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Training Course in Underwriting Mortgage Loans

Part One: Instructor's Guide

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Prepared by
The Institute of Financial Education, Chicago

For
Indo-US Housing Finance Expansion Program

Abt Associates
B2/13 (2nd Floor)
Vasant Vihar
New Delhi 110 057

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OVERVIEW

This workshop is an attempt to bring standardization to the housing finance industry by building on the best practices now used by major Indian housing finance companies. By standardizing and improving on the best practices of HFCs, this workshop is intended to contribute to the quality and expansion of housing finance system.

This workshop is structured to provide extensive opportunities for participants to put these guidelines into practice. An important part of the program is the analysis of case studies according to the standard guidelines.

No set of criteria is intended to be all-inclusive, or to relieve lending officers and senior credit officers of the responsibility and opportunity of exercising independent judgment on individual lending decisions. A housing finance company's policy should recognize that particular circumstances, technically called "compensating factors," can justify the acceptance of risks that deviate from established lending criteria.

This workshop contains practical information that should be revised periodically as conditions and practices change.

PROGRAM OBJECTIVES

After completing this workshop, participants should be able to:

- Consider the benefits of standard lending guidelines;
- Gather, verify and document loan information according to standard guidelines;

- Follow standard guidelines in credit documentation;
- Analyze the sources and stability of a borrower's employment and income according to standard guidelines;
- Analyze a borrower's assets, liabilities and net worth according to standard guidelines;
- Calculate and analyze a borrower's payment-to-income ratios according to standard guidelines;
- Analyze special characteristics and documentation of a self-employed borrower;
- Create and analyze a borrower's credit history according to standard guidelines;
- Analyze additional sources of security and how they reinforce the borrower's willingness to repay the loan;
- Assess qualifications of property valuers;
- Calculate and evaluate the loan-to-value ratio according to standard guidelines;
- Evaluate the adequacy of the property as security according to standard guidelines;
- Apply compensating factors to give borrowers every consideration;
- Document and communicate the loan decision according to standard guidelines;
- Describe standards for legal appraisal;
- Follow standard loan disbursement procedures.

PROGRAM MATERIALS

Text

The text, *Standard Underwriting Guidelines,* is the source for the content of this workshop. It contains both guidelines and suggested forms to use in lending operations. It covers the program objectives and is intended as a valuable resource for both instructors and

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participants. It is strongly suggested that participants read the text before attending the workshop.

Instructor's Guide

This guide gives the instructor discussion guidelines and questions, overhead transparency notes, handouts and case study activities to use during the workshop. The purpose is to minimize the instructor's preparation and to give consistent guidance if multiple instructors teach the program.

Each section of the instructor's guide contains an overview, text assignment, time estimate, materials list and detailed instructional plan. To make this guide easy to use, the following icons are provided in the instructional plan.

This icon indicates that the instructor should display an overhead transparency.

This icon indicates that the instructor should refer to a handout, loan document or page in the text.

Instructors should feel free to adapt this guide to their personal teaching style and the needs of the workshop participants.

Overhead Transparencies

A set of overhead transparencies helps the instructor by giving a structure to lecture/discussion material. The instructor guide includes explanatory notes and questions to assist the instructor in expanding the topic coverage.

Participant Handouts

A set of participant handouts provides note pages for the content covered in the overhead transparencies and also provides instructions for case study assignments. Instructors are also encouraged to add additional handouts of their own preparation.

SCHEDULE

The workshop is divided into 10 sections and is structured to be conducted in two days. In addition, the participants have a pre-workshop assignment that needs to be sent to them prior to the workshop; and, the participants have a case study assignment on the evening of the first day of the workshop.

The recommended schedule is as follows:

Pre-Workshop Assignment (4-6 hours)

Day One
Section 1:
    Introduction to Standard Underwriting Guidelines (30-45 minutes)
Section 2:
    Analyzing a Borrower's Ability to Pay (4 hours)
Section 3:
    Analyzing a Self-Employed Borrower's Ability to Pay (1 hour)
Section 4:
    Analyzing a Borrower's Willingness to Pay (1¼ hours)
Section 5:
    Case Study Assignment (20-30 minutes)
TOTAL TIME: 7-7½ hours

Evening Study Group: (1-3 hours depending on expertise of the group)

Day Two
Section 6:
    Technical Property Appraisal (1 hour)
Section 7:
    Case Study Analysis (3½ hours)
Section 8:
    Loan Decision (30-45 minutes)
Section 9:
    Legal Appraisal (1 hour)
Section 10:
    Loan Disbursement Procedures (1 hour)
TOTAL TIME: 7-7¼ hours

Instructors are encouraged to adjust the schedule to meet the needs of the participants.

