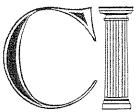
# Fundamentals of Loan. Processing



# CAPSTONE INSTITUTE TO OF MORTGAGE FINANCE

Education Excellence Since 1986 5784 Lake Forrest Drive NW, Suite 280 Atlanta, Georgia 30328

888-254-3431 \* www.capstoneinstitute.com

This manual was written by Kathy Lewis President of Capstone Institute of Mortgage Finance, Inc. 5784 Lake Forrest Drive, Suite 280, Atlanta, Georgia 30328 888-254-3431

www.capstoneinstitute.com e-mail: admin@capinst.com

© Copyright 2016, Capstone Institute of Mortgage Finance, Inc.

#### Notice of Rights:

All rights reserved. No part of this manual may be reproduced or transmitted in any form by means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the author. For information on getting permission for reprints and excerpts, contact Kathy Lewis at Capstone Institute.

#### Notice of Liability:

Every effort has been made to ensure the accuracy of this manual. While every precaution has been taken in the preparation of this manual, neither the author nor Capstone Institute of Mortgage Finance, Inc. shall have any liability to any person or entity with respect to any loss or damage caused or alleged to be caused directly or indirectly by the information or instructions contained in this manual. The information in this manual is subject to change without notice.

Printed and bound in the United States of America.

#### **SECTION 1 - TABLE OF CONTENTS**

#### PAGE TOPIC

i-viii Factors for Computing Monthly Principal & Interest

#### **SECTION 2 - DEFINITIONS**

**2**-1-38

#### **SECTION 3 - FEDERAL REGULATIONS AND COMPLIANCE**

3-1	General Overview
3-2	State of Georgia Special Disclosure
3-4	The Secure and Fair Enforcement Mortgage Licensing Act of 2008 (SAFE Act)
<b>3</b> -10	EQUAL CREDIT OPPORTUNITY ACT
<b>3</b> -10	General Rules Prohibiting Discrimination
3-12	Equal Treatment for Same-Sex Married Couples
<b>3</b> -12	Taking Applications and Gathering Information
<b>3</b> -13	Gathering Information
<b>3</b> -16	Spouse's Signature
3-16	Designation of Name
3-17	Counteroffer
3-17	Notice of Incompleteness
3-18	Monitoring
<b>3</b> -19	ECOA Valuation Rule Requiring Copy of Appraisal Report
3-20	Notification of Adverse Action for Denied Applications
3-21	Timing of Notification of Adverse Action
<b>3</b> -23	Record Retention Requirements
<b>3</b> -23	Penalties for Non-Compliance
<b>3</b> -25	Equal Credit Opportunity Act Notice
3-26	Notice of Counteroffer
<b>3</b> -27	Notice of Incompleteness
<b>3-</b> 28	Notice of Credit Denial or Termination
<b>3</b> -29	REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)
3-29	Transactions Covered and Not Covered
<b>3</b> -30	Good Faith Estimate Replaced by Integrated Mortgage Disclosures
3-31	Integrated Mortgage Disclosures
3-32	Loan Estimate Disclosure

