1. NOTE - MORTGAGE/TRUST DEED

How does one go about getting a real estate loan?????

1. PROMISSORY NOTE or BOND

Creates debt

But what does one use as security???

2. MORTGAGE

Security For Debt

Lien Theory

Homeowner has title; lender has mortgage lien against property
**TRUST DEED**  Security For Debt

**Title Theory**

Lender has title until debt is paid off.

**MORTGAGE**

**LENDER**
- Interest on loan
- Right of foreclosure

**BORROWER**
- Retains full use
- Maintains property
- Pays insurance
- Pays taxes

**MORTGAGEE**

**MORTGAGOR**

Note & Mortgage
If payments are not made, how is it foreclosed?????

The mortgagee / lender would have to go to court to foreclose

JUDICIAL FORECLOSURE

TRUST DEED

NEUTRAL 3RD PARTY

LENDER

TRUSTEE

TRUST DEED

BORROWER

BENEFICIARY

Legal holder of the note

TRUSTOR

Retains full use
Maintains property
Pays insurance
Pays taxes
If the mortgage is foreclosed on, how can the owner get the property back?????

3. REDEMPTION

Redeem = Buy Back

Defaulting borrower has certain time period to buy property back at foreclosure sale price plus any other costs owed

1. EQUITABLE - Before Foreclosure

Reclaim property before foreclosure

2. STATUTORY - After Foreclosure

Reclaim property after foreclosure
4. DEFICIENCY JUDGMENT

What if the property does not sell for the amount owed on it??????

Personal judgment against defaulting borrower for any other debts owed and not satisfied by foreclosure sale

If the defaulting borrower owes more than one debt... who gets paid first??????

Property Taxes

Any other liens in order of priority
Defaulting borrower gets what’s left
<table>
<thead>
<tr>
<th>Taxes</th>
<th>$2,500</th>
<th>Sold</th>
<th>$85,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Mortgage</td>
<td>75,000</td>
<td>Taxes</td>
<td>&lt;$2,500&gt;</td>
</tr>
<tr>
<td>2nd Mortgage</td>
<td>10,000</td>
<td>Sub-total</td>
<td>82,500</td>
</tr>
<tr>
<td>Mechanic’s Lien</td>
<td>3,000</td>
<td>1st Mortgage</td>
<td>&lt;$75,000&gt;</td>
</tr>
<tr>
<td>Total</td>
<td>$90,500</td>
<td>Sub-total</td>
<td>7,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd Mortgage</td>
<td>&lt;$7,500&gt;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance</td>
<td>0</td>
</tr>
</tbody>
</table>

Defaulting borrower still owes $2,500 on 2nd Mortgage and $3,000 on mechanic’s lien. These creditors could possibly convert these debts to a judgment lien and go after other assets of the defaulting borrower. Purchaser at the foreclosure sale buys property free of all debts.

If property had sold for $95,000, the defaulting borrower would be able to pay entire $90,500 owed and keep the remaining $4,500 which is in essence their equity.

**5. DEED IN LIEU OF FORECLOSURE**

Could the defaulting borrower just let the lender have the property and not have to go to court?????

Deed in Involuntary Alienation
2. ANALYSIS OF A NOTE
WHAT ARE SOME CHARACTERISTICS OF A NOTE?

1. NEGOTIABLE
Can be bought and sold

Discounting - Selling note for less than face value

IOU $100,000

Lender $95,000

Payee sells to third party

IOU $100,000

Maker Signs

Buyer of Note
2. PAYMENTS
Real Estate note payments paid in ARREARS
At the end; e.g., May 1st house payment applies to April’s interest

3. DEBT SERVICE
Principal & Interest
Principal and interest payments required to retire debt

4. REDUCTION CERTIFICATE
Issued by lender stating current loan balance
3. INTEREST/PAYMENT PLANS

NOW THAT I'VE BORROWED ALL THIS MONEY, HOW DO I PAY IT BACK?

