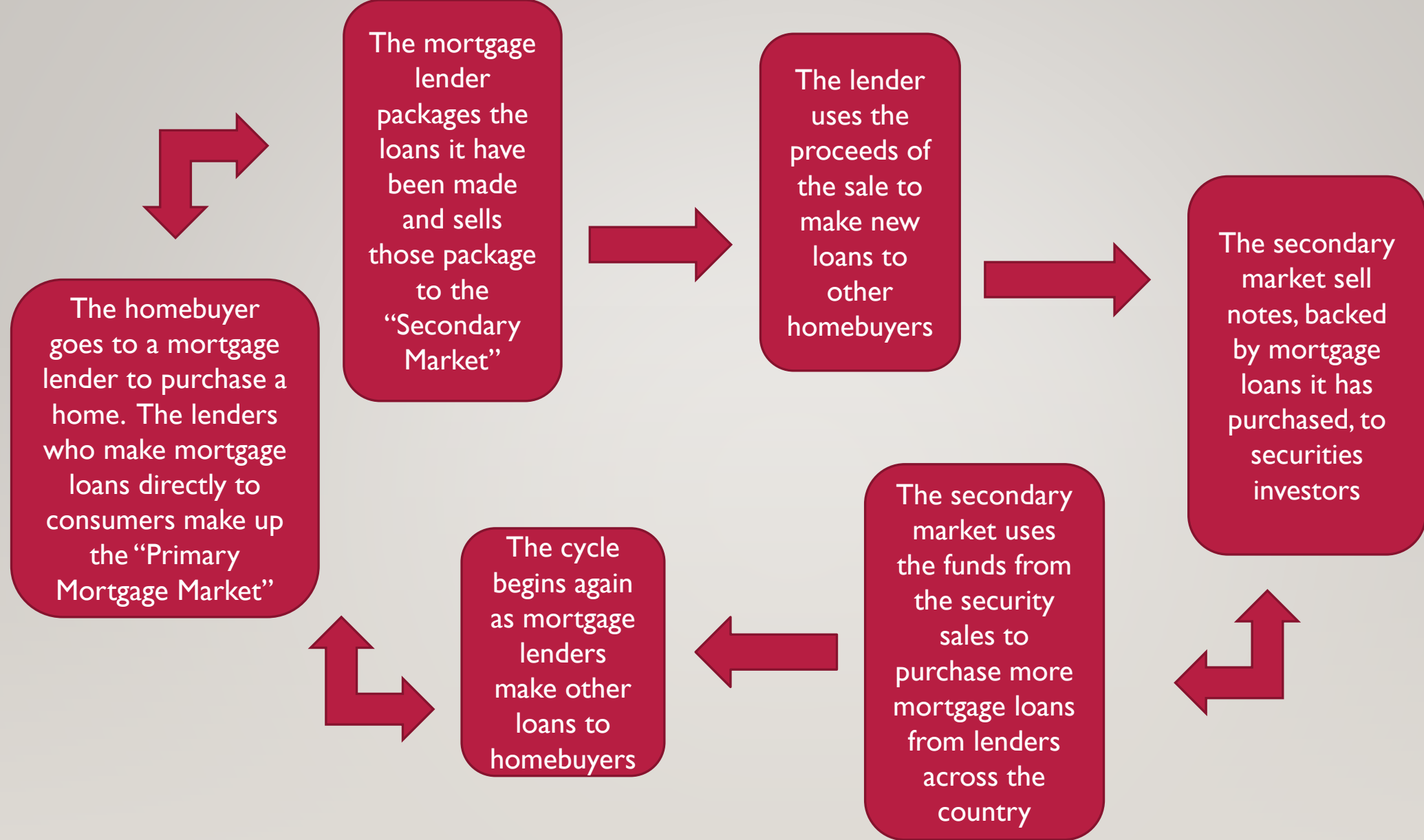


MORTGAGE 101

LENDING PRACTICES AND PROCEDURES

When a borrower applies for a mortgage with a Depository Bank, Mortgage Banker, Mortgage Broker or a Credit Union that institution is usually not lending their own funds. They are known as the Primary Mortgage Market that relies on funds for the borrowers purchase to come from the Secondary Mortgage Market. To assure that the secondary market will buy that loan the lender must follow that institutions lending guidelines or risk that the loan either will not be purchased or must be repurchased from the Secondary Market investor depleting their working capital. Mortgage Loans sold on the secondary market are not decided by a loan committee.





