



Welcome to our Mortgage Fundamentals CE Class!





Mortgage Fundamentals CE Course, brought to you by:

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Loan Types and Programs

- Conventional (Conforming & Non-Conforming)
- Government (FHA, VA)

The First Steps

- The 1003 Form (see attached) – Captures a wide variety of borrower information. (A new application will be rolled out in 2018)
- Pre-Qualification, vs Pre-approval vs Loan Approval vs. Clear to Close
- The 4 C's (Credit, Capacity, Capital and Collateral)

Mortgage Fundamentals



Mortgage Fundamentals

The Loan Application – Where it all begins

- Today it's called a 1003 or Uniform Loan Application

Main Categories:

- I. Type of Mortgage and Term of Loan
- II. Property Info and Loan Purpose
- III. Borrower Info - Residency
- IV. Employment Info
- V. Monthly Income and combined housing expense
- VI. Assets & Liabilities
- VII. Details of transaction
- VIII. Declarations
- IX. Acknowledgment & Agreement
- X. Government Monitoring Info

Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower", as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when the income or assets of a person other than the "Borrower" (including the Borrower's spouse) will be used as a basis for loan qualification or the income or assets of the Borrower's spouse or other person who has community property rights pursuant to state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person has community property rights pursuant to applicable law and Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

Borrower _____ Co-Borrower _____

I. TYPE OF MORTGAGE AND TERMS OF LOAN

Mortgage Applied for: VA Conventional Other (explain): _____ Agency Case Number _____ Lender Case Number _____
 FHA USDA/Rural Housing Service

Amount \$ _____ Interest Rate % _____ No. of Months _____ Amortization Type: Fixed Rate Other (explain): _____
 GPM ARM (type): _____

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Subject Property Address (street, city, state, & ZIP) _____ No. of Units _____
 TX _____
 Legal Description of Subject Property (attach description if necessary) _____ Year Built _____

Purpose of Loan: Purchase Construction Other (explain): _____ Property will be: Primary Residence Secondary Residence Investment
 Refinance Construction-Permanent

Complete this line if construction or construction-permanent loan.
 Year Lot Acquired _____ Original Cost \$ _____ (a) Amount Existing Liens \$ _____ (b) Cost of Improvements \$ _____ Total (a+b) \$ _____

Complete this line if this is a refinance loan.
 Year Acquired _____ Original Cost \$ _____ Amount Existing Liens \$ _____ Purpose of Refinance _____ Describe Improvements made to be made
 Cost: \$ _____

Title will be held in what Name(s) _____ Manner in which Title will be held _____ Estate will be held in: Fee Simple Leasehold (show expiration date) _____

Source of Down Payment, Settlement Charges and/or Subordinate Financing (explain) _____

III. BORROWER INFORMATION

Borrower's Name (include Jr. or Sr. if applicable) _____ Co-Borrower's Name (include Jr. or Sr. if applicable) _____

Social Security Number _____ Home Phone (incl. area code) _____ DOB (mm/dd/yyyy) _____ Yrs. School _____
 Social Security Number _____ Home Phone (incl. area code) _____ DOB (mm/dd/yyyy) _____ Yrs. School _____

Married (includes registered domestic partners) Unmarried (includes single, divorced, widowed) Separated
 Dependents (not listed by Co-Borrower) No. _____ Ages _____
 Married (includes registered domestic partners) Unmarried (includes single, divorced, widowed) Separated
 Dependents (not listed by Borrower) No. _____ Ages _____

Present Address (street, city, state, ZIP/ country) Own Rent _____ No. Yrs. _____
 Present Address (street, city, state, ZIP/ country) Own Rent _____ No. Yrs. _____

/ United States _____ / United States _____

Mailing Address, if different from Present Address _____
 Mailing Address, if different from Present Address _____

If residing at present address for less than two years, complete the following:

Former Address (street, city, state, ZIP) Own Rent _____ No. Yrs. _____
 Former Address (street, city, state, ZIP) Own Rent _____ No. Yrs. _____

Former Address (street, city, state, ZIP) Own Rent _____ No. Yrs. _____
 Former Address (street, city, state, ZIP) Own Rent _____ No. Yrs. _____

IV. EMPLOYMENT INFORMATION

Borrower		Co-Borrower	
Name & Address of Employer <input type="checkbox"/> Self Employed	Yrs. on this job	Name & Address of Employer <input type="checkbox"/> Self Employed	Yrs. on this job
	Yrs. employed in this line of work/profession		Yrs. employed in this line of work/profession

Borrower		Co-Borrower	
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

If employed in current position for less than two years or if currently employed in more than one position, complete the following:

