# Foundations On-Demand

## Mortgage Fundamentals
## Answer Key

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**Answer Key!**

## Mortgage Process

You would have captured these notes while watching the Mortgage Process video.

Q: Where does the mortgage process begin?

A: The borrower generally speaks with a mortgage loan officer and completes a mortgage loan application to begin the mortgage process.

Q: What does the mortgage processor do?

A: The role of the mortgage processor will vary from company to company. Consistently, the mortgage processor is responsible for collecting the paperwork needed to approve and close the loan. In most cases, the processor will also review these documents for accuracy prior to submitting to the underwriter or closing departments and often speaks to the customer throughout the mortgage process.

Q: Where does the decision to approve or decline a loan get made?

A: Traditionally, the mortgage underwriter or underwriting department is responsible for loan approvals and denials. This is what was shared in your video. However, as you progress through your new hire training, you will likely learn about exceptions to that process. For example, a loan can also be declined during the loan application process based on the information provided on the loan application.

Q: What happens when the closer receives the file?

A: In addition to preparing the closing documents for signing at closing and the wiring of funds, this phase of the mortgage process is very visible to the borrower. It's the borrower's opportunity to sit across the settlement table and take ownership of their new home. This exchange in ownership is a very exciting moment, especially for first time homebuyers.

## Escrow Components

You would have captured these notes while watching the Escrow Component Video or as a quick refresh from mortgage payment jargon. Check your answers below.

Q: Real Estate Taxes

A: Property tax is paid to your local county tax authority and each county sets its own property tax rate. The property tax is calculated by taking the county's assessed value of the property and multiplying it by the tax rate.

PMI and MIP were both provided in your Activity Workbook and Worksheet.

Q: Hazard Insurance:

A: Hazard insurance is part of the coverage provided by your homeowner's insurance policy that provides specific protection for a broad number of perils. Some of these perils are natural hazards, such as fire or hail damage, while others are manmade, such as theft or vandalism.

Q: Flood Insurance:

A: Flood insurance is a form of property insurance that pays the policyholder in the event of flood damage to the property. In certain flood-prone areas, a mortgage lender will require flood insurance as a condition of approving a mortgage loan. This coverage is also in addition to ordinary homeowner's insurance and does not cover your personal property.

Q: Home Owners Association dues:

A: These are fees that are collected each month for common area maintenance and ongoing costs of managing the property. The association uses this money to pay monthly expenses and accumulate an amount to pay for repairs.



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## Loan to Value

## Answer Key!

Q: How do you calculate Loan to Value ratio?

A: LTV = Loan Amount divided by Property Value

Q: What is a good rule of thumb when evaluating risk?

A: The more down payment that a borrower has invested into a property, the less risk there is for the mortgage lender if the borrower defaults on their mortgage, or is not able to repay the loan. This helps ensure that there is enough equity in the home to cover the amount owed.

Q: LTV Scenario 1:

A: 80%

Q: LTV Scenario 2:

A: 86%, 14%

Q: LTV Scenario 3:

A: $100,000, $50,000, 75%

## Loan Products

Q: What are the two categories of loans mentioned in the video?

A: Conventional Loans and Government Loans

Calculate Me 1:

Q: New Interest Rate: 3.70% rounded to the nearest.

A: 25% = 3.75%

Calculate Me 2:

Q: New Interest Rate:

A: 5.50%

Q: With the 5/5 ARM product, how long is their fixed introductory rate?

A: Five years

Q: How frequently will their rate potentially adjust after that introductory period?

A: Every five years

Q: If a borrower has a 30-year, fixed rate mortgage, how often will their interest rate adjust?

A: Trick question! The rate doesn't adjust. It is fixed or remains the same for the entire term of the loan.

Q: What are the benefits of the ARM product for Sandy and John?

A: The interest rate may be lower than a 30-year, fixed rate mortgage. This is a "starter" home and Sandy and John are likely to move or refinance before 30 years. Many borrowers hear "30-year fixed rate" and love the sound of the stability, but don't realize that they are paying for additional stability that they may not need.

## 3 C's of Underwriting - Credit

## Answer Key!

Q: What is the most common credit score used by lenders?

A: FICO Fair Isaac Corporation (Credit Scoring Model)

Q: What is the credit score range?

A: 300 – 850

Q: What are the three credit reporting bureaus or agencies?

A: TransUnion, Equifax, Experian

Q: Where do most people fall in the FICO range?

A: Between 750 – 799

Q: Do you know your credit score?

A: What changes can you make to influence your own FICO? Some answers may include: pay down revolving debt, but leave those cards open. Pay all of your bills on time and pay more than the monthly amount due. Vary the type of debt that you carry to include loans, credit cards, and mortgages. Limit the amount of new debt that you take on at a given time.

## 3 C's f Underwriting – Capacity

Q: What is the most common income source used the mortgage application process? Employment (Base Pay Income)

A: What makes a borrower's income stable? For a borrower's income to be considered stable, it must be documented for at least two years, be predictable and likely to continue.

Calculate Me 1 - DTI

Q: Total Monthly Debt

A: $3800

Q: What is the Back DTI

A: 63%

Q: is it likely that this loan will be approved?

A: No

Q: Why?

A: Because the total debt-to-income ratio indicates that the borrower is at high risk of not being able to manage the new mortgage payments along with their existing debts.

Calculate Me 2 – DTI

Q: Total Monthly Debt

A: $1125

Q: What is the Back DTI

A: 56%

Q: Is it likely that this loan will be approved?

A: No

Q: Why?

A: Again the DTI is slightly higher than the preferred 43%. Higher ratios can be approved with compensating factors, but 56% is a bit too high.

Calculate Me 3 – DTI

Q: Total Monthly Debt

A: $1637

What is the Back DTI

A: 40%

Q: Is it likely that this loan will be approved?

A: Yes

## 3 C's of Underwriting - Collateral

## Answer Key!

Q: What is the purpose of an appraisal report?

A: The purpose of the appraisal is to document the value and condition of the subject property.

Q: The appraisal report also indicates the property's condition. Why do you think that would be important information for both the borrower and the lender?

A: It is important for both the borrower and the lender to be made aware of repairs needed on the property that could impact the value. Comparable properties in rooms, square footage, and even neighborhoods may be in very different conditions and that can dramatically impact the value of a home.

## Mortgage Fraud Fundamentals

You would have captured these notes while watching the Mortgage Fraud Fundamentals video.

Q: What is the definition of Mortgage Fraud?

A: The deliberate and willful deception perpetrated for unlawful gain.

Q: What are the common elements of mortgage fraud?

A: Application submitted with falsified information.
Documentation that was blatantly misrepresented.
Loss of revenue or income

Q: What are the two types of mortgage fraud?

A: Fraud for Property & Fraud for Profit

Q: Which type of fraud is the most common to the mortgage banking industry?

A: Fraud for Property

Q: What is one example of Fraud for Property?

A: Misrepresentation of Income or Employment, Assets, FICO/Credit history, ccupancy are all considered examples of Fraud for Property.