Chapter 19 Summary

Section 8 Financing Real Estate: Financing Market and Loan Programs

Texas Law of Contracts

The primary mortgage market is made up of:

- Savings Associations
- Commercial Banks
- Credit Unions
- Insurance Companies
- Investment Groups
- Mortgage Bankers
- Mortgage Brokers

A mortgage is a financing instrument that creates a lien against a property. A promissory note establishes legal evidence of the debt incurred. A mortgage always needs a note to be legally valid.

A monthly mortgage payment is generally made up of four parts: principal, interest, taxes and insurance. Lenders refer to this as PITI.

If the purchaser defaults, the lender has the right to bring legal action through the courts to satisfy the debt. This is done through foreclosure – the process that leads up to selling the property that was pledged to secure the debt.

In order to increase their investment, lenders often charge other fees when the borrower gets the loan. These fees are loan origination fee and points or discount points.

Buyers can find out how much of a loan they can qualify for through prequalification or preapproval. Lenders qualify buyers using what are called qualifying standards or loan underwriting standards.

Underwriting will determine whether a borrower and property meet the minimum requirements established by the lender, the investor, or the secondary market (into which the lender will probably sell the loan). To qualify for a mortgage loan, a borrower must meet the lender's qualifications in terms of income, debt, cash, and net worth. In addition, the borrower must demonstrate sufficient creditworthiness to be an acceptable risk.

Several types of repayment plans exist. The most common are:

- **Straight (Interest-only)** - Monthly payments are allocated only to interest
- **Amortized** - A borrower makes a periodic (usually monthly) payment of principal plus interest.
- **Balloon payment** - A loan that has one large final payment due when the loan matures.
- **Adjustable-rate** – Interest rates change periodically, usually every one, three or five years.

There are basically two categories of loans available to buyers in the marketplace – conventional loans and government-backed loans.

The conventional mortgage is the most common type of loan and is generally viewed as the most secure. Most conventional loans require the borrower to make a down payment of 20% or more, making the loan 80% or less of the property's sale price. Conventional loans are typically uninsured.
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Most conventional loans have traditionally been designed as **fixed-rate loans**. The most common fixed-rate loans are **30-year mortgages**, because the payment is stable and there is always the opportunity to pay the balance down or to refinance for a better rate at a later date.

A borrower can get a conventional loan with a lower down payment by **insuring** the loan through a **private mortgage insurance** program (PMI). The PMI payments will terminate once the loan has been repaid to a certain level.

*For buyers who may not be able to qualify for a standard fixed-rate mortgage*, there are other options for conventional loans:

- Graduated payment mortgage (GPM)
- Pledged account mortgage (PAM)
- Buydown
- Open-end loan
- Blanket mortgage
- Wraparound mortgage
- Bridge loan
- Purchase money mortgage
- Construction mortgage
- Home equity loan
- Package mortgage
- Reverse annuity mortgage
- Shared equity mortgage