INTEREST

% of loan balance

LEVERAGE

Borrow $ to make $

A. PAYMENT PLANS

1. STRAIGHT NOTE (TERM LOAN)

Interest only

Short term

Construction loan

Balloon payment

Final payment paying off loan balance in full
## PAYMENT PLANS

### 2. PARTIALLY AMORTIZED NOTE

**Principal and interest**

Partially pay down loan balance

**Balloon payment**
PAYMENT PLANS

3. FULLY AMORTIZED NOTE

Principal and interest
Totally pay off loan balance
FULLY AMORTIZED NOTE
Constant mortgage payment plan

<table>
<thead>
<tr>
<th>PRIN</th>
<th>100</th>
<th>110</th>
<th>120</th>
<th>130</th>
<th>140</th>
</tr>
</thead>
<tbody>
<tr>
<td>INT</td>
<td>400</td>
<td>390</td>
<td>380</td>
<td>370</td>
<td>360</td>
</tr>
<tr>
<td>TOTAL</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
</tbody>
</table>
EXAMPLE OF A PRINCIPAL AND INTEREST AMORTIZED NOTE

<table>
<thead>
<tr>
<th>PRINCIPAL</th>
<th>INTEREST</th>
<th>TOTAL PMT</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>TOTAL PMT</td>
<td>INTEREST</td>
<td>PRINCIPAL</td>
</tr>
<tr>
<td>6</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL PMT</td>
<td>PRINCIPAL</td>
<td>INTEREST</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

LOAN - $60,000 @ 10% interest for 30 years

PAYMENT - $526.54 per month (Principal and Interest)

What is the principal loan balance after the second month’s payment?
**STEP ONE**

MONTH ONE

$526.54 (PRINCIPAL & INTEREST)

- _______ (INTEREST)

= _______ (PRINCIPAL)

**STEP TWO**

$60,000.00 (LOAN BALANCE)

x _______ 10% (INTEREST RATE)

= 6,000.00 (INTEREST/YEAR)

÷ _______ 12

= _______ 500.00 (INTEREST/MONTH)
BACK TO STEP ONE

$526.54  (PRINCIPAL & INTEREST)
-  500.00  (INTEREST)
=  26.54  (PRINCIPAL)

STEP THREE

$60,000.00  (LOAN BALANCE)
-  26.54  (PAID ON PRINCIPAL)
= 59,973.46  (REMAINING LOAN BALANCE)
**STEP ONE**

MONTH TWO

$526.54  (PRINCIPAL & INTEREST)  
- _______ (INTEREST)  
= _______ (PRINCIPAL)

**STEP TWO**

$59,973.46  (LOAN BALANCE)  
x 10% (INTEREST RATE)  
= 5,997.35 (INTEREST/YEAR)  
÷ _______ 12  
= 499.78 (INTEREST/MONTH)
BACK TO STEP ONE

$526.54 (PRINCIPAL & INTEREST)
- 499.78 (INTEREST)
= 26.76 (PRINCIPAL)

STEP THREE

$59,973.46 (LOAN BALANCE)
- 26.76 (PAID ON PRINCIPAL)
= 59,946.70 (REMAINING LOAN BALANCE)
FIGURE TOTAL INTEREST PAID

$ 526.54 (P & I PER MONTH)
\times 12
= 6,318.48 (P & I PER YEAR)
\times 30
= 189,554.40 (P & I FOR 30 YEARS)

FIGURE TOTAL INTEREST PAID

$ 189,554.40 (P & I FOR 30 YEARS)
- 60,000.00 (ORIGINAL LOAN)
= 129,554.40 (TOTAL INTEREST FOR 30 YEARS)
1. GRADUATED PAYMENT NOTE

Payments start out low, then go up yearly, eventually leveling off

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>$725</td>
</tr>
<tr>
<td>01</td>
<td>$700</td>
</tr>
<tr>
<td>00</td>
<td>$675</td>
</tr>
<tr>
<td>99</td>
<td>$650</td>
</tr>
<tr>
<td>98</td>
<td>$625</td>
</tr>
</tbody>
</table>

2. ADJUSTABLE RATE MORTGAGE (ARM)

Interest rate based on index

Interest rate - up or down - CAP

Interest changes periodically, thereby possibly changing all terms of the loans
Interest is at 2% above the rates paid on Treasury Bills with a maximum change of 2% in any year and a maximum change of 6% over the term of the loan.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>INDEX</th>
<th>MARGIN</th>
<th>INT. RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>6%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>1999</td>
<td>7%</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>2000</td>
<td>9%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>2001</td>
<td>11.5%</td>
<td>2%</td>
<td>13%</td>
</tr>
<tr>
<td>2002</td>
<td>13%</td>
<td>2%</td>
<td>14%</td>
</tr>
</tbody>
</table>
1. PRE-PAYMENT PENALTY CLAUSE