Borrower		Co-Borrower	
Name & Address of Employer <input type="checkbox"/> Self Employed	Dates (from-to)	Name & Address of Employer <input type="checkbox"/> Self Employed	Dates (from-to)
	Monthly Income \$		Monthly Income \$

Borrower		Co-Borrower	
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

Borrower		Co-Borrower	
Name & Address of Employer <input type="checkbox"/> Self Employed	Dates (from-to)	Name & Address of Employer <input type="checkbox"/> Self Employed	Dates (from-to)
	Monthly Income \$		Monthly Income \$

Borrower		Co-Borrower	
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

Borrower		Co-Borrower	
Name & Address of Employer <input type="checkbox"/> Self Employed	Dates (from-to)	Name & Address of Employer <input type="checkbox"/> Self Employed	Dates (from-to)
	Monthly Income \$		Monthly Income \$

Borrower		Co-Borrower	
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

Borrower		Co-Borrower	
Name & Address of Employer <input type="checkbox"/> Self Employed	Dates (from-to)	Name & Address of Employer <input type="checkbox"/> Self Employed	Dates (from-to)
	Monthly Income \$		Monthly Income \$

Borrower		Co-Borrower	
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

Gross Monthly Income	Borrower		Total	Combined Monthly Housing Expense	
	Borrower	Co-Borrower		Present	Proposed
Base Empl. Income*	\$	\$	\$	Rent	\$
Overtime				First Mortgage (P&I)	\$
Bonuses				Other Financing (P&I)	
Commissions				Hazard Insurance	
Dividends/Interest				Real Estate Taxes	
Net Rental Income				Mortgage Insurance	
Other (before completing, see the notice in "describe other income," below)				Homeowner Assn. Dues	
				Other:	
Total	\$	\$	\$	Total	\$

* Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.

Describe Other Income Notice: Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.

B/C	Monthly Amount
	\$



What is the difference between a conditional approval, pre-qualification, pre-approval, approval, final approval, clear to close?

- Conditional approval/Pre-Qualification – Red Diamond can provide this same day.
- What can go wrong: Income turns out different than the borrower provided. The client does not have the cash to close. There was declining income.
- Initial Underwriting approval:
- Final Approval & Clear to Close:



Who provides the underwriting guidelines for Mortgage loans:

Who are these entities and what do they do?

- Fannie Mae & Freddie Mac
- FHA
- VA
- Non-QM – What are the options?

“The risk is transferred to these entities because the file was underwritten to their guidelines.”



The 4 C's – let's discuss at a high level

- Credit – Minimum credit score
- Capacity – Debt to income ratio
- Capital – Down payment/cash to close
- Collateral – Appraisal

“Only 4 critical main issues to close a home loan. ”



Manufacturing a Mortgage:

Data and documents are transformed into a closed loan.

- Documentation Validation – 4 C’s again:
 - Credit: Minimum credit score for program requirements (Mid Fico of both borrowers) LLPA’s?
 - Capacity: Income documentation for debt-to-income calculation (W-2, Tax Returns, K-1)
 - Capital: Asset documentation (Bank Statements) for down payment and reserve requirements
 - Collateral: The appraisal must meet underwriting requirements

Table 1: All Eligible Mortgages – LLPA by Credit Score/LTV Ratio

Representative Credit Score	LTV Range								SFC
	Applicable for all mortgages with terms greater than 15 years								
	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%	
≥ 740	0.000%	0.250%	0.250%	0.500%	0.250%	0.250%	0.250%	0.750%	N/A
720 – 739	0.000%	0.250%	0.500%	0.750%	0.500%	0.500%	0.500%	1.000%	N/A
700 – 719	0.000%	0.500%	1.000%	1.250%	1.000%	1.000%	1.000%	1.500%	N/A
680 – 699	0.000%	0.500%	1.250%	1.750%	1.500%	1.250%	1.250%	1.500%	N/A
660 – 679	0.000%	1.000%	2.250%	2.750%	2.750%	2.250%	2.250%	2.250%	N/A
640 – 659	0.500%	1.250%	2.750%	3.000%	3.250%	2.750%	2.750%	2.750%	N/A
620 – 639	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.500%	N/A
< 620 ⁽¹⁾	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.750%	N/A

(1) A minimum required credit score of 620 generally applies to all mortgage loans delivered to Fannie Mae; refer to the Selling Guide and the Eligibility Matrix for additional detail.

The 4-C's by Loan Type

Breaking it down:

4 C's and Conventional Loans:

- Minimum credit score is 620 (no exceptions)
- Max debt to income roughly 45
- Down payment can be a minimum of 3% but the most common minimum is 5%
- Appraisal standards are set by Fannie Mae. They purchase owner-occupied and non-owner-occupied properties.

