



Table of Contents

Chapter 1 – The SAFE Act, the Fed, and Crisis Management 1

I. THE SAFE MORTGAGE LICENSING ACT (p. 1)

A. MLO Licensing Requirements (20 Hours of Pre-Licensing Education) (p. 3)

B. MLO Continuing Education (8 Hours Annually) (p. 4)

II. FISCAL AND MONETARY POLICIES OF THE U.S. (p. 4)

A. Fiscal Policy (p. 4)

B. Monetary Policy (The Fed) (p. 5)

III. THE POLICY TOOLS OF THE FEDERAL RESERVE (FED) (p. 6)

A. Reserve Requirements (Fed) (p. 8)

B. Interest Rates (Discount Rates) (p. 10)

C. Open Market Operations (OMOs) (p. 11)

D. Expansionary Monetary Policy (Increases Money Supply) (p. 12)

E. Contractionary Monetary Policy (Decreases Money Supply) (p. 12)

F. The Consumer Financial Protection Bureau (CFPB) Handles the Truth in Lending Act (TILA) (p. 13)

IV. THE FED AND US TREASURY WORK TOGETHER (p. 14)

A. Selling Securities (p. 14)

B. Fighting Recession (p. 14)

C. Crisis Management (p. 14)

V. CHAPTER SUMMARY (p. 16)

VI. TERMINOLOGY (p. 17)

VII. CHAPTER QUIZ (p. 18)

Chapter 2 – The Real Estate Cycle and Secondary Market 23

I. THE REAL ESTATE CYCLE (p. 23)

A. Supply and Demand (p. 27)

B. Balance (p. 27)

II. FORCES INFLUENCING REAL ESTATE CYCLES (p. 28)

A. Mortgage Funds (p. 28)

B. Population (p. 31)

C. Social Attitudes (p. 32)

D. Political Activity (p. 32)

E. Regulation (p. 32)

III. THE ROLE OF THE SECONDARY MORTGAGE MARKET (p. 33)

IV. AGENCIES OF THE SECONDARY MARKET (p. 35)

A. Federal National Mortgage Association (FNMA) (p. 36)

B. Government National Mortgage Association (GNMA) (p. 38)

C. Federal Home Loan Mortgage Corporation (FHLMC) (p. 39)

V. QUALITY CONTROL (p. 40)

VI. CHAPTER SUMMARY (p. 41)

VII. TERMINOLOGY (p. 42)

VIII. CHAPTER QUIZ (p. 42)

CHAPTER 3 – LOAN FUND SOURCES FOR THE PRIMARY MARKET 45

I. DIRECT LENDERS (p. 47)

A. Savings Institutions (p. 47)

Table of Contents

B. Commercial Banks (p. 49)

C. Credit Unions (p. 50)

D. Mortgage Companies (p. 50)

II. INDIRECT LENDERS (p. 56)

A. Pension Funds (p. 56)

B. Life Insurance Companies (p. 57)

III. THE ROLE OF THE PRIVATE INVESTOR (p. 57)

A. Real Estate Investment Trust (REITs) (p. 57)

B. Private Individuals (p. 58)

C. The Internet and Artificial Intelligence (AI) (p. 58)

IV. MORTGAGE LOAN BROKERING AND SUBPRIME LENDING (p. 60)

A. Characteristics of Subprime Lending (p. 60)

V. CHAPTER SUMMARY (p. 64)

VI. TERMINOLOGY (p. 65)

VII. CHAPTER QUIZ (p. 66)

Chapter 4 – The Secondary Mortgage Market and Federal Credit Agencies

69

I. THE SECONDARY MORTGAGE MARKET (p. 69)

A. Securities (p. 71)

B. Pass-Through Securities (p. 72)

C. Mortgage-Backed Securities (p. 74)

D. Collateralized Mortgage Obligations (CMOs) (p. 74)

E. Interest Only (IO) and Principal Only (PO) Strips (p. 75)

F. Equity REITs and Mortgage REITs (p. 75)

G. Intrastate Defined (p. 76)

H. Sale or Sell Defined (p. 76)

I. Offer to Sell Defined (p. 76)

II. FNMA AND FHLMC (p. 76)

III. FEDERAL CREDIT AGENCIES (p. 76)

A. Farm Service Agency (FSA) (p. 77)

B. Farm Credit System (FCS) (p. 78)

C. Financing Corporation (FICO) (p. 80)

D. Federal Financing Bank (FFB) (p. 80)

E. FHA and VA (p. 80)

IV. CHAPTER SUMMARY (p. 81)

V. TERMINOLOGY (p. 82)

VI. CHAPTER QUIZ (p. 83)

Chapter 5 – Ethics, Fraud, Consumer Protection, and Fair Lending

87