Lender charges penalty for early pay-off

2. ACCELERATION CLAUSE
(Due On Default Clause)

Lender calls loan balance due and payable upon happening of certain event, e.g., non-payment of mortgage

<table>
<thead>
<tr>
<th>PAID</th>
<th>PAID</th>
<th>UNPAID</th>
<th>UNPAID</th>
<th>UNPAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>$700</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
</tr>
</tbody>
</table>

REMAINING LOAN BALANCE BECOMES DUE IMMEDIATELY
3. ALIENATION CLAUSE (Due On SALE Clause)

Lender calls loan balance due and payable upon selling property; makes loan non-assumable

<table>
<thead>
<tr>
<th>PAID</th>
<th>PAID</th>
<th>PAID</th>
<th>PAID</th>
<th>PAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>$700</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
</tr>
</tbody>
</table>

REMAINING LOAN BALANCE BECOMES DUE IMMEDIATELY

4. SUBORDINATION CLAUSE (Changes Priority)

<table>
<thead>
<tr>
<th>DATE</th>
<th>AMOUNT</th>
<th>RATE</th>
<th>PRIORITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan., 98</td>
<td>$100,000</td>
<td>10%</td>
<td>1st MORTGAGE</td>
</tr>
<tr>
<td>Feb., 98</td>
<td>$15,000</td>
<td>11%</td>
<td>2nd MORTGAGE</td>
</tr>
<tr>
<td>Aug., 98</td>
<td>$100,000</td>
<td>8%</td>
<td>1st MORTGAGE</td>
</tr>
</tbody>
</table>

Changes priority that is different than recording date; lender waives their right in favor of another
5. DEFEASANCE CLAUSE (Null and Void Clause)

Voids security upon loan being paid off

<table>
<thead>
<tr>
<th>PAID</th>
<th>PAID</th>
<th>PAID</th>
<th>PAID</th>
<th>PAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>$700</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
<td>$700</td>
</tr>
</tbody>
</table>

MORTGAGE OR TRUST DEED IS CANCELLED

What is recorded to show that the note has been paid?????

MORTGAGE RELEASE

DEED OF RECONVEYANCE

MORTGAGE

TRUST DEED
6. ESCALATOR CLAUSE

Lender can raise or lower interest rate (ARM)

7. ALTERATIONS CLAUSE

Obtain lender’s permission for major changes
B. ADDITIONAL TERMS

1. HYPOTHECATE
Borrower retains item used as security for loan; e.g., house or car loan

Borrower retains possession

2. PLEDGING
Lender retains item used as security for loan; e.g., stocks, bonds, etc.

Lender retains possession
3. ESCROW ACCOUNT

**P**rincipal

**I**nterest

**T**axes

**I**nsurance

Lender keeps pre-paid taxes and insurance

---

C. Two ways buyer can take over seller’s loan

1. **SUBJECT TO**

   Takes over payments  
   SOLELY liable to lender

   **BUYER**  
   **LENDER**  
   **SELLER**
2. ASSUMPTION

**BUYER**
Takes over payments and PRIMARY liability

**SELLER**
SECONDARILY liable to lender

**BOTH PARTIES LIABLE TO LENDER**

**RELEASE OF LIABILITY**

Given by lender

Granted by lender releasing seller from all liability, thereby making buyer solely liable

**NOVATION**

New takes place of old

*New contract takes place of old contract; e.g., assumption with a release of liability*
5. TYPES OF MORTGAGES / TRUST DEEDS

WHAT ARE THE DIFFERENT TYPES OF MORTGAGES AVAILABLE?

1. FIRST MORTGAGE
   First to record is first in rights
   First to record

2. SECOND MORTGAGE
   JUNIOR MORTGAGE
   Any mortgage other than a first
3. PURCHASE MONEY MORTGAGE

BUYER

NOTE AND MORTGAGE

DEED

SELLER

OWNERS

FINANCING

MORTGAGEE

PURCHASE MONEY MORTGAGE

SALE PRICE $100,000
ASSUMED LOAN - 80,000
DOWN PAYMENT = 20,000

BUYER NEEDS $ 20,000
BUYER HAS - 15,000
SELLER LOANS = 5,000
4. BLANKET MORTGAGE
Covers more than one property; used by developers, etc.