#### SECTION 3 - FEDERAL REGULATIONS AND COMPLIANCE (Cont'd)

	REAL ESTATE SETTLEMENT PROCEDURES ACT (Cont'd)
<b>3-</b> 33	Good Faith Tolerance Requirements
<b>3-</b> 34	Services That the Consumer May Shop For
3-35	Charges Subject to a 10% Cumulative Tolerance
3-36	Charges Subject to Zero Tolerance
3-37	Changed Circumstances That are Permitted
3-38	Changed Circumstances That Affect Eligibility
3-40	Timing for Revisions to the Loan Estimate
3-42	Closing Disclosure
3-44	Requiring Particular Providers
<b>3</b> -45	Provide a List of Service Providers the Borrowers May Select
3-46	Special Information Booklet
3-46	Mortgage Servicing Transfer Disclosure
3-49	HUD-1 Settlement Statement Replaced with Closing Disclosure
<b>3</b> -49	Record Retention for Closing Disclosure
3-49	Prohibition Against Kickbacks and Unearned Fees
<b>3</b> -53	Controlled/Affiliated Business Arrangement
3-54	Computer Loan Origination Systems, and Escrow Disclosure at Closing
<b>3</b> -54	Annual Escrow Account Statement
3-55	Limit on Amount of Escrow Funds
3-55	Escrow Account Cancellation Notice
3-56	Other RESPA Restrictions
3-56	Record Retention Requirements
3-57	New Final Rule 78 CFR 1069
3-62	Penalties for Non-Compliance
<b>3</b> -63	Loan Estimate
3-66	Required Service Provider Addendum
<b>3</b> -67	Settlement Costs Booklet
<b>3</b> -68	Mortgage Servicing Transfer Disclosure
3-69	Closing Disclosure
3-74	Controlled Business Arrangement Disclosure
3-75	Computer Loan Origination (CLO) Fee Disclosure
<b>3</b> -76	Initial Escrow Account Statement
<b>3-</b> 77	THE TRUTH-IN-LENDING ACT – REGULATION Z
3-77	Overview - Changes to Regulation Z
3-78	Ability-to-Repay and Qualified Mortgage Rule (ATR/QM)
3-80	Qualified Mortgage Rules
<b>3-</b> 82	Mortgage Disclosure Improvements Act (MDIA)
3-84	Mortgage Servicing Final Rule

#### SECTION 3 - FEDERAL REGULATIONS AND COMPLIANCE (Cont'd)

3-89	Truth-in-Lending Disclosure
<b>3</b> -90	Right of Rescission
<b>3</b> -92	Truth-in-Lending in Advertising
<b>3</b> -97	Other Prohibited Acts or Practices Under Truth-in-Lending 226.36
<b>3-</b> 103	Notice of Right to Cancel
3-104	ADJUSTABLE RATE MORTGAGES
<b>3</b> -107	Consumer Handbook on Adjustable Rate Mortgages (CHARM Booklet)
<b>3</b> -108	THE HOME OWNERSHIP AND EQUITY PROTECTION ACT (Section 32
	Loans)
<b>3</b> -113	RULES FOR PROTECTIONS COVERING HIGHER-PRICED MORTGAGE
	LOANS
<b>3</b> -116	HOMEOWNERS PROTECTION ACT GOVERNING CANCELLATION OF PMI
3-121	FLOOD DISASTER PROTECTION ACT
<b>3</b> -122	Flood Disaster Protection Act Notice
<b>3</b> -123	FAIR CREDIT REPORTING ACT
<b>3</b> -124	THE FAIR AND ACCURATE CREDIT TRANSACTIONS ACT
<b>3-</b> 127	FAIR AND ACCURATE TRANSACTIONS ACT - RED FLAGS &
	SAFEGUARDS RULES REGARDING IDENTITY THEFT
<b>3</b> -132	FEDERAL PRIVACY LAW – GRAMM-LEACH-BLILEY ACT
<b>3-</b> 135	RIGHT TO FINANCIAL PRIVACY ACT
3-136	BANK SECRECY ACT, MONEY LAUNDERING CONTROL ACT OF 1986
3-137	ANTI-DRUG ABUSE ACT OF 1988, ANNUNZIO-WYLIE ANTI-MONEY
	LAUNDERING ACT OF 1992
3-138	MONEY LAUNDERING SUPPRESSION ACT, MONEY LAUNDERING AND
	FINANCIAL CRIMES STRATEGY ACT
<b>3</b> -139	FAIR HOUSING ACT
3-140	THE HOME MORTGAGE DISCLOSURE ACT
<b>3</b> -142	THE USA PATRIOT ACT
3-146	TELEPHONE CONSUMER PROTECTION ACT - DO NOT CALL REGISTRY
3-148	MORTGAGE ASSISTANCE RELIEF SERVICES (MARS)
3-154	MORTGAGE ACTS AND PRACTICES ADVERTISING - REGULATION N
3-158	THE ELECTRONIC SIGNATURES IN GLOBAL AND NATIONAL
	COMMERCE (ESIGN) ACT
<b>3</b> -159	DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION
	ACT (H.R. 4173)

