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**Mortgage Basics**

A mortgage is a financial instrument, commonly referred to as a loan, that enables borrowers to own a home or business by making regular payments over a specified “period of time.” Borrowers who cannot purchase a home or business due to a lack of funds to cover the property price can take out a mortgage.

**The 4 Cs**

* **Credit** - ability to pay on time
	+ **Traditional** evidence of on-time payment
		- Credit Reports
			* TransUnion
			* Equifax
			* Experian
		- Annual Credit Report
	+ **Non-traditional** evidence of on-time payment
		- Evidence of 12 months-on-time payment of household bills
* **Capacity** - do they have earned income?
	+ 2 years or 24 months of consecutive work history with documented income
		- Specific History of dates, name of employer(s) and contact information
		- Pay Stubs, typically full month or 30 days
		- Tax Returns and W2, typically 2 years
* **Capital** - do they have sufficient money saved?
	+ Bank Statements – typically, 2 months of bank statements
		- Gifts, one-time deposits, and irregular deposits will require explanations
* **Collateral** – having an asset, such as a property, to back up the loan.
	+ Verifiable property value established by a licensed appraiser selected randomly by the lender but hired by the borrower. Therefore, this information belongs to the borrower and is shared with the lender through an agreement but doesn’t need to be disclosed to the sellers.

**Mortgage Mathematics**

**Debt-to-income ratios** represent the relationship between borrowers' total gross income (for individuals) or net income (for businesses) and their debt obligations. Two ratios must be monitored during the lending evaluation.

**Identifying Monthly Debt**

* **Front End Ratio**
	+ Mortgage Payment (PITI)
		- divided by Gross Monthly Income
* **Back End Ratio**
	+ PITI plus Debt – typically reported on the Credit Reports
		- divided by Gross Monthly Income
* **What is not calculated in the DTI Ratio?**
	+ Utility Bill
	+ Grocery Expenses
	+ Insurance (other than HOI)
	+ Monthly Subscriptions

**Calculating Monthly Income**

* Calculating using the YTD
* Calculating using the Hour Rates or Salary Contract
* Verifiable for underwriting purposes by a **Verification of Employment**

**Loan Types and Ratios**

There are five primary types of mortgages, each with its benefits and features.

1. **Conventional loan**: Best for borrowers with good credit scores
	1. **DTI Recommendations** – 28% / 36%
2. **Jumbo loan**: Best for borrowers with good credit looking to buy a more expensive home
3. **Government-backed loan**: Best for borrowers with lower credit scores and minimal cash for a down payment
	1. **FHA** Housing and Urban Development ***Low and moderate-income***
	2. **VA** Department of Veteran Affairs ***Veterans with DD215***
	3. **USDA** Department of Agriculture ***Rural communities***
	4. **Ratios**
		1. **FHA 31% / 43%**
		2. **VA 41%**
		3. **USDA 29% / 41%**
4. **Fixed-rate mortgage**: Best for borrowers who’d prefer a predictable, set monthly payment for the duration of the loan for a predetermined rate and term (length).
5. **Adjustable-rate mortgage**: This is best suited for borrowers who aren’t planning to stay in this home for an extended period, prefer lower payments in the short term, or are comfortable with the possibility of potentially paying more in the future.
6. **Construction Loans –**
	1. **Bridge Loans –** serve as a loan to build, but a final loan is required once the property is fully built and has passed the necessary local government inspections.
	2. **One-Time Close Loans:** This loan closes at the beginning of the process; the funds are distributed in a pre-approved manner, and the borrower takes possession of the property once it is fully built and has passed the required local government inspections.
7. **VA Loans** –
* Instead of MIP or PMI – it has a **Funding Fee** –
	+ a percentage of the loan amount (review chart)
* DTI Ratio is 41%
* Maximum – 1% Origination Charge
1. **VA IRRL** – Interest Rate Reduction Loan (refinancing a VA loan)
2. No Cash-Out Refinancing
3. Funding Fee of 0.50%

**NON-Qualified Loan – NonQM**

These are loans that don’t fit the standard loan scenario. They require alternative documentation to obtain approval from lenders.