PARTIAL RELEASE CLAUSE
Release property from blanket as sold - $ to lender
5. PACKAGE MORTGAGE
Uses both real and personal property as security

Real & Personal

6. OPEN END MORTGAGE
Can borrow again on same loan; e.g., home equity loan – works like a credit card

Line of credit
7. GROWING EQUITY MORTGAGE

Pay extra on principal - build equity faster

EXTRA $ TO PRINCIPAL LOAN BALANCE

Gradually increasing payments applied to principal; increases normally predetermined or tied to an index

8. CONSTRUCTION LOAN MORTGAGE

$ released as needed
9. WRAPAROUND MORTGAGE

SELLER

$70,000 1st - 8%

27 years left on note

Sells to buyer for $100,000

Assumes @ 8%
Collects @ 12%

BUYER

$100,000 2nd @ 12%

Current 14%

2nd lender

2nd lender assumes not of 1st lender – payment on entire new mortgage made to 2nd Lender

10. REVERSE ANNUITY MORTGAGE (RAM)

Mortgagee pays mortgagor $ monthly

LENDER

Mortgagee pays mortgagor a fixed amount every month; usually for retired people with home completely paid off
### 11. SHARED APPRECIATION MORTGAGE (SAM)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$80,000</td>
<td>SAM - 9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Current - 12%</td>
</tr>
<tr>
<td>2011</td>
<td>$120,000</td>
<td>$20,000 to lender</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$20,000 to borrower</td>
</tr>
</tbody>
</table>

Lender shares in appreciation plus interest
6. TYPES OF LOANS

WHAT ARE THE MAIN TYPES OF LOANS BUYERS CAN RECEIVE?

1. CONVENTIONAL

- Borrower - 20% Down
- 80% Loan to Value Ratio

2. FEDERAL HOUSING ADMINISTRATION (FHA)

- Borrower - 3 - 5% Down
- 95 - 97% Loan to Value Ratio
3. DEPARTMENT OF VETERAN’S AFFAIRS (DVA OR GI)

100% Loan to Value Ratio

Borrower - 0% Down

<table>
<thead>
<tr>
<th>CONV.</th>
<th>FHA</th>
<th>DVA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WHO</strong></td>
<td>Any person</td>
<td>Any person</td>
</tr>
<tr>
<td><strong>GOVT. SUPPORT</strong></td>
<td>None</td>
<td>FHA under HUD – INSURES loans</td>
</tr>
<tr>
<td>TYPE OF PROPERTY</td>
<td>CONV.</td>
<td>FHA</td>
</tr>
<tr>
<td>------------------</td>
<td>-------</td>
<td>-----</td>
</tr>
<tr>
<td>Any type</td>
<td>1-4 plex OWNER OCCUPIED</td>
<td>1-4 plex OWNER OCCUPIED</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DOLLAR AMOUNT</th>
<th>CONV.</th>
<th>FHA</th>
<th>DVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>No limits</td>
<td>FHA insures up to certain amounts – Make up difference in cash</td>
<td>Veterans can use eligibility again but only after previous VA loan has been paid off</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INTEREST RATES</th>
<th>CONV.</th>
<th>FHA</th>
<th>DVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiable</td>
<td>Negotiable</td>
<td>Negotiable</td>
<td>Negotiable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PAYMENTS</th>
<th>CONV.</th>
<th>FHA</th>
<th>DVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiable</td>
<td>Negotiable</td>
<td>Negotiable</td>
<td>Negotiable</td>
</tr>
<tr>
<td></td>
<td>CONV.</td>
<td>FHA</td>
<td>DVA</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td><strong>DOWN PAYMENT</strong></td>
<td>Usually 20% - if less than 20%, must pay private mortgage insurance (PMI)</td>
<td>Usually 3 – 5% - Loan based on lower of sale price or appraisal</td>
<td>Nothing required – Loan based on lower of sale price or appraisal</td>
</tr>
<tr>
<td><strong>DISCOUNT POINTS</strong></td>
<td>Negotiable</td>
<td>Negotiable</td>
<td>Negotiable</td>
</tr>
<tr>
<td><strong>PRE-PAYMENT PENALTY</strong></td>
<td>Is allowed</td>
<td>Not allowed</td>
<td>Not allowed</td>
</tr>
<tr>
<td><strong>ALIENATION CLAUSE</strong></td>
<td>Is allowed</td>
<td>Not allowed – Buyer must qualify financially</td>
<td>Not allowed – Buyer must qualify financially – Anyone can assume</td>
</tr>
</tbody>
</table>
7. POINTS

WHAT EXACTLY IS A DISCOUNT POINT?