#### **SECTION 4 - CONVENTIONAL LOAN PROGRAMS**

4-1	The Secondary Mortgage Market
<b>4</b> -4	Automated Underwriting Systems and Credit Scoring
<b>4</b> -5	Conventional Loans
<b>4</b> -5	30-Year Fixed Rate Loan
4-6	20-Year Fixed Rate Loan
<b>4</b> -7	15-Year Fixed Rate Loan
4-8	Non-Traditional Loan Programs
<b>4</b> -8	"Simple" Adjustable Rate Mortgages
<b>4</b> -9	Adjustable Rate Mortgages - Terminology
4-11	Consumer Handbook on Adjustable Rate Mortgages (CHARM Booklet)
4-12	Interest-Only ARM Mortgages
<b>4</b> -16	Payment Option, Option ARMs, or Pick-A-Payment Mortgages
<b>4</b> -19	Hybrid ARMs
<b>4</b> -21	Piggyback, No Money Down, Simultaneous Second, or 80/20, 80/10/10 Loans
<b>4</b> -24	The Buydown Loan Program
<b>4</b> -27	Construction-Permanent Loans
4-30	Second Mortgages and Home Equity Lines of Credit
<b>4-</b> 31	Other Miscellaneous Loan Programs
<b>4</b> -32	Maximum Loan-to-Value (LTV) Ratios
<b>4</b> -33	Maximum Seller Contributions

### SECTION 5 - UNDERSTANDING RATE SHEETS, PMI, MORTGAGE CALCULATIONS, & LOAN ESTIMATE

<b>5</b> -1	Understanding Secondary Market Rate Sheets
5-4	Private Mortgage Insurance
5-14	Mortgage Calculations, Calculating the Loan-to-Value and Mortgage Payments
5-17	Completing the Loan Estimate
<b>5</b> -18	Understanding APR
<b>5</b> -19	Fees That <u>DO</u> Affect the APR
<b>5</b> -21	Fees That <u>DO NOT</u> Affect the APR
<b>5</b> -22	Sample Fees Worksheet
5-23	Fees Worksheet - Explanation of Charges
<b>5</b> -28	What are Prepaids?
<b>5</b> -31	How to Determine the Number of Months to Escrow for Property Taxes
<b>5</b> -35	Complete the Loan Estimate
<b>5</b> -39	Guidelines for Completing the Loan Estimate

## SECTION 5 - UNDERSTANDING RATE SHEETS, PMI, MORTGAGE CALCULATIONS, & LOAN ESTIMATE (Cont'd)

<b>5</b> -67	Requiring Particular Providers & Settlement Service Providers The Borrower May Select
<b>5-</b> 68	Special Information Booklet
	, The state of the

5-71 Closing Disclosure

5-77 Now You Understand the Basics of Mortgage Calculations

#### SECTION 6 - SETTING UP THE LOAN FILE

6-1	GETTING ORGANIZED
<b>6-</b> 2	Organize Your Contacts
<b>6</b> -3	Set Up a Tracking System
6-4	Organize Your File Folder
<b>6</b> -8	Use a "Processing Worksheet" and "Conversation Sheet"
<b>6</b> -11	Additional Tips for Staying Organized
<b>6</b> -11	Weekly Status Reports
<b>6</b> -12	Managing Your Time More Effectively
<b>6</b> -13	Analyzing Problem Areas
<b>6</b> -18	Overall Performance
<b>6-</b> 20	"Loan Processor Burnout"
6-21	Reviewing the Initial Application Package
<b>6-</b> 25	FRAUD PREVENTION - "Red Flags" That Could Indicate Fraud
<b>6</b> -31	Determining Qualifying Ratios
<b>6</b> -33	Pre-Qualification Worksheet
<b>6</b> -34	Reviewing the Sales Contract
<b>6</b> -43	Additional Information Checklist
6-47	Reviewing the Loan Application
<b>6</b> -48	Loan Application Review Checklist
6-51	Notice of Incompleteness
<b>6</b> -52	REVIEWING THE "UNIFORM RESIDENTIAL LOAN APPLICATION"
<b>6-</b> 58	I. Type of Mortgage and Terms of Loan
6-59	II. Property Information and Purpose of Loan
<b>6</b> -61	Sources of Down Payment and Settlement Charges
<b>6</b> -68	III. Borrower Information
<b>6</b> -70	IV. Employment Information
6-72	V. Monthly Income and Combined Housing Expense Information
<b>6</b> -72	Sources of Monthly Income
<b>6-</b> 79	VI. Assets and Liabilities - Assets