I. ETHICS (p. 87)

II. FRAUD (p. 98)

A. Property Flipping (p. 100)

B. Real Estate Fraud Examples (p. 100)

C. Consumer Protection (Dodd-Frank) (p. 105)

III. FAIR LENDING (p. 107)



Table of Contents

A. Federal Fair Housing Laws (p. 108)

IV. THE REAL ESTATE INDUSTRY AND FAIR LENDING (p. 119)

A. REALTORS® Code of Ethics and Standards of Practice (p. 119)

B. Voluntary Affirmative Marketing Agreement (VAMA) (p. 119)

C. Federal Acts of Importance to Mortgage Professionals (p. 119)

V. CHAPTER SUMMARY (p. 123)

VI. TERMINOLOGY (p. 125)

VII. CHAPTER QUIZ (p. 126)

Chapter 6 – Federal Regulation (TILA/RESPA/TRID)

129

I. TRUTH IN LENDING ACT (TILA) (p. 131)

A. Truth in Lending Act (Regulation Z) (p. 131)

B. The History of Truth in Lending (p. 132)

C. The Creditor (p. 133)

D. Exempt Transactions (p. 133)

II. REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA) (p. 134)

III. TILA-RESPA INTEGRATED DISCLOSURE RULE (TRID) (p. 135)

A. Form of Disclosure (p. 135)

B. Disclosures (p. 135)

IV. CHAPTER SUMMARY (p. 154)

V. TERMINOLOGY (p. 156)

VI. CHAPTER QUIZ (p. 156)

Chapter 7 – Finance Instruments

159

I. HYPOTHECATION (PROPERTY AS COLLATERAL) (p. 161)

II. PROMISSORY NOTES (p. 161)

A. Negotiable Instruments (p. 165)

III. THE DEED OF TRUST (TRUST DEED) (p. 165)

A. Requirements for a Valid Trust Deed (p. 166)

B. Foreclosure (p. 167)

C. Power of Sale (p. 167)

D. Trustee's Sale (Only in Lien Theory States) (p. 167)

IV. DEFAULT AND FORECLOSURE OF A TRUST DEED (p. 172)

A. Default on a Trust Deed (p. 172)

B. Trustor's Right of Reinstatement (p. 173)

C. Other Remedies for Nonpayment of a Trust Deed (p. 174)

D. Advantages and Disadvantages of the Trust Deed (p. 174)

V. MORTGAGES (p. 175)

A. Foreclosure (p. 175)

B. Advantages and Disadvantages of the Mortgage (p. 176)

VI. LAND CONTRACTS (p. 176)

A. Advantages and Disadvantages of Land Contracts (p. 178)

VII. TYPICAL CLAUSES IN SECURITY INSTRUMENTS (p. 178)

A. Acceleration Clause (p. 178)

B. Prepayment Penalty Clause (p. 179)

C. Alienation Clause (p. 179)

D. Subordination Clause (p. 180)

E. Partial Release, Satisfaction, or Reconveyance Clause (p. 180)

Table of Contents

VIII. CHAPTER SUMMARY (p. 181)

IX. TERMINOLOGY (p. 182)

X. CHAPTER QUIZ (p. 183)

Chapter 8 – Overview of the Loan Process

187

I. THE LOAN PROCESS (p. 189)

- A. The Loan Application (p. 189)
- B. Analysis of the Borrower and the Property (p. 207)
- C. Processing the Loan Application (p. 213)
- D. Closing the Loan (p. 213)

II. FILLING OUT THE LOAN APPLICATION (p. 214)

- A. (Section I) Type of Mortgage and Terms of Loan (p. 214)
- B. (Section II) Property Information (p. 214)
- C. (Section III) Borrower Information/Including Dependents (p. 214)
- D. (Section IV) Employment Information (Two Years) (p. 214)
- E. (Section V) Monthly Income and Combined Housing Expense Information (p. 214)
- F. (Section VI) Assets and Liabilities (p. 224)
- G. (Section VII) Details of Transaction (p. 224)
- H. (Section VIII) Declarations (Seven Year Foreclosure/Bankruptcy) (p. 224)
- I. (Section IX) Acknowledgement and Agreement (p. 224)
- J. (Section X) Information for Government Monitoring Purposes (Entirely Voluntary) (p. 225)
- K. Loan Originator's Information (p. 225)
- L. Continuation Sheet (p. 225)