1. Bank Statement Loans
2. Debt Service Credit Reduction Loans
3. Commercial Loans

**HISTORY**

* **Federal Reserve System** – 1913
	+ It was established in 1913 after a series of financial panics to provide central control of the monetary system.
* **The Wall Street Market Crash of 1929** – therefore, most, if not all, of these following legislations resulted from the crash of 1929 – the beginning of the **Great Depression**.
* **Federal Home Loan Bank Act – 1932**
	+ The Federal Home Loan Bank Act is a federal law passed in 1932. According to its text, the act aimed to lower the cost of home ownership by establishing a network of government-sponsored banks and boards to provide mortgage credit.
* **Federal Deposit Insurance Corporation – FDIC 1933**
	+ The Federal Deposit Insurance Corporation is a United States government corporation supplying deposit insurance to American commercial and savings bank depositors up to $100,000
	+ Then, after the Mortgage Foreclosure Crisis of 2008, the insurance was raised to $200,000
* **National Housing Act** – 1934
	+ The underlying idea behind the program was that by **providing insurance** to lenders, more individuals would ultimately qualify for mortgages—and buy homes. Therefore, there needs to be some protection for the mortgage industry in the secondary market.
	+ Federal Housing Administration - **FHA** – 1934
		- provide mortgage insurance to families with less than 20% down payment.
		- **MIP** – Mortgage Insurance Premium
			* The Department of Housing and Urban Development (HUD) ensures the Federal Housing Administration (FHA) loans.
				+ Up Front Mortgage Insurance Premium – 1.75%
				+ Annual Mortgage Insurance – paid monthly.

Creating Liquidity in the Market

* + **Fannie Mae** 1938 – Secondary Market (GSE) Government-Sponsored Enterprise
		- Founded during the [Great Depression](https://en.wikipedia.org/wiki/Great_Depression) as part of the [New Deal](https://en.wikipedia.org/wiki/New_Deal),[[3]](https://en.wikipedia.org/wiki/Fannie_Mae#cite_note-3) the corporation’s purpose is to expand the [secondary mortgage market](https://en.wikipedia.org/wiki/Secondary_mortgage_market) by [securitizing](https://en.wikipedia.org/wiki/Securitization) [mortgage loans](https://en.wikipedia.org/wiki/Mortgage_loans) in the form of [mortgage-backed securities](https://en.wikipedia.org/wiki/Mortgage-backed_security) (MBS),[[4]](https://en.wikipedia.org/wiki/Fannie_Mae#cite_note-FNMA-About_FNMA-4) allowing lenders to reinvest their assets into more lending and in effect increasing the number of lenders in the mortgage market by reducing the reliance on locally based [savings and loan associations](https://en.wikipedia.org/wiki/Savings_and_loan_association)
			* **PMI** – Private Mortgage Insurance is for
				+ Conforming Loan Guidelines with less than 20% down payment

**Automatic Underwriting** (AU.) The software is known as Desktop Underwriter or **DU.**

* + Housing and Urban Development - HUD – 1965
		- as part of the War on Poverty – President L.B. Johnson
	+ **Civil Rights Act** of 1968
		- The Fair Housing Act, also called Title VIII of the US federal legislation, protects individuals and families from Discrimination in the sale, rental, financing, or advertising of housing.
	+ **Ginnie Mae** 1968: Secondary Market (GSE) Government Sponsored Enterprise
		- Government Insured Loans
			* Creates liquidity for FHA, USDA, and VA Loans
	+ **Freddie Mac** 1970: Secondary Market (GSE) Government Sponsored Enterprise
		- Conforming Loan Guidelines for PMI
		- **AU** is called a Loan Product Advisor or **LP.**
* **Community Reinvestment Act** – 1977
	+ The Community Reinvestment Act is a United States federal law designed to encourage commercial banks and savings associations to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods.

