



20 Hours SAFE Comprehensive: Financing Residential Real Estate

COURSE LESSON OBJECTIVES

LESSON TOPIC: Finance and Investment

Upon completion of this lesson, each student will be able to:

- Identify the key characteristics of any investment
- Explain how home buyers use loans to purchase homes, and how the principles of investment affect residential financing
- List the types of investments (ownership, debt, and securities)
- Distinguish between the features and benefits of each investment type
- Discuss how the key characteristics of investments (safety, liquidity, and yield) interact to affect investment risk
- Discuss the concept of diversification and how it affects risk
- Describe the types of risks assumed by mortgage lenders, including risk of default, risk of loss, interest rate risk, and prepayment risk
- Summarize market interest rates and explain how they affect mortgage lending

LESSON TOPIC: The Primary and Secondary Markets

Upon completion of this lesson, each student will be able to:

- Describe how lending takes place in the primary market
- Discuss the effect of real estate cycles on real estate markets
- Explain the relationship between the primary and secondary markets, including how mortgage funds flow from investors to lenders to home buyers
- List the major secondary market agencies and explain the concept of a government-sponsored enterprise (GSE)
- Explain mortgage-backed securities and their function in the secondary market
- Discuss the importance of underwriting guidelines established by secondary market agencies
- Give examples of the benefits of secondary market agencies and their efforts to increase the availability of mortgage funds
- Summarize the most recent developments with the GSEs in the wake of the mortgage and economic crisis

LESSON TOPIC: The Mortgage Industry

Upon completion of this lesson, each student will be able to:

- Explain the basic steps in the mortgage process
- Distinguish between different types of loan originators and the ways they help borrowers get funds
- Describe new government regulations affecting loan originators at both the national and state level
- List the different types of mortgage lenders and the ways their businesses have changed over time
- Discuss important historical events in the mortgage industry, including the Depression and the savings and loan crisis, and the government's response to these events
- Summarize the factors leading up to the mortgage and financial crisis, and the impact it may have on the mortgage industry

LESSON TOPIC: Government Policy and Real Estate Finance

Upon completion of this lesson, each student will be able to:

- Recall the two ways in which the federal government influences the cost of borrowing money
- Define fiscal policy and the branches of government that determine and implement it
- Describe how government spending and the federal deficit are covered using debt financing
- Explain how taxation is used to carry out social policy with respect to real property ownership
- Summarize the historical reasons for government regulation of depository institutions
- Outline the organization of the Federal Reserve System
- Discuss the relationship between the Federal Reserve's actions, inflation, and the health of the economy
- List the tools used by the Federal Reserve to implement monetary policy

LESSON TOPIC: Finance Instruments

Upon completion of this lesson, each student will be able to:

- Identify the parties to and the basic provisions of a promissory note
- Distinguish between a straight note and an installment note
- Explain the purpose of having a security instrument accompany a loan
- Define hypothecation and its relationship to the possession of property used as collateral
- Compare the parties involved in a mortgage with those involved in a deed of trust
- Contrast the advantages of judicial foreclosure and non-judicial foreclosure
- Describe the three basic alternatives to foreclosure
- List typical clauses found in real estate finance instruments and describe their effects
- Discuss how an alienation clause affects the assumption of a loan
- Name the major types of mortgage loans and identify their characteristics

LESSON TOPIC: Basic Features of a Residential Loan

Upon completion of this lesson, each student will be able to:

- Identify the basic features of a mortgage loan, including amortization, repayment period, loan-to-value ratio, mortgage insurance or guaranty, and fixed or adjustable rate
- Explain how different forms of amortization work, and the concept of a balloon payment
- Discuss the relationship between a loan's repayment period and its interest rate
- Calculate a loan-to-value ratio
- Explain the purpose of mortgage insurance or loan guaranties
- Give an example of the restrictions a primary lender might place on secondary financing
- Name the issues adjustable-rate mortgages were designed to address
- List the features of an adjustable-rate mortgage, including those used to control interest rate and payment adjustments
- Describe the circumstances under which negative amortization can result

LESSON TOPIC: The Financing Process

Upon completion of this lesson, each student will be able to:

