

# Mortgage Shopping 101

## Definitions:

**Correspondent Lender:** An entity that funds its own loans with a line of credit and then sells these loans to the secondary market in a bulk package.

**Broker:** An entity that seeks out the best possible bank for a borrower and processes the mortgage application for a fee.

**Bank:** An entity that through a wholesale division funds loans for a broker or correspondent lender to avoid the expense of a retail operation. Retail operations are very expensive.

**Secondary market:** Where a bank or correspondent lender takes closed loans and sells them to recover the principal that was lent out to the borrower. Secondary markets are Fannie Mae, Freddie Mac or Wall Street investment banks.

**Borrower Credit:** The percentage of the loan that is offered to the borrower at each individual rate. The higher the rate the more credit is available. The lower the rate the less credit that is available. (See rate sheet example)

**Service Release Premium (SRP):** The Percentage of the loan that is paid to a correspondent lender or bank for delivering the loan to the secondary market. The higher the rate the more SRP paid. The lower the rate the less SRP paid.

**Third Party Fees:** Appraisal, Origination Fee to the bank, Title Services Fees, Recording Fees, Transfer Taxes, Escrow Deposits, and Daily Interest Charges.

**Loan Level Price Adjustment (LLPA):** The percentage of the loan that is reduced from the borrower credit or SRP for various reasons. (See fee adjustment table)

**Loan to Value (LTV):** The loan amount divided by the value of the appraisal or purchase price which ever is lower.

**Changed Circumstance:** Any change in the loan which changes the terms of the GFE. Since LLPA's are based on the LTV, a higher or lower appraisal could change loan terms.

**Cost to Cure:** A dollar amount the originator is responsible for if the borrower's closing costs exceed the disclosed amount.

## Regulatory rules to protect the borrower:

A broker must give the borrower the lowest rate possible. If the borrower credit exceeds the third party fees, the broker **must** give the borrower the lower rate.

A bank **must** do compliance on a broker's GFE before allowing the loan to proceed. A bank is responsible for delivering a changed circumstance to the borrower with 3 days.

A broker must disclose third party fees to within 10% of the actual amount. If at closing the third party fees exceed the disclosed amount by more than 10%, broker **must** provide a cost to cure.

Origination fees and transfer taxes may **not** change once disclosed to a borrower. A cost to cure **must** be given for the full amount that exceeds the disclosed amount on the GFE.

## How interest rates work:

Below is an example of a rate sheet we are looking at when we quote your loan.

Rate Sheet		
Rate	30 day lock	45 day lock
4.250%	COST OF .5%	COST OF .625%
4.375%	CREDIT OF .5%	CREDIT OF .375%
4.500%	CREDIT OF 1.125%	CREDIT OF 1%
4.625%	CREDIT OF 1.625%	CREDIT OF 1.5%
4.750%	CREDIT OF 2.5%	CREDIT OF 2.375%
4.875%	CREDIT OF 3.25%	CREDIT OF 3.125%

The percentages shown above change on a daily basis based on the secondary market. Using the rate sheet, let's assume a purchase with a 740 credit score and 25% down:

### Example 1

250000 @ 4.5% for 30 days would be a credit of \$2812.50 (250000 X 1.125%)

250000 @ 4.625% for 30 days would be a credit of \$4062.50 (250000 X 1.625%)

These credits appear in Box 2 of your GFE.

CORRESPONDENT LENDERS AND BANKS ARE **NOT** REQUIRED TO SHOW ANY CREDITS IN BOX 2. While they receive a percentage of the loan (SRP) from the secondary market, since they package their loans in bulk they are not required to disclose on an individual loan transaction. The SRP belongs to the bank or correspondent lender.

## Loan Level Price Adjustments (LLPA):

There are about 80 different LLPAs. They are assessed by the secondary market and subtracted from the borrower credit or SRP. Your mortgage broker will help you identify if your transaction is subject to any LLPAs. Below are the basic ones based on credit score and LTV:

	<=60%	60.01% -	65.01% -	70.01% -	75.01% -	80.01% -	85.01% -	95.01% -	>95%
		65%	70%	75%	80%	85%	90%	95%	
FICO >=740	+0.250	-	-	-	-0.250	-0.250	-0.250	-0.250	NA
FICO 720 - 739	+0.250	-	-	-0.250	-0.500	-0.500	-0.500	-0.500	NA
FICO 700 - 719	+0.250	-0.500	-0.500	<b>-0.750</b>	-1.000	-1.000	-1.000	-1.000	NA
FICO 680 - 699	-	-0.500	-0.500	-1.250	-1.750	-1.500	-1.250	-1.250	NA
FICO 660 - 679	-	-1.000	-1.000	-2.000	-2.500	-2.750	-2.250	-2.250	NA
FICO 640 - 659	-0.500	-1.250	-1.250	-2.500	NA	NA	NA	NA	NA
FICO 620 - 639	-0.500	-1.500	-1.500	-3.000	NA	NA	NA	NA	NA

Using the same rate sheet above let's factor in a LLPA. Let's assume a purchase with a 701 credit score and 25% down:

### Example 2

250000 @ 4.5% for 30 days would be a credit of \$937.50 (250000 X .375%)

250000 @ 4.625% for 30 days would be a credit of \$2187.50 (250000 X .875%)

Comparing Ex 1 and Ex 2 the original credit of was reduced by .75% because of the credit score and down payment.

## Compensation Correspondent Lenders and Banks vs. Brokers:

Banks and Correspondent lenders receive SRP as their compensation after the loan closes. The amount is unknown to the borrower since it is not disclosed on the GFE. Brokers charge a flat origination fee upfront. The origination fee is charged in Box 1.

## Top 5 Reasons to use AFI Financial:

1. Transparency- you know exactly what your paying to originate your loan
2. Track Record- Since 2003 we have provided the lowest rates and fees
3. Experience- thousands of transactions closed
4. Service- your loan is handle in one office, not moved from department to department
5. Price- Box A of the GFE will **always** be lower than the competitors