**FIN 420 – Real Estate Finance & Investments**

**Underwriting & Financing Residential Properties**

Please complete the following questions (placing your responses after the assigned question) and post online by the assigned deadline.

**Questions**

**Question 1**: What is the legislative intent of federal truth-in-lending disclosures, and what specific disclosures are required under the act?

**Question 2**: When would the cost of credit life insurance be included in the finance charge and APR calculations for federal truth-in-lending disclosures?

**Question 3**: What assumption about the future composite rate of interest on an adjustable rate mortgage is made when determining the APR for federal truth-in-lending disclosures?

**Question 4**: List the closing cost items that require RESPA disclosure. What items may be excluded from disclosures under the act? What form can these disclosures take?

**Question 5**: What types of fees and conditions are prohibited under RESPA?

**Question 6**: For what items may a lender require escrow accounts from a borrower?

**Problems**

**Problem 2**: You are a new loan officer with Alpha Mortgage, and the manager of the loan department has just presented a problem to you. He is unable to complete the APR calculation on an adjustable rate mortgage that a borrower applied for yesterday. The loan features initial payments based on a 10 percent rate of interest, while the current composite rate on the loan is 13 percent. No discount points have been paid by any party to the transaction, and any difference between borrower payments and the interest payment required at the composite rate will be accrued in the mortgage balance in the form of negative amortization. The mortgage amount desired by the borrower is $65,000 for a 30-year term, but a one-time mortgage insurance premium of $2,400 is being funded as a part of the loan amount, making the total loan balance $67,400. The borrower is paying $1,600 in prepaid finance charges at closing.

**Problem 3**: Determine the APR, assuming that the ARM is made with a 2 percent annual and 5 percent over-the-life interest rate cap.

In what way does the APR disclosure aid the borrower in understanding the terms of this specific loan agreement? What are some of the problems with the APR calculations on ARMs?

**Problem 4**: On August 20, Mr. and Mrs. Cleaver decided to buy a property from Mr. and Mrs. Ward for $105,000. On August 30, Mr. and Mrs. Cleaver obtained a loan commitment from OKAY National Bank for an $84,000 conventional loan at 10 percent for 30 years. The lender informs Mr. and Mrs. Cleaver that a $2,100 loan origination fee will be required to obtain the loan. The loan closing is to take place September 22. In addition, escrow accounts will be required for all prorated property taxes and hazard insurance; however, no mortgage insurance is necessary. The buyer will also pay a full year’s premium for hazard insurance to Rock of Gibraltar Insurance Company. A breakdown of expected settlement costs, provided by OKAY National Bank when Mr. and Mrs. Cleaver inspect the uniform settlement statement as required under RESPA on September 21, is as follows:

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| I. | Transactions between buyer-borrower and third parties: |
| a. | Recording fees—mortgage | $30.00 |
| b. | Real estate transfer tax | 225.00 |
| c. | Recording fees/document prep. | 200.00 |
| d. | Hazard insurance—one-year policy—Rock of Gibraltar Ins. Co. | 420.00 |
| e. | Peggy Prudent—attorney | 150.00 |
| f. | Inspections | 50.00 |
| g. | Title insurance fee (Landco Title Co.) | 400.00 |
| h. | Landco Title Co.—closing fee | 125.00 |
| II. | Transactions between seller and third parties: |
| a. | Release statement—seller’s mortgage | 5.00 |
| b. | Payoff—seller’s mortgage (Home State Bank) | 32,715.00 |
| c. | Real estate brokerage fee (6% Fast Deal Realty) | 6,300.00 |
| III. | Buyer-borrower and lender information: |
| a. | Amount of loan | $ 84,000.00 |
| b. | Prepaid interest is owed from closing through September 30, which equals nine days (inclusive). Regular payments to begin on November 1.[.10×84,000)÷365]⋅91.[.10×84,000)÷365]⋅9 | 207.12 |
| c. | Property tax escrow—two months required | 133.33 |
| d. | Loan origination fee | 2,100.00 |
| IV. | Buyer and seller information: |
| a. | Purchase price | $105,000.00 |
| b. | Deposit paid by Cleaver to Ward (paid in escrow to OKAY National Bank) | 1,500.00 |
| c. | Real estate tax proration (taxes for the current year to be paid in arrears by BUYER to county next January 1: $800 per year). Therefore, because the SELLER will own the property from January 1 to September 22, or 264 days. Therefore, the Buyer owes for the 101 days prior to closing and transfer of title Therefore, a credit for part of the $800-per-year real estate tax (for 264 days) is due to buyer from seller at closing. | $ 578.63 |

Required:

1. What are the amounts due from the borrower and due to the seller at closing?
2. What would be the disclosed annual percentage rate as required under the Truth-in-Lending Act?
3. When will the first regular monthly mortgage payment be due from the borrower?