- Distinguish between prequalification and preapproval
- Perform the steps in the prequalification process
- Understand loan costs, such as origination fees and discount points
- Discuss the purpose and the requirements of the Truth in Lending Act and RESPA
- Describe the steps in the loan application process
- Understand the reasoning behind the underwriting process
- Explain the purpose of and the procedures used in the closing process

LESSON TOPIC: Qualifying the Buyer

Upon completion of this lesson, each student will be able to:

- Describe the basic steps in the underwriting process
- Understand the purpose of underwriting (qualifying) standards
- Define the different classifications used in an automated underwriting report
- Discuss an underwriter's main considerations: credit reputation, income, and net worth
- Define quantity, quality, and durability of income
- List the types of income that qualify as stable monthly income
- Explain how to use income ratios to measure the adequacy of income
- Calculate net worth using an applicant's assets and liabilities
- Understand credit history and credit scores
- List other underwriting considerations, such as LTV, repayment period, and property type
- Summarize the concepts of subprime lending and risk-based pricing

LESSON TOPIC: Qualifying the Property

Upon completion of this lesson, each student will be able to:

- Explain the role of an appraisal in determining a property's market value
- Describe how loan-to-value ratios affect the lender's risk
- List the steps in the appraisal process
- Discuss the three basic methods for estimating a property's value: sales comparison, replacement cost, and income
- Define the five elements that are considered when evaluating a property's suitability as a comparable
- Understand the difference between replacement cost and reproduction cost
- List the three different types of depreciation
- Calculate a property's value using a gross income multiplier
- Prevent and/or respond to problems caused by a low appraisal

LESSON TOPIC: Conventional Financing

Upon completion of this lesson, each student will be able to:

- Distinguish between conforming and nonconforming loans
- List the key features found in most conventional loans
- Understand conforming loan limits and why they are important
- Summarize the concept of risk-based loan fees
- Explain when private mortgage insurance is needed and when it can be canceled
- Discuss the restrictions commonly placed on secondary financing
- Calculate the debt to income ratio and housing expense to income ratio
- List compensating factors that may justify loans with higher ratios
- Describe ways to make a loan more affordable, such as buydowns and accelerated payment plans

LESSON TOPIC: FHA Insured Loans

Upon completion of this lesson, each student will be able to:

- Discuss the purpose of the FHA-insured loan program
- Identify key rules governing FHA-insured loans
- List the different types of FHA loan programs
- Understand the role of maximum loan amounts, and how they vary by location
- Discuss how a borrower can meet the minimum cash investment requirement
- Calculate upfront and annual mortgage insurance premiums
- Identify when secondary financing may be used in the context of an FHA loan
- Explain when an FHA loan may be assumed
- Describe the underwriting requirements for an FHA loan, including the income ratios

LESSON TOPIC: VA Guaranteed Loans

Upon completion of this lesson, each student will be able to:

- List the characteristics that distinguish VA-guaranteed loans
- Describe the criteria for eligibility for a VA loan
- Define the role of the VA guaranty and how it affects the VA loan amount
- Illustrate how a substitution of entitlement works
- Calculate how much of a down payment will be needed for a particular loan
- Describe VA underwriting guidelines
- List compensating factors that might help a marginal applicant obtain a VA loan

LESSON TOPIC: Seller Financing

Upon completion of this lesson, each student will be able to:

- Discuss when and why seller financing might be used and how it works
- Define “seller second” and describe how it can be used to supplement either a new loan or an assumption
- Understand how seller financing might be used as primary financing
- Describe how a land contract differs from a mortgage or deed of trust
- Explain how wraparound financing works
- List alternatives to seller financing, such as buydowns or lease arrangements
- Summarize an agent’s responsibilities in a seller-financed transaction

LESSON TOPIC: Fair Lending and Consumer Protection

Upon completion of this lesson, each student will be able to:

- Describe the purpose of the Equal Credit Opportunity Act
- List discriminatory acts and protected classes under the Fair Housing Act
- Explain the goals of the Community Reinvestment Act
- Discuss the role of the Home Mortgage Disclosure Act in preventing redlining
- Summarize the purpose of the Truth in Lending Act
- Describe TILA’s disclosure requirements, such as the annual percentage rate and total finance charge, and state how the right of rescission works
- Explain the disclosure requirements and prohibited practices provisions in the Real Estate Settlement Procedures Act
- Define predatory lending and give examples of predatory practices
- Summarize the laws regulating predatory lending