PRE-WORKSHOP ASSIGNMENT FOR PARTICIPANTS

Prior to the start of the workshop, the sponsoring organization or instructor should send each participant a copy of the handout titled, "Workshop Preparation," and a copy of the text, *Standard Underwriting Guidelines*. Depending on the expertise of the participant, it can take 1-2 hours to read the text and 3-4 hours to prepare the case study. Some participants may need even more time. Therefore, it is recommended that the text and assignment handout be sent to the participants at least two weeks prior to the workshop.

PROGRAM PREPARATION

Prior to the program, the instructor will need to make the following preparations. (A sponsoring organization may fulfill some of these responsibilities.)

- Send the pre-workshop assignment to the participants.
- Reproduce participant handouts. The instructor may wish to add additional handouts.
- Arrange for the following equipment in the classroom: overhead projector and flipchart pad and easel. A chalkboard may also be helpful.
- Arrange the classroom for good sight lines to the overhead projector screen and ease of rearranging seating into small groups.
- Make locations available for the study groups to meet on the evening of the first day.

TEACHING SUGGESTIONS

The following are suggestions to the instructor for improving the learning atmosphere.

- **Thoroughly read the text, instructor guide, overhead transparencies and handouts, and make notes where appropriate.**

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- **Prepare additional case study material or loan document samples to add to the program.** Consider the expected audience and adjust the materials to its level of expertise and interest. For example, for more experienced participants, you may want to bring in examples of loans or borrowers who are marginally qualified.

- **Find ways to challenge the participants to give serious consideration to compensating factors when underwriting loans.** Emphasize to the participants that expansion of lending includes taking intelligent and calculated risks on borrowers with low incomes or little credit history.

- **Since the text contains RECOMMENDED guidelines, determine if they need to be adjusted for the workshop group.** Consider ways to adapt the material while retaining the emphasis on standardization and its benefits.

- **Draw on and include your expertise wherever possible in the program.** The instructor guide is intended to save you time in your preparation, but you have the freedom to add to and expand the material.

- **Draw on the expertise and knowledge of the participants.** During introductions, note which individuals have the most experience and call on them to add their insights. This will show that you recognize their expertise and that part of the purpose of the program is for the participants to learn from each other. If you don't recognize the expertise of your participants, they can actually become hostile and try to find gaps in your knowledge rather than support the learning effort.

- **As much as possible, use questioning techniques rather than lecture.** Even less-experienced participants will have read the text and prepared a case study for the workshop. Therefore, they should have thoughts to contribute.

  The following are ways to incorporate more discussion into the program.

  — Ask the participants to expand on the points on an overhead rather than give all the points yourself. For example, if you are discussing sources of income, you could ask the participants to name several sources.

— Ask the participants for information about their experiences. For example, if you are discussing employment stability, you might ask the participants to give examples of comments they have received from employers that might indicate unstable employment prospects. They could also explain how they handled such situations.

— When participants ask you a question, you may be able to turn the question back to the group to get a broader variety of answers. For example, you could say, "Has anyone else had this experience? What did you do?"

- **Prepare a schedule but maintain flexibility.** If a discussion is raising important points that are relevant to the topic, try to allow more time. You may need to adjust the time allowed for another topic to compensate. However, retain sufficient control that you have enough time to cover all topics. Some instructors make notes about the times they expect to start and end topics so that they always know if they get behind schedule.

- **Encourage discussion but keep it focused on the program topics.** Even mild arguments can be useful if the participants learn through the process. However, at times a discussion may become unrelated to the topic and become unproductive. In these cases, you may need to remind the participants that you have to stay on schedule or all the material may not be covered. Suggest that they continue the discussion outside of the class time.