1. DISCOUNT POINTS

Point = Percent

<table>
<thead>
<tr>
<th>RATE</th>
<th>POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>0</td>
</tr>
<tr>
<td>6.5%</td>
<td>1</td>
</tr>
<tr>
<td>6%</td>
<td>2</td>
</tr>
</tbody>
</table>

Why does a lender charge discount points?????

INCREASE EFFECTIVE YIELD
Discount points are always based on the LOAN, not the sales price!!!!!

SALE PRICE $ 80,000
DOWN PAYMENT - 10,000
LOAN AMOUNT $ 70,000

LOAN AMOUNT $ 70,000
DISC. POINTS X 2%
POINTS PAID = 1,400

2. BUYDOWN
Helps buyer qualify - Buy rate down

Lowers interest rate during initial years of loan for buyer – helps buyer qualify for loan; similar to points in that one pays extra money up front to lower rate

Note rate is 8% - Buyer buys down rate for first 2 years

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>6%</td>
</tr>
<tr>
<td>Year 2</td>
<td>7%</td>
</tr>
<tr>
<td>Year 3 &amp; Beyond</td>
<td>8%</td>
</tr>
</tbody>
</table>
3. LOAN ORIGINATION FEE
Fee charged for originating and processing loan
Costs for initiating loan

4. LOCK-IN COMMITMENT
Lender guarantees borrower a fixed interest rate and a fixed amount of discount points for a certain time period
Lender locks buyer in on INTEREST RATE and DISCOUNT POINTS
8. ALTERNATIVE FINANCING

WHAT IF I WANT TO BUY A HOUSE BUT HAVE NO MONEY AND NO JOB?

1. CONTRACT FOR DEED / INSTALLMENT CONTRACT / LAND CONTRACT

Financing without a lender

VENDOR 2008 VENDEE

PROMISE $75,000

DEED

Seller retains Deed (LEGAL TITLE)

Buyer signs Contract (obtains EQUITABLE TITLE)
VENDEE VENDOR

2018

DELIVERED
$75,000

DEED

VENDOR - SELLER - retains LEGAL TITLE
VENDEE - BUYER - obtains EQUITABLE TITLE when contract signed - receives LEGAL TITLE after final payment

Advantages: No qualifying, fewer closing costs, no or low down payment
Disadvantages: Riskiest for buyer - can lose equity, seller may still borrow against property, seller might be foreclosed on, seller not being able to provide marketable title

2. SALE / LEASEBACK

SELLER BUYER

DEED
ADVANTAGES
1) Receive money
2) Business rent is tax deductible

ADVANTAGES
1) Depreciate improvements
2) Mortgage interest may be deductible
3) Gain appreciation on property
### 9. FEDERAL RESERVE

**WHAT ARE WAYS TO CONTROL THE MONEY SUPPLY?**

#### 1. RESERVE CONTROLS

Percent of funds banks must keep on hand

<table>
<thead>
<tr>
<th>Reserve Requirement</th>
<th>Can Loan Out</th>
<th>Effect on Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>90%</td>
<td>Lower interest rates – stimulates economy</td>
</tr>
<tr>
<td>20%</td>
<td>80%</td>
<td>Higher interest rates – slows economy</td>
</tr>
</tbody>
</table>

#### 2. DISCOUNT RATE

Interest rate banks pay to borrow money

- **7%**
- **10%**

**DISTRICT BANK** → **$** → **LOCAL BANK**

**BORROWER**
3. OPEN MARKET OPERATIONS

Buying and selling securities

Sell - decrease money supply
Buy - increase money supply
10. PRIMARY MORTGAGE MARKET

WHERE DOES A BUYER GO TO RECEIVE A LOAN?

1. SAVINGS & LOANS

Primarily residential loans

Largest investment in residential home loans

2. COMMERCIAL BANKS

Primarily business loans
3. INSURANCE COMPANIES
Primarily high dollar loans

4. MORTGAGE BANKERS
BORROWER
MORTGAGE BANKER
LENDER - INVESTOR
PARTICIPATION LOANS
Lender participates in ownership
and/or profits and/or equity growth

Ownership
Profits
Equity growth

WAREHOUSING
Assemble loans into package for resale
11. SECONDARY MORTGAGE MARKET

DOES A LOCAL LENDER EVER SELL THEIR EXISTING NOTES TO OTHERS?