4-C's and FHA Loans:

- Minimum score is 580
- Maximum debt to income is 55%
- Down payment is 3.5%
- Appraisals are completed by FHA approved appraisers.

4 C's and VA Loans:

- Typical minimum of a 620 score.
- Maximum debt to income can be as high as 55%.
- There typically is not a down payment requirement except on higher balance VA loans over \$424,100.
- Appraisals are completed by VA approved appraisers.



Credit Reports/Scores/Problems

- Credit is a critical component: What is the impact of the following?
 - **Delinquent credit**
 - **Collections & charge-offs**
 - **Foreclosures**
 - **Bankruptcy's**
 - **Disputed Accounts**
 - **How to clean up your credit? - Rising Point Solutions/Abe K is one example**
 - The removal of any derogatory item is the key.

Make sense out of Mortgage Insurance



PMI, MIP, VA Funding Fee?

- What's up with all of this?
- Guarantees the investor on the loan against loss...does not repair the property.
- Private Mortgage Insurance insures conventional loans and jumbo loans
- Mortgage Insurance Premiums insure FHA loans
- VA utilizes a VA Funding Fee to guaranty their loans

High credit scores have a low cost of PMI, The higher the LTV the higher the PMI cost.

MIP does not factor in the credit score.

VA does not factor in the credit score

RED DIAMOND HOME LOANS

165 S. Kimball Avenue, Suite 100, Southlake, TX 76092

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 1/1/2017
APPLICANTS Borrower, Unknown

PROPERTY TBD

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA _____
LOAN ID #
RATE LOCK NO YES, until
Before closing, your interest rate, points, and lender credits can

Home Loan Manufacturing Steps:

Initial Documentation Required:

- In 2014 the Loan Estimate and the Closing Disclosure replaced the GFE and the HUD1.
- We are required to send a Loan Estimate within 3 days of the client's application.
- We are required to send a Locked Loan Estimate upon locking the clients loan.
- We are required to send the appraisal to the client and receive their acknowledgement of receipt.
- We are required to send the closing disclosure 3 days prior to closing to be signed by the client.



Manufacturing the loan means putting a complete file together:

- Minimum credit score - Maximum Debt to Income
- Maximum Loan to Value – The loan must be approved by the automated underwriting system
- Two-year history required for income -
- 60 days of bank statements required - Most recent 30 days of pay stubs
- Tax Returns for Self Employed borrowers

“All of these factors and more go into the loan approval. All situations are different and specific issues will raise other conditions”

APPLICATION

Personal Information

Name (Last) PUBLIC

Address (Mailing Address)
12345 MAIN STREET

(Middle Initial) Home Telephone
1111-1111

City State Zip Other Telephone
NEW YORK 999999 22 22 2222

APPROVED

APPLICATIONS UNDER REVIEW

SUBJECT

REVIEW

Underwriting Process Overview:

- Typical turn times are 48 hours for an initial review and 24 hours for the resubmission of conditions.
- Underwriters want a full, complete package to review.
- The underwriter's job is to validate the accuracy of the documentation provided.
- Mortgage Companies work toward a Final Approval status or a Clear-to-close status with underwriting
- Underwriters evaluate loans according to a set of guidelines from Fannie Mae, Freddie Mac, FHA, or VA.
- Each entity/agency has its own set of very specific guidelines that must be followed. Clear-to-close

"We talk to the underwriter to make sure they fully understand the file and the situation"



Banker vs. Broker: What's the difference?

- The Banker prepares the loan estimate and closing disclosure, the broker does not.
- The Banker orders the appraisal from their own system, the broker does not.
- The Banker funds their own loans, the broker does not.
- The Banker is responsible for preparing the closing documents, the broker is not.
- The Banker closes the loan in their own name, the broker does not.
- Summary: A banker controls the full transaction while a broker uses the services of a lender to underwrite, close, and fund a transaction.

How fast can we close?



How fast can we close?:

Day 1: Application & Conditional Approval & Receive the Receipted Contract to start the clock, We need to issue preliminary disclosures before we can order the appraisal.

Day 2: Order the appraisal and Open Title with Title Company

Day 3: Receive all borrower documents

Day 4: Submit to underwriting (two days in underwriting)

Day 6: Receive Approval from underwriting

Day 7: Ask for other conditions

Day 8: Appraisal Complete

Day 9: Submit the appraisal back to the underwriter.

Day 10: Clear to Close

Day 11: Prepare Closing Disclosure

Day 14: Loan Closing

Red Diamond Closed a Conventional Purchase 12 days after the contract was receipted. August 8 – August 24. We had all borrower documents, just needed the appraisal.