Self-Regulation of Mortgage Industry

**THE FOX GUARDING THE HEN HOUSE**

**Federal Regulation of the Mortgage Industry**

Despite the following regulations, the mortgage industry relied primarily on self-regulation or depended on consumers’ ability to hold the industry representatives accountable until the SAFE Act of 2008 forced the state government to hold loan officers accountable to some higher standard and regulations and created a federal registry of licenses to prevent a similar crisis from occurring like that of 2008. Before the SAFE Act, loan officers were licensed by banks, mortgage brokers, and others without specific guidelines. Therefore, only people within the “circle of influence” of bankers, loan officers, or mortgage brokers became loan officers.

**The “Wild West” and the Discriminatory Behaviors**

The following regulations were established to address the misbehavior of individuals or groups that intentionally or unintentionally cause financial harm to borrowers. These regulations have been implemented to create guardrails against intentional harm and prevent unintentional harm to borrowers as you assist them in obtaining a mortgage.

**Redlining**

* Primary Racial and Sexual Discrimination by limiting where families could buy homes.

**Predatory Lending**

* Targeting low to moderate-income first-time home buyers in urban communities but not exclusively.

**Market Crash of 2007**

* Overcompensation for discriminatory activities by lenders led to the industry being turned on its head.

**Mortgage Modification Crisis of 2025**

* Many mortgages in legally foreclosed status (3 months with non-payment) have been bailed out by the government since 2008.

**REGULATIONS**

[**Regulation B - ECOA**](https://www.consumerfinance.gov/rules-policy/regulations/1002/1/#de38a82277268f404065254dafd5d4914192d0c3b36d54d4642f206f) **- Equal Credit Opportunity Act - 1975**

* **“Be Equal”** and it:
	+ Regulation B prohibits creditors from requesting and collecting specific personal information about an applicant that has no bearing on the applicant’s ability or willingness to repay the credit requested and could be used to discriminate against the applicant. Prohibits creditors from discriminating against credit applicants on the basis:
1. race, color, religion, national origin, sex, marital status, or age,
2. can’t discriminate because an applicant receives income from a public assistance program or
3. Can’t discriminate because an applicant has, in good faith, exercised any right under the Consumer Credit Protection Act.
* Under ECOA, the **adverse action notice** must either disclose the reasons for the denial within 30 days or allow the borrower 60 days to request that information.

**Appraisal** – ***if the loan is approved –***

* The lender must give the borrower a copy of the appraisal at least 3 days before closing.

**Appraisal** – ***if the loan is denied -***

* The consumer has up to 90 days to request a copy of the appraisal and
* The lender has 30 days to provide a copy of the appraisal.

**Regulation C - Home Mortgage Disclosure Act (HMDA) 1975**

* ***See the 1975 HMDA by March 1st of each year.***
* Found in Section 8 of the 1003 **– Demographic Information**
* The previous calendar year’s annual report is due on March 1st.
* HMDA data to prevent redlining and blockbusting.

**These two rules caused modification of the mortgage industry after the Mortgage Crisis of 2007**

**Regulation N – MAP Rule –** Mortgage Acts and Practices Advertising Rule – 2011

* ***“No MAP” Rule of 2011*** – (Mnemonics)
* The MAP Rule Advertising Rules (MAP Rules) are designed to prohibit misrepresentations in commercial communication regarding mortgage products. Under the MAP Rules, any person engaging in commercial communications regarding mortgage products must retain records of all materially different communications. This Rule includes internet, radio, billboards, print, and television advertising.
	+ The CFPB and FTC established **Reg N** to enforce the Credit CARD Act of 2009 and the Dodd-Frank Act of 2010.
	+ Reg N applies to persons subject to FTC regulation, but the **FTC** and the **CFPB** share enforcement authority.
	+ Regulation N violations include false advertising and misleading claims in advertising.

**Regulation O – MAR Rule**

* ***O MAR Rule of 2010*** (Mnemonics)
* **The Mortgage Assistance Relief, or the “MAR Rule,” was added in 2010 and** designed to protect consumers by banning potentially deceptive practices in mortgage relief. The MARS rule and Regulation O were implemented in 2010 in response to widespread consumer abuse during mortgage distress.
* **MAR** made it illegal to charge upfront fees and requires specific disclosures in ads for mortgage assistance relief providers. These rules protect distressed borrowers from foreclosure rescue schemes.
* **REG O** prohibits a member bank from extending credit to an insider that is not made on substantially the same terms as or made without following credit underwriting procedures that are at least as stringent as comparable transactions with persons that are non-insiders and not employees of the bank.

