

Mortgage Lending Functions

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MORTGAGE BANKING
SOLUTIONS

Operational Overview

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Audience

This presentation is created to describe the basic operational functions of a mortgage lending operation for persons that are new to mortgage lending activity.





OUTLINE

- The requirements to be a Mortgage Lender
- Functional steps of mortgage lending
- The Underwriting structure
- The versions of a Mini-Correspondent
- Key Terms

MBS has helped companies achieve every stage



Requirement of a Lender 1 of 2

- The Lender's CEO manages all the lending functions
- A Lender has funding relationships
 - Warehouse banks to fund the loans
 - Investors purchased the closed loans
- Underwriting is conducted:
 - Delegated (Lender makes credit decision following Investor's rules)
 - Non-delegated (Investor make credit decision for Lender)
- Loans Closes in the Originator's name
 - CD shows the name of entity taking application
 - Promissory Note shows the Lender's name as the payee



Requirement of a Lender 2 of 2

- Lender has relationship with Investor
- Investor buys the loans based on lock registration
- Lender assumes Repurchase Risk
- Repurchase Risk exists from contract breach
- Lender has a “Loan Level” accounting system
- Accounting produces profit per loan reports
- Lender has a Compliance Management System (“CMS”)



The Lending Function 1 of 2

- Application –
 - complete Form 1003 or URLA,
 - provide LE disclosure
- Processing – validate content of Form 1003
- Lock registration –
 - best efforts commitment or
 - Sell forward TBA-MBS for hedge
- Underwriting - verify meets investor guideline
- Loan Closing/Funding – warehouse line borrowed
- Accounting cycle begins with Loan Funding



The Lending Function 2 of 2

- Shipping – deliver loan documents to investor
- Loan Sale/Purchase
 - Investor sends purchase wire to warehouse bank
 - Warehouse bank pays off line, deposits net gain
- Accounting cycle complete
 - Loan Sold
 - Report profit per loan, branch, LO, product, etc
- Interim Servicing for First Payment –
 - IRS 1098
 - FDCPA & CFPB QWR compliance



Underwriting Structure

Conventional underwriting (Fannie & Freddie)

- Delegated
- Non-delegated (Investor makes credit decision)

Government underwriting (HUD related)

- FHA– Direct Endorsement (DE & CHUMS)
 - Application must be taken by an employee of the lender
 - Underwriting must be performed by employee of lender
 - or through an Authorized Agency
- For non-direct endorsement FHA activity
 - Application taken by employee of a sponsored broker
 - File is sent to an FHA DE lender for closing



Mini-Correspondent vs Table Funding

Originally - Mini Corr – Table Funding

- The warehouse bank and investor are the same entity

Today - Mini-Corr has a warehouse line

- The Mini-Corr has independent investor
- The Mini-Corr is the Lender
- The Lender is non-delegated (Investor makes credit decision)
- The Investor performs the underwriting function
- The Lender has limited repurchase risk
- The Loan closes in the lender's name
- ***Escrow funds must be recorded in Accounting***
- ***Escrow funds must be segmented into a unique bank account***
- The Investor purchases the loan from the lender



Key Terms

Mortgage Banker = Lender / Retail

Mortgage Broker = Originator / Wholesale

Gain on Sale:

- Premium or Discount plus SRP

- SRP - Servicing Release Premium (true value ~1%)

- MSR – Mortgage Servicing Right (approximately 1%)

Servicing Value:

- Present value of the net future cash flows including:

 - Service fees of 25bp for agency to 44bp for GNMA

 - Escrow balance - value extraction

Servicing Risks:

- Prepayment, Delinquency and Advance, Foreclosure



Road Map to Success

MBS can provide you with your
Road Map to Success to
Achieve any Stage of
Mortgage Banking

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