#### SECTION 6 - SETTING UP THE LOAN FILE (Cont'd)

<b>6</b> -82	VI. Assets and Liabilities - Liabilities
<b>6</b> -85	Assets and Liabilities - Schedule of Real Estate Owned
<b>6</b> -87	VII. Details of Transaction
<b>6</b> -88	VIII. Declarations
<b>6</b> -88	Judgments
<b>6</b> -89	Collection Accounts, Bankruptcy and Foreclosure
<b>6</b> -90	Party in a Lawsuit, Loan Defaults, Alimony, Child Support, Borrowed Down Payment
<b>6</b> -90	Co-Maker or Endorser on a Note, Contingent Liabilities
<b>6</b> -92	U. S. Citizen, Permanent and Non-Permanent Resident Alien
<b>6</b> -93	Intend to Occupy the Property
<b>6-</b> 94	IX. Acknowledgment and Agreement
<b>6</b> -95	X. Information for Government Monitoring Purposes
<b>6-</b> 96	Continuation Sheet
<b>6</b> -97	Make Sure All Required Disclosures are Signed
<b>6</b> -98	Get Ready to Process the Loan

#### **SECTION 7 - PROCESSING THE LOAN**

<b>7</b> -1	Processing the Loan
<b>7</b> -3	Ordering the Loan Documents
7-4	Ordering the Flood Certification
7-6	Ordering the Appraisal
7-8	Ordering the Credit Report
7-9	What is a Credit Bureau? - Limited and Automatic Subscribers
7-10	What is a Consumer Reporting Agency?
7-10	What is a Factual Credit Report?
7-13	Codes Used by Credit Bureaus
7-14	Important Information to Remember About Credit Reports
7-14	Areas to Review Carefully on the Credit Report
7-16	Different Types of Mortgage Credit Reports
7-20	What is Credit Scoring?
7-25	Sample Credit Report
7-33	Review the Credit Report Carefully
7-34	Documentation Requirements
7-35	Verification of Employment and Income
7-37	Obtain a Verbal Verification of Employment

#### SECTION 7 - PROCESSING THE LOAN (Cont'd)

7-39	Completing the Verification of Employment
<b>7</b> -43	Verification of Employment Review Checklist
7-44	Sample Completed Verifications of Employment
7-51	Verifying Funds to Close
<b>7</b> -53	Reviewing Bank Statements
7-56	Request for Verification of Deposit
<b>7</b> -57	Completing and Reviewing the Verification of Deposit
7-58	Verification of Deposit Review Checklist
<b>7</b> -59	Sample of Completed Verification of Deposit
<b>7</b> -61	Reviewing The Uniform Residential Appraisal Report
7-62	Sample Completed Appraisal
<b>7-</b> 76	Appraisal Review Checklist
<b>7</b> -78	Explanation of Red Flags Found on the Appraisal Review Checklist
7-89	Submitting the Loan Package
<b>7-</b> 91	Uniform Underwriting and Transmittal Summary
7-95	Typical Order for Submission

#### **SECTION 8 - CONVENTIONAL REFINANCE TRANSACTIONS**

<b>8-</b> 1	Limited Cash-Out Refinance Transactions
<b>8</b> -3	Cash-Out Refinance Transactions
8-4	Maximum Loan-to-Value Guidelines for Refinance Transactions
<b>8-</b> 5	Calculating the Loan Amount for Refinance Transactions
<b>8-</b> 6	Case Study for a Rate & Term Limited Cash-Out Refinance
<b>8-</b> 10	Case Study for a Cash-Out Refinance Transaction
<b>8</b> -14	Documentation Needed