**Regulation P -** [**Gramm-Leach-Bliley Act**](https://www.youtube.com/watch?v=yGf3EOVhAPs) **– 1977 – SPF – AKA Financial Service Modernization Act**

**Professor Gramm 1977** (Mnemonics)

1. **Safeguarding—This**is to ensure that entities covered by the Rule maintain safeguards to protect the security of customer information.
2. **Pretexting—This Rule prevents employees or business partners from collecting customer information, such as through social engineering techniques, under** pretenses.
	1. *Protect customers from pretenders.*
3. **Financial Information (Privacy)** - Governs the treatment of non-public personal information about consumers by financial institutions.
	1. *Opt-Out Options – if you don’t opt out, you are automatically Opt-In.*

**Regulation V – Fair Credit Reporting Act (FCRA) 1970**

* ***VaCRA of 1970*** (Mnemonics)
* **Adverse Action Notice** – to be provided to a borrower within 30 days of a credit decision if the borrower’s credit is the reasoning for all or part of the decision to deny the loan application.
* **Credit reports are available when one of the following occurs:**
	+ Adverse action notice.
	+ Victims of identity theft should place a fraud alert in their file.
	+ The file contains inaccurate information because of fraud.
	+ It is on public assistance.
	+ Is unemployed and expects to apply for employment within 60 days.

**FACTA –** Fair and Accurate Credit Transaction Act amends FCRA in 2003

* The Fair and Accurate Credit Transaction Act, or ***FACTA, is an amendment to FCRA*** and adds provisions to improve the accuracy of consumers’ credit-related records.
* This law specifically aims to prevent identity theft by providing consumers with access to their credit information.
* **Free Annual Credit Report –** www.AnnualCreditReport.com
	+ Allowing Consumers to monitor and correct errors in reports annually.
* **The disposal Rule under FACTA dictates how lenders should dispose of consumer information, including** a requirement for lenders to develop reasonable measures to protect against unauthorized access.
	+ The Disposal Rule is why you are required to shred documents.

[Regulation X – REXPA](https://www.youtube.com/watch?v=KU7IKMY3qF0) – **Real Estate Settlement Procedure Act (RESPA) - 1974**

* 1 to 4 **Owner Occupied Residential Properties** –
* Section 6: **Mortgage Servicing** – 15 DAYS prior and 15 DAYS after
	+ Suppose the right to service your mortgage loan gets transferred to a new servicing entity. In that case, you’ll generally get two notices: a notice from your current mortgage servicer at least 15 days before the effective transfer date and a notice from the new servicer not more than 15 days after the effective date of the transfer.
* Section 8: **NO Kickbacks, fee-splitting, and unearned fees, upfront or advance fees** – except for nominal promotional gifts offered to everybody generally.
	+ **Violations** - If someone violates **Section 8 of RESPA**, they may face a fine of up to $10,000, imprisonment for up to 1 year, or both.
	+ They also may be required to make payment to damaged parties up to **3 times the original fee** that violated the section and
		- If more than one individual is involved, all parties are jointly and separately liable to the damaged borrower.
* Section 9: **Can Not Require the Use** of a particular title company.
* Section 10: **Monitors Escrow Account Regulations** –
	+ **2 months or 1/6** of the annual **tax** payment and annual insurance premium
	+ Annual Escrow Analyses – Once a Year
		- The escrow agent must reimburse any excess charges of $50.

**Initial Loan Estimate** – must be provided within 3 days after completing a full application.

* The **initial Loan Estimate** expires **ten (10) business days** from the date the creditor provides the LE to the consumer unless they expressly provide their Intent to Proceed.
* There are **three fee** tolerances:
	+ Zero, 10%
	+ cumulative, and
	+ no-tolerance.

