Welcome

Mortgage Lending Principles & Practices

Your instructor
(insert instructor name)

Chapter 1

Mortgage Lending Overview

Chapter Objectives

- Describe historical events that significantly impacted the mortgage industry
- Identify the role of former and current agencies in regulating financial institutions
- Contrast the role of different entities in the primary and secondary mortgage market
- Explain how events led to an economic crisis that impacted the mortgage industry
- Describe the purpose of the Dodd-Frank Act and legislation that passed as part of the Act
- Recognize laws and regulations under the Consumer Financial Protection Bureau

Concepts of Mortgage Lending

- **Importance of Mortgage Lending Concepts**
  - CFPB Regulatory Authority
    - Consolidates consumer protection
  - Informed Mortgage Loan Originator
    - Regulation changes and guidelines
    - Serving the public

Seeds of Today's Mortgage Industry

- **Early Mortgage Loans**
  - Short-term interest only loans
  - < 50% of the home's value
  - Building and loan associations
- **Federal Reserve Act of 1913**
  - Created the Federal Reserve System
  - Established federal charter; banks permitted to make real estate loans
- **Other Legislation**
  - Federal Home Loan Bank Act of 1932
  - Banking Act of 1933 (Glass-Steagall) created FDIC
  - National Housing Act of 1934 created FSLIC

Seeds of Today's Mortgage Industry

- **Federal Home Loan Banks**
  - 11 regional cooperative banks
  - Source of funding for community lending; privately owned
  - Contribute to AHP and jumbo loans
- **Federal Housing Administration**
  - Created in 1934 to offer mortgage insurance
  - Innovator of mortgage products/terms
  - Part of Housing and Urban Development
  - Largest insurer of mortgage loans
- **Government-Sponsored Enterprises**
  - Established by Congress; financial intermediaries
  - FHL Banks, Fannie Mae, Freddie Mac

1.1 Apply Your Knowledge

Match the term with the statement that best describes it.

Term	Definition
E. Mortgage Insurance	1.Covers loss due to default and property value decline
A. FDIC	2. Insures bank deposits
B. FHA	3. Largest mortgage loan insurer
C. Fully Amortizing	4. Level loan payments
D. Jumbo Loans	5. Non-conforming loan

Oversight of Financial Institutions

- **Federal Deposit Insurance Corporation**
  - Independent agency created by Congress in 1933
  - Insures deposits in banks and thrift institutions
  - Examines and supervises financial institutions for safety, soundness, and consumer protection
- **Office of Thrift Supervision**
  - Supervises, charters, and regulates federal thrift institutions
- **Office of the Comptroller of the Currency**
  - Charters, regulates, supervises all national banks and federal branches/agencies of foreign banks
- **National Credit Union Administration**
  - Charters and supervises federal credit unions

Oversight of Financial Institutions

- **Federal Financial Institutions Examination Council**
  - Prescribes uniform principles, standards, and report forms for examination of financial institutions
  - Makes recommendations to promote uniformity
- **Federal Housing Finance Agency**
  - Independent agency created in 2008
  - Broad powers and authority over secondary markets
  - Merges Federal Housing Finance Board and Office of Federal Housing Enterprise Oversight
- **Department of Housing and Urban Development**
  - Purpose to strengthen housing market and protect consumers

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

Primary Mortgage Market Lenders

- **Primary Mortgage Market**
  - Where borrowers and lenders come together
- **Commercial Banks**
  - Historically limited by government regulation; demand deposits
  - More recent increase in participation of residential mortgages
- **Savings and Loan Associations**
  - Historically dominated local mortgage market
  - Financial crisis led to massive S&L failure
  - Currently required to keep 65% of assets in mortgage-related activities

Primary Mortgage Market Lenders

- **Mortgage Banking Companies**
  - **Mortgage Banker**
    - Underwrites loan
    - Creates/furnishes loan closing documents
    - Funds loan with own cash, corporate capital, or warehouse line of credit
  - **Mortgage Broker**
    - Originates mortgage loan
    - Acts as middleman between mortgage lender

Primary Mortgage Market Lenders

- **Credit Unions**
  - Cooperative financial institutions owned and controlled by their members
- **Finance Companies**
  - Organizations that specialize in making higher-risk loans at higher interest rates
- **Mutual Savings Banks**
  - State-chartered banks owned by depositors
- **Portfolio Lenders**
  - Entities that service loans in-house

1.3 Knowledge Check

1. **When borrowers and MLOs come together to negotiate terms and close mortgage loan transactions, this is referred to as**
   A. hypothecation.
   B. mortgage-brokered loans.
   C. the primary mortgage market.
   D. the secondary mortgage market.