III. LOAN APPLICATION CHECKLIST (p. 225)

IV. FORMS AND STACKING ORDER (p. 227)

- A. Forms (p. 227)
- B. Verifications (p. 227)
- C. Payoff Demand (p. 230)
- D. Submission Sheet (p. 230)
- E. Stacking Order (p. 230)
- F. Broker Agreements (p. 231)
- G. Table Funding (p. 231)
- H. Quality Control (p. 232)

V. ESCROW PROCEDURES (p. 233)

- A. Opening Escrow (p. 233)
- B. Closing Statements (p. 235)
- C. Real Estate Settlement Procedures Act (RESPA) (p. 240)
- D. Additional Disclosures (p. 242)

VI. CHAPTER SUMMARY (p. 244)

VII. TERMINOLOGY (p. 245)

VIII. CHAPTER QUIZ (p. 245)

Chapter 9 – Conventional Financing

249

I. CONVENTIONAL LOANS (p. 251)

- A. Amortized Loans (p. 251)
- B. 15-Year, Fixed-Rate Mortgage (p. 252)
- C. Conforming vs. Nonconforming Loans (p. 253)
- D. 80% Conventional Loan (p. 254)



Table of Contents

- E. Loan Origination Fee (p. 254)
- F. Secondary Financing (p. 255)
- G. Private Mortgage Insurance (PMI) (p. 258)
- H. 90% Conventional Loan (p. 264)
- I. 95% Conventional Loan (p. 265)
- J. Home Affordable Refinance Program (HARP) (p. 266)
- K. Easy Documentation Loans (p. 266)
- L. Assuming Conventional Loans (p. 267)
- M. Conventional Prepayment Penalties (p. 267)

II. CHAPTER SUMMARY (p. 268)

III. TERMINOLOGY (p. 269)

IV. CHAPTER QUIZ (p. 270)

Chapter 10 – Alternative Financing

273

I. DISCOUNT POINTS (p. 276)

- A. Points in VA Transactions (p. 277)
- B. Points in Conventional Loans (p. 277)
- C. How Many Points? (p. 278)

II. BUYDOWN PLANS (p. 278)

- A. Two Advantages to a Buydown (p. 279)
- B. Permanent Buydowns (p. 279)
- C. Temporary Buydowns (p. 279)

III. FNMA/FHLMC LIMITS ON BUYDOWNS (p. 282)

IV. ADJUSTABLE-RATE MORTGAGES (ARMs) (p. 282)

- A. What is an Adjustable-Rate Mortgage? (p. 283)
- B. How Does an ARM Work? (p. 283)
- C. Elements of an ARM Loan (p. 285)
- D. Convertible ARMs (p. 289)
- E. ARM Loan-to-Value (LTV) Ratios (p. 290)
- F. FHLMC and FNMA LTV Guidelines for ARMs (p. 290)
- G. Discounts and Subsidy Buydowns on ARMs (p. 290)
- H. Housing Expense-to-Income Ratios on ARMs (p. 291)
- I. Appraisals on Properties Secured by ARMs (p. 291)
- J. ARM Standardization (p. 291)
- K. ARM Disclosure (p. 292)
- L. What You Need to Know About ARMs (p. 293)

V. THE GROWTH EQUITY MORTGAGE (GEM) (p. 294)

- A. Determining Annual Payment Adjustments (Increase Annually) (p. 295)
- B. Equity Builds Up Quickly (p. 295)
- C. Payments are Predictable (p. 296)
- D. No Negative Amortization (p. 296)
- E. Reduced Interest Costs (p. 296)
- F. Simplicity of Loan (p. 297)
- G. Lower-Than-Market Interest Rate (p. 297)