**Final Loan Estimate** – must be provided 4 days before closing the loan.

**Closing Disclosure** – must be provided 3 days before closing the loan.

[Regulation Z – TILA](https://youtu.be/VAwFUCdvRWg), the Godzilla – 1968

* The Ability-to-Repay/**Qualified Mortgage Rule** (ATR/QM Rule) requires a creditor to reasonably determine a consumer’s ability to repay a residential mortgage loan according to its terms.
* CREDIT – inform the consumer of the complete cost of credit.
	+ Principal and Interest and other fees
	+ The Loan Officer collects credit fees before TILA Disclosures
* APR – Effective Rate
* If the APR increases by more than **1/8th of a percent (.125)**, TRID requires a new disclosure and a waiting period to be issued.
* ADVERTISING
* 3-Day Right of Rescission for an Equity Loan or Refinances
	+ The Rescission Period starts the day after notification.
	+ The Rescission Period ends on the 3rd day at midnight.
	+ It only takes one borrower to rescind.
	+ Each borrower must receive two (2) copies of the Right to Rescind
		- The Right to Rescind is extended by three (3) years if not properly notified.
	+ Right of Rescission is for more than four installments (payments)
* TILA Disclosures
	+ Loan Estimate and Closing Disclosure
	+ CHARM Booklet – Consumer Handbook on Adjustable-Rate Mortgages
	+ On the Line Disclosure – HELOC or Refinance
* The TILA Disclosure **must be kept** for two (2) years.
	+ The Loan Estimate must be retained for a minimum of three (3) years.
	+ The Closing Disclosure must be kept for five (5) years.

**Penalties**

* $5,000 per day for violation of TILA
* $25,000 per day for reckless violation of TILA
* $1 million per day for knowingly violating TRID.

**Home Ownership and Equity Protection Act (HOEPA) 1994**

HOEPA includes a **three-day** “cooling-off” period between when borrowers are furnished with disclosures and when they are obligated under the loan terms.

* Section 32 – High-Cost Loans
* Section 35 – High-Price Loans
* If the APR is higher than the APOR

**Homeowner Protection Act (HPA) – 1998**

* AKA the PMI Cancellation Act
	+ This regulates the cancellation of Private Mortgage Insurance
	+ Cancelation Required after LTV is at 78%
* The Consumer Financial Protection Bureau monitors HPA

[**SAFE Act 2008**](https://mortgage.nationwidelicensingsystem.org/SAFE/Pages/default.aspx#:~:text=The%20SAFE%20Act%20is%20designed,state%2Dlicensed%20mortgage%20loan%20originators.) **–** *Secure and Fair Enforcement Act creates the NMLS.*

* The SAFE Act was designed through federal legislation to enhance consumer protection and reduce fraud by setting minimum standards for licensing and registering state-licensed mortgage loan originators.
* **The states license all other mortgage loan originators.**
* Under the SAFE Act, anyone who has had a license revoked under any government jurisdiction is prohibited from obtaining an MLO license again.
* Under the SAFE Act, **individuals negotiating loans for their immediate family members** are exempt from licensure as an MLO.
* **The state regulatory authority outlines Surety Bond and Net Worth requirements** at their discretion. The SAFE Act does not outline a minimum requirement.

**Dodd-Frank Act** (2010) – creates the Consumer Financial Protection Bureau (CFPB)**.**

*Dodd-Frank Wall Street Reform and Consumer Protection Act creates the Consumer Financial Protection Bureau.*

* **The Consumer Financial Protection Bureau was created to implement** regulations under the SAFE Act.
	+ Regulates MLOs’ Activities
		- New Regulations and a New Sheriff
			* Monitors and Supervisor MLOs
			* Investigate Consumer Complaints
			* Investigate and enforce regulations
			* Impose Fines as Determined by Regulations.
			* **But** they can’t prosecute for crimes.
				+ Only refer to appropriate authorities.
* **Ability to Pay**
	+ The ability to repay is an individual’s financial capacity to repay a debt. In particular, the phrase “ability to repay” was used in the 2010 [Dodd-Frank Wall Street Reform and Consumer Protection Act](https://www.investopedia.com/terms/d/dodd-frank-financial-regulatory-reform-bill.asp). It describes the requirement that mortgage originators substantiate that potential borrowers can afford the mortgage. This provision of Dodd-Frank is often referred to as the Ability-to-Repay Rule, and “ability to repay” is sometimes abbreviated as ATR.