1.3 Knowledge Check

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.

Secondary Mortgage Markets

- **Secondary Mortgage Markets**
  - Private investors, government-sponsored enterprises, government agencies that buy and sell real estate mortgages
  - Established by federal government to moderate local real estate cycles
- **How Primary and Secondary Markets Work**
  - Examples
- **Mortgage-Backed Securities**
  - Pass-through securities (most common)
  - Stripped mortgage-backed securities
  - Collateralized mortgage obligations

Secondary Market Participants

- **Federal National Mortgage Association** (1938)
  - Also known as FNMA or Fannie Mae
  - Largest investor in residential mortgages
  - Buys pools of conforming/conventional, FHA and VA loans
  - Converts to guaranteed MBS
- **Government National Mortgage Association** (1968)
  - Also known as GNMA or Ginnie Mae
  - Pools federally-insured/guaranteed loans; does not buy or sell
  - MSB carry full faith and credit of U.S. government
- **Federal Home Loan Mortgage Corporation** (1970)
  - Also known as FHLMC or Freddie Mac
  - Buys and pools, then actively sells MSB on open market
- **Fannie Mae and Freddie Mac**
  - GSEs under conservatorship of Federal Housing Finance Agency
  - Special authority to borrow from U.S. Treasury

Secondary Markets Standards

- **Standards Created by Secondary Markets**
  - **Standardized Underwriting Criteria**
    - Used to qualify borrowers and property
    - Eliminates loan variation
  - **Lender Conformity**
  - **Confidence in MBS Quality**
  - **Automated Underwriting Systems**
    - Streamline and standardize underwriting
    - Fannie Mae: Desktop Underwriter®
    - Freddie Mac: Loan Product Adviser

1.4 Knowledge Check

1. Conforming loans follow loan-to-value and income expense guidelines that are set by secondary market agencies such as

A. the CFPB.

B. the FFIEC.

C. the FNMA.

D. PMI companies.

1.4 Knowledge Check

2. ______ guarantees investors the timely payment of principal and interest on MBSs backed by federally-insured or guaranteed loans — mainly loans insured by the FHA or guaranteed by the VA.

A. Fannie Mae

B. Freddie Mac

C. Ginnie Mae

1.4 Knowledge Check

3. By participating in the secondary mortgage market, mortgage lenders can

A. close more conventional loans.

B. obtain government backing for their closed loans.

C. provide competitive interest rates.

D. replenish the funds used to make mortgage loans.

Mortgage Loan Market History

- **Events Leading to Mortgage Crisis**
  - Everyone's right to own home
  - Secondary market funding grew
  - Higher-priced incentives for subprime loans
  - More risk and relaxed standards continued
  - Inflated appraisal values and loan programs for profit
  - Risky loan programs to subprime borrowers; high rate of delinquency
- **Impact of Credit Crunch**
  - High-risk programs not available; risk-based pricing
  - Stringent underwriting and insurance restrictions

Dodd-Frank Act Introduction

- **Passed in July 2010**
- **Purpose:**
  - Promote financial stability
  - End "too big to fail"
  - Protect taxpayers by ending bailouts
  - Protect consumers from abusive practices
- **Established the CFPB**

Dodd-Frank Act - Legislation

- **Consumer Financial Protection Act** (Title X)
  - Purpose is to prevent abusive financial practices
  - Created the CFPB to assume rule-making and enforcement
- **Mortgage Reform and Anti-Predatory Lending Act** (Title XIV)
  - Purpose is to prevent predatory lending
  - Requires qualified loan standards and ATR
  - Established penalties for irresponsible lending

1.5 Knowledge Check

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.

1.5 Knowledge Check

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.