The **primary mortgage market** is the **market** where borrowers and **mortgage** originators come together to negotiate terms and effectuate **mortgage** transaction. **Mortgage** brokers, **mortgage** bankers, credit unions and banks are all part of the **primary mortgage market**



The secondary mortgage market is the market where mortgage loans and servicing rights are bought and sold between mortgage originators, mortgage aggregators (securitizers) and **investors**.

The secondary mortgage market is **extremely large and liquid**.



SECONDARY MORTGAGE MARKET

- Fannie Mae and Freddie Mac- The quasi-governmental agencies that buys notes for Conventional Loans. These are two government sponsored enterprises or GSE's
- Ginnie Mae – FHA, USDA, VA
- State Housing Finance Agencies – Oregon Bond and Oregon Department of Veteran Affairs.

Underwriting Documentation Requirements

Qualifying documentation requirements are pretty standardized throughout the industry, and apply to Fannie Mae, Freddie Mac, FHA, VA and other automated underwriting approvals.

- Name, birthdate, social security number
- 2 year residence history
- 2 year employment history
- 2 years income documentation (W2's or Tax Returns)
- Pay stubs covering the last 30 days for all borrowers
- Asset statements covering the last 60 days
- Source of all funds needed to close (assets, assistance, gifts, credits)

The due diligence supplied by the borrower is then loaded into automated underwriting engines that use algorithms that assess the applications file based on Credit, Capacity, Capital and Collateral. There are only a few loans that will allow a manual underwrite. Standard Automation became the standard in the last 19 years.



Fannie Mae – Desktop Underwriter (DU)

The Federal National Mortgage Association (FNMA) is known by most as Fannie Mae. Fannie Mae's mission is to create minimum lending standards, and liquidity in the mortgage lending community by buying mortgage backed securities to free up capital for lenders to then turn around and lend again. To create consistency in the quality of home mortgages, Fannie Mae has developed a set of underwriting guideline standards that guide lenders on how to best assess risk, so that the opportunity for default is reduced to a predictable level. The industry standard in mortgage underwriting is managed through an automated underwriting system (AUS) called Desktop Underwriter (DU).



Freddie Mac – Loan Product Advisor (LPA)

The Federal Home Loan Mortgage Loan Corporation, more commonly known as Freddie Mac, offers an alternative to Fannie Mae's automated underwriting system (AUS) called Loan Product Advisor as of summer 2016. Previously it was known as Loan Prospector (LP).

Loan Prospector follows many of Fannie Mae's underwriting standards, with distinct differences that would allow experienced and educated lending professionals to place a loan application into the automated underwriting system that would provide the best chance of approval.



FHA TOTAL Scorecard.

FHA TOTAL SCORECARD

- The FHA TOTAL (Technology Open To Approved Lenders) Mortgage Scorecard is a statistically derived algorithm developed by HUD to evaluate borrower credit history and application information. TOTAL is accessed through an Automated Underwriting System (AUS) and is not an AUS itself.

USDA 'GUS' SYSTEM

- GUS stands for “Guaranteed Underwriting System”. This web-based system works in conjunction with FHA TOTAL Scorecard and is used to underwrite USDA Rural Housing loans.

Implementing automated underwriting systems save home mortgage lending professionals a considerable amount of time, as manual underwriting can take as long as 60 days to complete but few investors allow a manual underwrite. In addition to the time savings, automated underwriting is preferred because it is based on algorithms, eliminating **human bias**.

