

LEON MUHAMMAD INTERNATIONAL, CORP.
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Mortgage Basics 201
Class Manual

1. MORTGAGE:

A pledge of property, especially real property, as security for a debt. By extension, the document evidencing the pledge. In many states this document may contain the terms of repayment of the debt. By further extension, “mortgage” is used to describe both the mortgage of property and separate promissory note evidencing the debt and providing the terms of the debt’s repayment. With a mortgage, the borrower retains title and full possession of the property. The lender is given the borrower’s permission to foreclose if the borrower fails to meet the obligation.

2. MORTGAGE TYPES:

- A. Conventional – In real estate, mortgage financing which is not insured or guaranteed by a government agency such as HUD/FHA, VA or the Farmers Home Administration.
- B. Veterans Administration (VA) – The Department of Veteran’s Affairs, a cabinet level agency of the federal government. The Servicemen’s Act of 1944 authorized the agency to administer a variety of benefit programs designed to facilitate the adjustment of returning veterans to civilian life. Among the benefit programs is the VA Home Loan Guaranty program, which encourages mortgage lenders to offer long-term, low down payment financing to eligible veterans by partially guaranteeing the lender against the loss.
- C. Federal Housing Administration (FHA) – A loan made through an approved lender and insured by the Federal Housing Administration. While there are limits to the size of FHA loans, they are intended to finance moderately priced homes.

3. MORTGAGE RATES:

- A. Fixed Rate Mortgage – having a rate of interest, which remains the same for the life of the mortgage.
- B. Adjustable Rate Mortgage (ARM) – mortgage loans under which the interest rate is periodically adjusted to more closely coincide with current rates.

4. FANNIE MAE (FNMA):

A private corporation dealing in the purchase of first mortgages, at discounts.
Ratios 28/36

FREDDIE MAC (FHLMC):

Federal Home Loan Mortgage Corporation. A federal agency purchasing first mortgages, both conventional and federally insured, from members of the Federal Reserve System and the Federal Home Loan Bank System. Ratios 33/38.

5. FORMULA FOR CALCULATING RATIOS:

Using the FANNIE MAE ratios 28/36, the front number represents the housing-to-income ratio. This compares all your monthly housing expenses to your monthly income. For the purpose of qualifying a borrower, this means their current rent or mortgage payment cannot exceed 28% of their gross monthly income.

EXAMPLE: Borrower 1 Gross monthly income \$3,600.00
Current rent \$750.00

To get the front ratio, divide the current rent into the gross monthly income. The front ratio should equal 28% of the gross monthly income.

The back number represents the total debt-to-income ratio. This compares all your monthly debt payments (credit cards, car payments, installment loans, housing debt, etc.) to your gross monthly income.

For the purpose of qualifying a borrower, this means their current rent or mortgage payment along with their other monthly debt cannot exceed 36% of their monthly gross income.

EXAMPLE: Borrower 1 Gross monthly income \$3,600.00
Current rent: \$750.00
Other debts: \$450.00

To get the back ratio, add the current rent and the other debts to get a total debt. Divide the total debt into the gross monthly income. The back ratio should equal 33% of the gross monthly income.

When a loan amount has been determined, the loan officer now has to calculate the living expense by using the projected mortgage payment. This would happen if the borrower has a contract with the amount of the loan to be financed or if there is to be a refinance. Then the loan amount is determined.

For example, if the projected mortgage payment is \$845.00, the loan officer must qualify the borrower at this figure for his living expense as well.

6. PROPERTY TYPES:

As a loan officer with ABC Mortgage Company, you will come in contact with borrowers with several types of property descriptions, the borrower will be looking to make a purchase or do a refinance. Below is a list of some of the properties with which you will come in contact.

A. Single-family house: A property usually occupied by one family.

- B. Investment property, non-commercial: A property with 1-4 units, a four flat apartment building.
- C. Commercial property: A property with 5 units or more.
- D. Mixed-use commercial property: A property with a combination of storefronts and residential apartments.
- E. Condominium: A property where the borrower is responsible for only the interior of the house.
- F. Townhouse: A property where the borrower is responsible for the land the on which the house is built (i.e., upkeep of the land, cutting grass in the summer and snow removal in the winter).
- G. Trailer home: Single wide and doublewide model.

7. LOAN-TO-VALUE:

The ratio of mortgage amount to appraised value or sales price of real property. Used by lenders to determine maximum loan amounts as set by law.

8. QUALIFYING A PROSPECT:

- A. Is the prospect looking to make a purchase or do a refinance?
- B. What is the marital status of the prospect?
- C. Is the prospect applying as an individual or jointly?
- D. The prospect's employment status. Must show a two year employment history.
- E. What is the prospect's income? Must be broken down to a monthly gross amount.
- F. How is the credit picture?
- G. How much of a down payment can the prospect put on a piece of property?

9. NON-CONFORMING LOAN:

A mortgage loan in which the loan amount, the loan-to-ratio, the term, or some other aspect of the loan exceeds the permissible limits, as specified in regulations.

10. CONFORMING LOAN:

A mortgage loan in which the loan amount, the loan-to-ratio, the term, or some other aspect of the loan is within the permissible limits, as specified in regulations.

11. PURCHASE AGREEMENT/REAL ESTATE SALES CONTRACT:

An agreement between a buyer and seller of real property, setting forth the price and terms of the sale.

12. REFINANCE:

The renewing of an existing loan on the same property by either the same lender or borrower.

13. PITI:

Principal, interest, taxes and insurance.

14. BANKRUPTCY CHAPTER 9 AND CHAPTER 11:

The aforesaid chapters permit the debtor to undertake a reorganization to pay his/her debts. The reorganization is to give the debtor a breathing spell from debt collection efforts to allow him/her to work out a repayment plan with creditors. The goal is a plan that specifies how much creditors will be paid, in what form they will be paid and other details.

15. BANKRUPTCY CHAPTER 7:

This chapter permits the debtor to liquidate his/her debt to the creditors.