“This timeline depends upon the client and their ability to move quickly and provide the documents that we need”



The Secondary Market for Mortgages:

- What is the secondary market?
- Who funds the mortgage market?
- Who buys Fannie Mae, Freddie Mac, FHA/VA loans?
- How are they sold?
- Who does Wall Street sell the mortgage backed securities to?

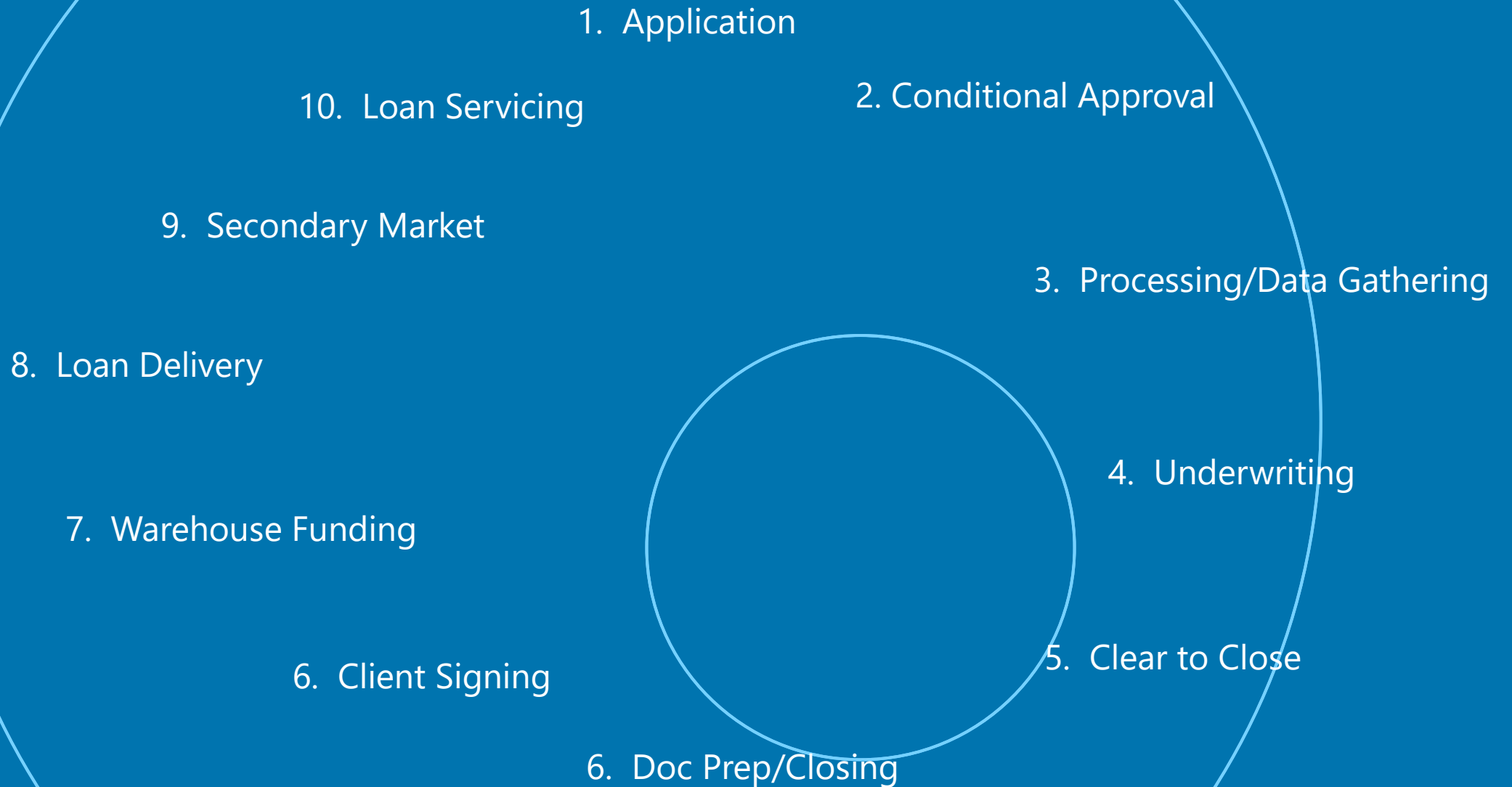
“The mortgage market is loaded with participants from Main Street to Wall Street”

Choose your business partners carefully...



Not all partners are the same

Manufacturing a Mortgage





In Summary:

Thanks for your time and attention today.

Hopefully, you benefitted from this presentation.

We are available anytime for a pre-approval,
question or any type of client consultation.

We are happy to advise and consult with your
clients on the best course of action, even if there is a
better lender for their needs.



Thanks for you time!

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