Purpose: Liquidity

Estoppel Certificate - States current loan balance

1. FEDERAL NATIONAL MORTGAGE ASSOCIATION - FNMA - FANNIE MAE

Private company

Buys notes from lenders, thus providing liquidity for lenders; raises money by selling Government guaranteed bonds; buys all types of loans

SELL NOTES

BUY NOTES
2. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION - GNMA - GINNIE MAE

Government corporation under HUD; buys notes in depressed areas of country; primarily buys FHA & VA loans

HUD - Government corporation

3. FEDERAL HOME LOAN MORTGAGE CORPORATION - FHLMC - FREDDIE MAC

Primarily buy conventional notes from Savings & Loans
12. FINANCING LEGISLATION

ARE THERE ANY LAWS CONCERNING INTEREST RATE CHARGES, CLOSING COSTS, ETC.?

1. USURY LAWS

Set maximum interest rate

55% interest - How sweet it is!

2. TRUTH-IN-LENDING (REGULATION Z)

APPLIES TO

RESIDENTIAL – 4 UNITS OR LESS

COMMERCIAL

CONSUMER CREDIT

AGRICULTURAL

RETAIL

DOES NOT APPLY TO

BUSINESS

COMMERCIAL

AGRICULTURAL

RESIDENTIAL – OVER 4 UNITS
Disclosure of LOAN costs

Lender gives borrower all LOAN costs
- including Annual Percentage Rate (APR)

Takes all costs of borrowing and expresses as percentage

INTEREST RATE

$10,000 interest

$100,000 loan 10% rate

ANNUAL PERCENTAGE RATE

$10,000 interest
$1,000 origination fee
$2,000 discount points
$13,000 total loan costs

$100,000 loan 13% APR rate
**RIGHT OF RESCISSION**

3 day right to back out - does not apply to 1st mortgages

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**ADVERTISING** - to tell any credit terms, must tell all credit terms (FSBO’s exempt)

<p>| COLUMN A |</p>
<table>
<thead>
<tr>
<th>TRIGGER TERMS</th>
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<p>| COLUMN B |</p>
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<tr>
<th>REQUIRED DISCLOSURES</th>
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</thead>
</table>

- Down payment | Cash price |
- Amount of any installment | Down payment |
- Finance charge in $ | Terms of repayment |
- # of installments | APR |
- Period of repayment | # of installments |
To tell interest rate, one must also tell the annual percentage rate

<table>
<thead>
<tr>
<th>LEGAL WAYS TO ADVERTISE CREDIT - When advertised alone</th>
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<tr>
<td>Low down payment</td>
<td>Only $2,000 down</td>
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<tr>
<td>FHA financing</td>
<td>Five thousand down</td>
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<tr>
<td>Compare our rates</td>
<td>12% FHA loans</td>
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<tr>
<td>Generous terms</td>
<td>2% lower then prime</td>
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<tr>
<td>Quick financing</td>
<td>15 year loans</td>
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3. REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

PURPOSE: to inform borrowers of TOTAL CLOSING COSTS

To inform borrowers ahead of time what rates and costs are so borrowers can shop around to get the best deal

Loans covered

New first mortgages on a 1-4 plex
ITEMS REQUIRED BY RESPA

1. Buyer’s Guide to Settlement Costs (HUD booklet) - within 3 days of loan application

Explains costs to close, given to buyer within 3 days of loan application

ITEMS REQUIRED BY RESPA

2. Good Faith Estimate of Settlement Costs - within 3 days of loan application
3. Uniform Settlement Statement (HUD - 1 Form)

Lists actual closing costs for seller and buyer

At time of closing

4. Limits on Pre-paids (taxes and insurance)

RESPA limits amount of pre-paid taxes and insurance that can be collected up front at closing
ITEMS REQUIRED BY RESPA

5. Prohibition of kickbacks

Refer business for $

LENDER                   BROKER

4. EQUAL CREDIT OPPORTUNITY ACT

Bans credit discrimination based on:

Race                  Age
Color                 Marital Status
Religion             National Origin
Sex