VI. REDUCTION OPTION MORTGAGE (p. 297)

VII. BIWEEKLY LOANS (p. 297)

VIII. HOME EQUITY CONVERSION MORTGAGES (REVERSE MORTGAGES) (p. 298)

IX. SHARED APPRECIATION MORTGAGES (SAMs) (p. 298)

Table of Contents

X. HARD MONEY MAKERS AND ARRANGERS (p. 299)

- A. Definitions (p. 299)
- B. Sources of Funds (p. 300)
- C. Loan Characteristics and Requirements (p. 301)
- D. Investor Protection (p. 303)
- E. Loan File – Minimum Documentation (p. 304)

XI. CHAPTER SUMMARY (p. 306)

XII. TERMINOLOGY (p. 308)

XIII. CHAPTER QUIZ (p. 308)

Chapter 11 – Government Programs: FHA and VA Loans 311

I. FEDERAL HOUSING ADMINISTRATION (FHA) (p. 313)

- A. FHA Loan Features (p. 314)
- B. Other Characteristics of FHA Loans (p. 315)
- C. Income Qualifications and Maximum Loan Amounts (p. 316)
- D. Mortgage Insurance Premium (MIP) (p. 316)

II. FHA PROGRAMS (p. 317)

- A. FHA 203b Fixed-Rate Program (p. 317)
- B. FHA 251 Adjustable Program (p. 317)
- C. FHA 203k Purchase and Rehabilitation Program (p. 317)
- D. FHA Title I Program (p. 320)

III. VA LOAN GUARANTIES (p. 320)

- A. VA Guaranty Characteristics (p. 321)
- B. The VA Loan Process (p. 323)

IV. CHAPTER SUMMARY (p. 327)

V. TERMINOLOGY (p. 328)

VI. CHAPTER QUIZ (p. 328)

Chapter 12 – Seller Financing 331

I. PURCHASE MONEY MORTGAGE/TRUST DEED (p. 331)

- A. Unencumbered Property (p. 333)
- B. Encumbered Property (p. 333)
- C. Purchase Money Second Mortgage (p. 334)
- D. Seller-Sponsored Wraparound Financing (p. 335)
- E. Wraparound vs. Assumption Plus Seller Second (p. 336)
- F. Resale of Purchase Money Securities (p. 337)

II. LAND CONTRACT (p. 338)

- A. Contract Subject to Existing Mortgage (p. 339)
- B. Contract Plus Institutional Second (p. 340)

III. OTHER FORMS OF CREATIVE FINANCING (p. 341)

- A. Lease/Option (p. 341)
- B. Lease Contract Separate from Option Contract (p. 345)
- C. Lease/Purchase or Lease/Sale (p. 346)
- D. Equity Exchanges (p. 347)
- E. Participation Loan (Shared Equity Loan) (p. 347)

IV. BROKER'S RESPONSIBILITIES (p. 349)

- A. Due Diligence (p. 349)
- B. Disclosure (p. 350)