**Mortgage Broker vs. Mortgage Lender**

**Primary market – dealing directly with the borrower/s**

* **Mortgage Broker** – match maker – don’t fund their loan – don’t underwrite their loans.
	+ A broker can represent various lenders and, therefore, a broader range of products.
* **Mortgage Lender** – Processes and underwrites the loan.
	+ Approved, closed, and funded it.
	+ They only deal primarily with their programs.
* **Wholesale Lenders** – work with Mortgage Brokers.

**Secondary Market –** These entities provide liquidity in the mortgage market by purchasing loans after they have been closed.

* The loans initiated within the “Primary Market” will eventually be sold in the Secondary Market.
	+ Freddie Mac – the AUS is **LP**
	+ Fannie Mae – the AUS is **DU**
	+ Gennie Mae

**Adjustable Rates Loan ARMS**

The “Fully Indexed Rate” will be set in the following manner:

* Index – set by the lender (no more LABOR)
* Margin is assigned at loan origination and stays the same for the loan term.

The **Initial rate** is a **Fully Indexed Rate**

**Adjustment Period** -

* Periodic change of rates

**Interest Rate Caps**

* First Adjustment Cap
* Subsequent Adjustment**s** Cap
	+ The lender will apply this subsequent cap adjustment every time an adjustment occurs, but it will never exceed the Lifetime Adjustment.
1. Lifetime Adjustment Cap

**Payment Caps**

* Percentage of the borrower’s monthly payment
* This cap may cause a Negative Amortization

Example –

* Initial rate (rate and margin) – 2.25% and
* Margin – 1.5%
* Interest Rate Caps 3/2/8 = First Adjustment**/**All Subsequent Adjustments**/**Lifetime Cap.
* First Adjustment Index – 1%
* 1st Subsequent Adjustment– 3.25%
* 2nd Subsequent Adjustment – 9.5%

Therefore, what is the rate at these intervals?

* **First Adjustment**– with a cap of 3%
	+ Since the margin is 1.5 and the first Adjustment is 1, this = 2.5, which doesn’t exceed the three cap; therefore, the first adjusted rate will stand at 2.5% as the total index rate at the first Adjustment
* 1st Subsequent Adjustment – **with a cap of 2%**
	+ 1.5 + **3.25** = 4.75 – 2.5 (the first fully adjusted rate) = 2.25 which is more than the 2 allowed
	+ Therefore, instead of 4.75, the full index rate, the first adjusted rate of 2.5, must be modified by only two percentage points.
	+ Therefore, the 1st Subsequent Adjustment is 4.5% rather than 4.75%
* 2nd Subsequent Adjustment – **which is also capped at 2%**
	+ 1.5 + 9.5 = **11%** or the 2nd Subsequent rate change possibility – BUT
	+ Since **SUBSEQUENT** increases are capped by 2%
	+ This 2nd subsequent rate is capped at 6.5% = 2.5 from previous adjustment plus 2%

The Lifetime Rate must be considered in all adjustments.

* Lifetime Adjustment – Cap is 8% above the initial rate.
	+ Initial Rate of 2.25% + the Lifetime cap of 8% = 10.25%
	+ Therefore, NO subsequent adjustments can exceed 10.25%

**TYPES OF ARMS**

Hybrid, Intertest Only, and Payment Option ARMS

1. **Hybrid ARM**
	1. 3/1; 5/1; 7/1 or 10/1 ARMS
	2. Fixed for the first number**/**Adjusted by the second number.
2. **Interest Only ARM**
	1. Only pays for the Interest earned during a specified period.
3. **Payment Options ARMS**
	1. Interest Only – ***causing negative amortization.***
	2. Minimum payment – below the interest payment, ***causing negative amortization.***
	3. Combined payment – like a 30-year fixed-term

**Automatic Underwriting of Conforming Loans**

Automatic Underwriting Process – aka AU

* **Fannie** AU is called Desktop Underwriter or DU
* **Freddie** AU is called Loan Product Advisor or LP

