement provider is the best available option decreases. Additionally, as is the case here, when the provider is a mortgage company, the borrower is limited to the programs and underwriting guidelines of that particular company rather than all companies in the lending universe.*

Page 424, Exercise 7.8: Apply Your Knowledge
Question 3

3. The closing costs shown in Section B of the ~~Closing Disclosure~~ Loan Estimate have zero tolerance for change; therefore, the maximum amount for these charges to the borrower is $4,625.

Page 428, Chapater 8 Quiz, Question 8
8. D. ~~$16,000~~ $41,484 *The National Do Not Call Registry regulations, administered by the FTC, set the maximum penalty for violations at ~~$16,000~~ $41,484 per incident.*

Page 430, Exercise 10.1: Knowledge Check

C. **compensation or gain** -The SAFE Act defines a licensed mortgage loan originator as an individual who takes a residential mortgage loan application and offers or negotiates terms of a residential mortgage loan for compensation or gain.

Page 434, Exercise 12.5: Knowledge Check

~~Under these conditions, the SAFE Act exempts an individual from holding an MLO license.~~

An individual who acts as an MLO in providing financing for the sale of her own residence would NOT require licensing as long as it is not a habitual and frequent activity.

Page 435, Exercise 13.1: Knowledge Check

1. **C. seven** - ~~A mortgage servicer must respond to a payoff request within seven (7) business days of receipt of the request~~. A mortgage service must provide an accurate payoff balance within seven business days of receipt of the request.

Page 435, Exercise 13.2: Knowledge Check

~~The Mortgage Assistance Relief Service (MARS) Rule requires financial institutions to disclose information that helps consumers make sound decisions when faced with foreclosure or similar conditions~~

All of these are requirements and prohibitions set forth by the MARS Rule