Table of Contents

V. CHAPTER SUMMARY (p. 355)

VI. TERMINOLOGY (p. 356)

VII. CHAPTER QUIZ (p. 356)

Chapter 13 – Qualifying the Borrower

359

I. FHLMC/FNMA UNDERWRITING STANDARDS (p. 361)

A. Income Analysis (p. 361)

B. Net Worth (p. 371)

C. Credit History (p. 379)

II. SUMMARY OF QUALIFYING THE BORROWER (p. 383)

III. FHA UNDERWRITING STANDARDS (p. 383)

IV. VA QUALIFYING STANDARDS (p. 384)

A. Minimum Residual Standards Are Guidelines (p. 384)

B. Other Factors (p. 384)

C. Income Ratio Analysis (p. 385)

V. PREQUALIFICATION VS. PREAPPROVAL (p. 385)

VI. CHAPTER SUMMARY (p. 391)

VII. TERMINOLOGY (p. 392)

VIII. CHAPTER QUIZ (p. 392)

Chapter 14 – Qualifying the Property

395

I. THE LENDER’S PERCEPTION OF VALUE (p. 395)

A. LTV and Maximum Loan Amount (p. 397)

B. Estimating Market Value (p. 401)

II. MARKET APPROACH (SALES COMPARISON APPROACH) (p. 401)

A. Identifying Legitimate Comparables (Used by Appraisers and Lenders) (p. 401)

III. COST APPROACH (REPLACEMENT/REPRODUCTION) (p. 406)

IV. INCOME APPROACH (p. 407)

V. UNDERSTANDING THE APPRAISAL PROCESS (p. 408)

A. How to Solve Problems Caused by Low Appraisals (p. 409)

VI. KEY CONSIDERATIONS TO A RESIDENTIAL APPRAISER (p. 410)

VII. RURAL AND SUBURBAN HOMES (p. 416)

VIII. ATYPICAL PROPERTY (p. 417)

IX. CHAPTER SUMMARY (p. 417)

X. TERMINOLOGY (p. 418)

XI. CHAPTER QUIZ (p. 418)

Chapter 15 – State Licensing Requirements

421

I. CALIFORNIA DEPARTMENT OF REAL ESTATE (DRE) (p. 421)

A. Real Estate Commissioner (p. 421)

B. Responsibilities of the Commissioner (p. 424)

C. Disciplinary Action (p. 424)

II. CALIFORNIA RECOVERY ACCOUNT (p. 427)

A. Application for Payment From Recovery Account (p. 427)

B. Notice to be Served on Judgment Debtor (p. 428)

C. Deficient or Substantially Incomplete Application (p. 428)

D. Final Decision – Settlement (p. 428)

Table of Contents

- E. Notice of Decision (p. 429)
- F. License Suspension (p. 429)
- G. Insufficient Funds – Priority of Payment When Money Deposited (p. 429)
- H. Waiver of Rights (p. 430)
 - I. Disciplinary Action Against Licensee (p. 430)

III. CALIFORNIA REAL ESTATE BROKERS (p. 430)

- A. Definition of a Real Estate Broker (p. 430)
- B. Additional Activities Requiring Licensing (p. 431)
- C. Exemptions From Licensing (p. 431)
- D. Individual Brokers (p. 431)
- E. Requirements to Obtain a Broker’s License in California (p. 432)
- F. Partnerships (p. 433)
- G. Corporate Brokers (p. 434)

IV. REAL ESTATE SALESPERSONS (p. 435)

- A. Licensing Requirements (p. 435)

V. NMLS STATE MORTGAGE LOAN BROKERING LICENSING REQUIREMENTS - BY STATE (p. 435)

- A. California (p. 435)
- B. Texas (p. 439)
- C. Florida (p. 441)
- D. New York (p. 443)

VI. TRID AND REQUIRED DISCLOSURES IN CALIFORNIA (p. 445)

- A. Mortgage Loan Disclosure Statement (MLDS) (p. 445)
- B. Lender/Purchaser Disclosure Statement (LPDS) (p. 445)

VII. CALIFORNIA FAIR LENDING LAWS (p. 445)

VIII. CALVET LOANS (CALIFORNIA EXAMPLE) (p. 446)

- A. Eligibility (p. 446)
- B. Purpose (p. 446)
- C. Qualifying (p. 446)
- D. Maximum Loan Amount (p. 446)
- E. Fees (p. 447)
- F. Broker Origination (p. 447)
- G. Broker Compensation (p. 447)
- H. Compliance (p. 447)

IX. CALIFORNIA HOUSING FINANCE AGENCY (CalHFA) (p. 447)

X. CHAPTER SUMMARY (p. 448)

XI. TERMINOLOGY (p. 450)

XII. CHAPTER QUIZ (p. 450)

Appendix 1 - Real Estate Finance Mathematics

453

I. APPROACH TO SOLVING MATH PROBLEMS (p. 453)

II. CONVERTING FRACTIONS TO DECIMALS (p. 455)

III. PERCENTAGE PROBLEMS (p. 456)

IV. PROBLEMS INVOLVING MEASURES OF CENTRAL TENDENCY (p. 457)

V. INTEREST PROBLEMS (p. 459)

- A. Compound Interest (p. 461)
- B. Effective Interest Rate (p. 461)
- C. Discounts (p. 462)

VI. PROFIT AND LOSS PROBLEMS (p. 462)



Table of Contents

VII. PRORATIONS (p. 463)

VIII. MATHEMATICAL TABLES AND THEIR USE (p. 466)

A. Amortization Tables (p. 466)

B. Proration Tables (p. 466)

C. Remaining Balance Tables or Loan Progress Charts (p. 466)

D. Mortgage Yield Tables (p. 466)

F. Constant Annual Percentage Tables (p. 474)

IX. CHAPTER SUMMARY (p. 474)

X. TERMINOLOGY (p. 475)

XI. CHAPTER QUIZ (p. 476)

Appendix 2 - Index

479

ETC Book's Ordering Information

486