**ETHICS**

* **Disparate Impact** - occurs when a *facially neutral policy or practice* is applied equally to all applicants. Still, the policy or practice disproportionately excludes or burdens certain groups of people on a prohibited basis.
* **Disparate treatment** - occurs when a lender treats a credit applicant differently based on one of the prohibited bases.
* **Overt Discrimination** – is when a lender openly discriminates on a prohibited basis.
* **Chunking** – selling properties at artificially inflated prices, pitched as investment opportunities to naïve real estate investors who are promised high returns and loan risks. The third party helping the investor may use the investor’s information to apply for loans at multiple institutions and then retain the proceeds, leaving the borrower with multiple loans that cannot be repaid.
* **Churning** involves repeatedly refinancing a loan with additional closing costs and fees in addition to the original principal amount.

**Yield Spread Premium**

* YSPs are paid to the mortgage broker to give a borrower a **higher interest rate** on a loan in exchange for **lower up-front costs**, generally paid in origination fees, broker fees, or discount points.
* A yield spread premium (YSP) is a form of compensation that a [mortgage broker](https://www.investopedia.com/terms/m/mortgagebroker.asp), acting as the intermediary, receives from the originating lender for selling an interest rate to a borrower above the lender’s [par rate](https://www.investopedia.com/terms/m/mortgage_par_rate.asp) for which the borrower qualifies. The YSP can sometimes be applied to cover costs associated with the loan, so the borrower isn’t on the hook for additional fees.
* While YSPs can have benefits, there are also some risks to consider:
	+ The borrower might end up paying more.
	+ The total YSP might not be immediately apparent.
* An ethical loan officer would provide adequate information so the borrower can make the best decision for their circumstances. This would generate more leads from customers who obtain quality information and the appropriate financial solution to their investment.

**Reapplying for a Mortgage after a Personal Financial Crisis**

**Foreclosure**: This refers to the number of years a borrower typically needs to wait before they can attempt to obtain a mortgage after a financial crisis has prevented them from complying with their previous mortgage terms and led to foreclosure.

* **VA Loans** 2 Years
* **FHA Loans** 3 Years
* **Conventional Loans** 7 Years

**Chapter 7 Bankruptcy:** The number of years a borrower typically needs to wait before attempting to obtain a mortgage after filing and finalizing Chapter 7 Bankruptcy, which wipes away all debts if the individual or business qualifies.

* **VA Loans** 2 Years
* **FHA Loan** 2 Years
* **Conventional Loans** 4 Years

**Chapter 13 Bankruptcy:** These are the number of years a borrower would typically need to wait before they can attempt to obtain a mortgage after a financial crisis that led them to file and finalize Chapter 13 Bankruptcy, where they are restructured in a manner that would allow the repayment of all the debts if the individual or business qualifies.

* **VA** 2 Years
* **FHA Loan** 1 Year after discharge
* **Conventional** Eligible after 4 Years from filing and 2 years from discharge

**Short Sale:** These are the number of years a borrower typically needs to wait before attempting to obtain a mortgage after a financial crisis that led them to dispose of their previous mortgage obligation through a Short Sale, where they sell their previous mortgage at a loss to the lender.

* **VA Loans** 2 Years
* **FHA Loans** 3 Years
* **Conventional Loans** 4 Years

**Hardship Letters**: Typically, the new prospective lender will require a letter of explanation detailing the circumstances that led the borrower to use any of the above options to get relief from their debt obligations. Many lenders will require this letter to be included in their file as part of the application process. The letter should contain three essential elements in brief statements:

1. What led to borrowers falling into the financial crisis?
2. What did the borrowers do to make the necessary corrections in dealing with the debt obligations?
3. What will the borrower do to prevent the likelihood of this financial crisis from occurring again?

**Sample and Practice Tests**

1. [**Mometrix Test Preparation**](https://www.mometrix.com/academy/nmls-practice-test/)
2. [**Quizlet – NMLS Practice Test – Hard Questions**](https://quizlet.com/test/nmls-practice-test-hard-questions-171904098)
3. [**Quizlet – Several NMLS Sample Tests**](https://quizlet.com/search?query=NMLS)