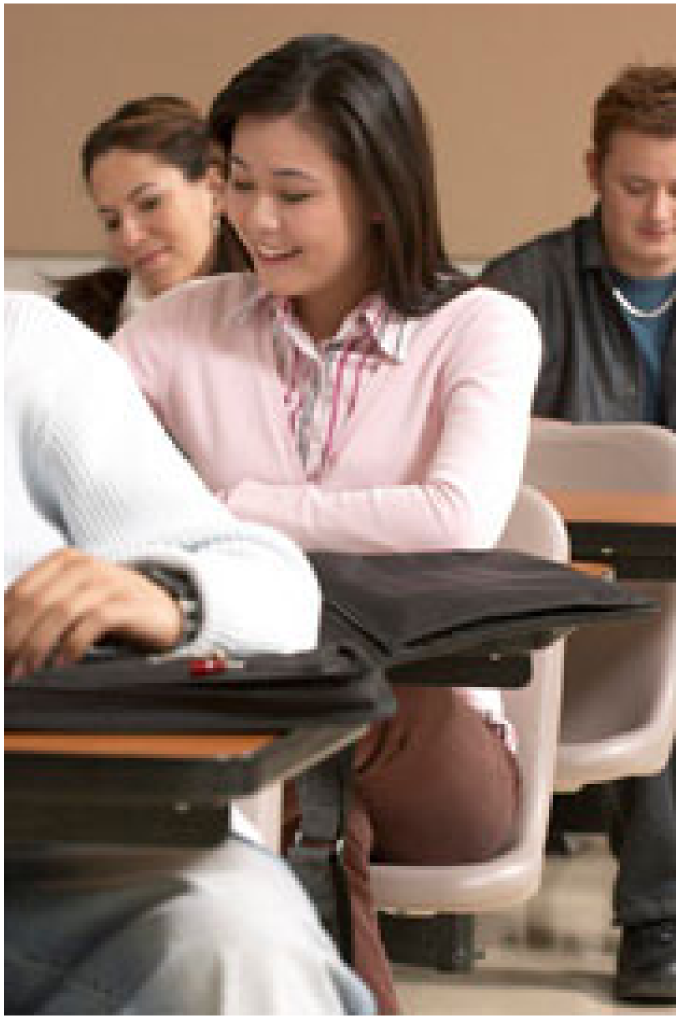
C. mortgage fraud.

D. predatory lending practices.

Financial Disclosure Laws

- **Laws and Regulations Under CFPB**
  - – Laws Requiring Financial Disclosures
    - For example, TRID which requires LE and CD
  - – Laws Regarding Privacy Protection and Consumer Identification
    - For example, the FACTA which sets forth requirements to prevent identity theft
  - – Laws Prohibiting Predatory Lending
    - For example, the SAFE Act that requires that you take this course

Chapter 1



Chapter Quiz

Chapter 1 Quiz

1. **Which is NOT a function of the secondary market?**
   A. moderate effects of local real estate cycles
   B. provide lenders with money to make more loans
   C. serve as a depository for consumer assets
   D. standardize loan criteria

Chapter 1 Quiz

2. The Consumer Financial Protection Bureau was created by the

A. Dodd-Frank Act.

B. Federal Home Loan Bank Act.

C. Federal Reserve Act.

D. National Housing Act.

Chapter 1 Quiz

3. Mortgage brokers

A. act as intermediaries between borrowers and lenders.

B. originate and service mortgage loans.

C. provide funding for mortgage loans.

D. underwrite mortgage loans.

Chapter 1 Quiz

4. Which entity was established in 1932 as a cooperative to finance housing in local communities?

A. Federal Home Loan Banks

B. Federal Home Loan Mortgage Corporation

C. Federal Housing Finance Agency

D. Government National Mortgage Association

Chapter 1 Quiz

5. **Which is NOT a primary lender for residential properties?**
   A. commercial banks
   B. insurance companies
   C. mortgage companies
   D. savings and loan associations

Chapter 1 Quiz

6. Which statement about Ginnie Mae is TRUE?

A. Ginnie Mae buys loans from commercial banks and mortgage companies.

B. Ginnie Mae guarantees mortgage-backed securities.

C. Ginnie Mae is a participant in the primary market.

D. Ginnie Mae is a private corporation.

Chapter 1 Quiz

7. The Consumer Financial Protection Act combined consumer protection responsibilities under the CFPB from the following agencies EXCEPT the

A. Department of Commerce.

B. Department of Housing and Urban Development.

C. Federal Deposit Insurance Corporation.

D. Federal Trade Commission.

Chapter 1 Quiz

8. Which GSE holds the largest amount of home loan mortgages?

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