- **Encourage participation from everyone but without domination.** If you notice certain individuals have not been answering any questions, you may want to call on them by name. However, if you use this technique, it is best if you ask a question about their opinion or experience rather than a question that has a right or wrong answer. In this way, they are not embarrassed if they don't know the correct answer. Opinions or experiences are easier to discuss than right or wrong answers.

  In contrast, if certain participants dominate discussions or always answer the questions, you may need to find tactful ways to reduce their participation. For example, calling on other participants by name reduces this problem. Or, you may ask participants to think about and write down the answer to a question. This gives others a chance to prepare an answer, and they will be more likely to respond.

- **Carefully think through the process you will follow when managing the case study discussions on the second day.** These are the most unstructured parts of the program, and your instructions need to be very clear. You may also wish to circulate among the groups and listen to the discussions. Feel free to pose questions to the groups if you think they are having difficulty. You may notice that several groups are having similar difficulties. If you notice this, you may wish to stop the discussions briefly and give some guidance to the whole workshop group. You are most likely to have this happen at the start of the discussion. Circulating among the groups also gives you information about how quickly or slowly they are proceeding through the cases. This can be valuable if you find you need to adjust your schedule.

EVALUATION

At the end of the program, you are asked to distribute an evaluation form to the participants. Use the one provided or develop your own version.

Use this information to improve future presentations of the program. For example, consider if certain topics should be expanded or reduced. Or, adjust the difficulty level if needed.

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Section One:
Introduction

OVERVIEW

In this section of the workshop, you will lay the foundation for the program. You will introduce yourself and gather information on the participants' backgrounds and interests in the workshop. You will also give the participants an overview of the program by reviewing the objectives and schedule. You will discuss the focus of standard guidelines and emphasize the value of standard underwriting guidelines, verification and documentation. Finally, you will help the participants understand how underwriting is both an art and science where standards exist but judgment is equally important.

TEXT SECTION

Chapter 1: Introduction

OBJECTIVES

After completing this section, participants should be able to:

- Describe the benefits of standard lending guidelines;
- Determine their personal learning goals for the workshop.

TIME ESTIMATE

30-45 minutes

MATERIALS

- Overheads 1-5
- Handout 1 (You may wish to substitute your own version of Handout 1 if you have modified the schedule and topics.)

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INSTRUCTIONAL PLAN

Instructor and Participant Introduction

INTRODUCE yourself and describe your background and credentials in the field of mortgage loan underwriting.

ASK the participants to introduce themselves by giving their names, housing finance institutions and their responsibilities and background in underwriting.

Workshop Topics

ASK *What difficulties do you experience when underwriting mortgage loans?*

Answers will vary widely. The purpose of this question is to quickly bring the participant's needs and concerns to your attention. Not all their needs will relate to the topics of this workshop but many of them should.

WRITE the answers on a flipchart or chalkboard. (Record even the points that do not relate to the topics of the workshop.)

ENCOURAGE participants to mention some of the following answers if they are not spontaneously given.

- Gathering complete and accurate information about the borrower's financial situation
- Fraud
- Determining how much importance to place on different factors (positive and negative) in the decision
- Justifying the decision to superiors in the housing finance institution
- Making sure the underwriting decision is consistent with institutional policy and reflects current economic conditions
- Making the decision on marginal applicants
- Balancing the need to make loans against the risks

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DISPLAY Overheads 1–4: Program Objectives.

REVIEW the objectives to give participants an overview of the program content and goals.

REFER to the participants' list of underwriting difficulties and explain briefly which of the participants' difficulties will be addressed in the workshop and which may need to be deferred to another program or source of information.

ASK the participants to name the topics in which they are most interested. (Additional areas of needs should surface in this discussion.)

LIST the topics of interest on a flipchart, if appropriate.

REFER to Handout 1: Program Schedule.

EXPLAIN the grouping of topics, how they relate to the objectives, how much time will be spent on each and when break times will be.

DESCRIBE the evening assignment and case study analysis so that participants understand how the cases they prepared will be covered in the program.

Day One

Section 1:
    Introduction to Standard Underwriting Guidelines (30-45 minutes)
Section 2:
    Analyzing a Borrower's Ability to Pay (4 hours)
Section 3:
    Analyzing a Self-Employed Borrower's Ability to Pay (1 hour)
Section 4:
    Analyzing a Borrower's Willingness to Pay (1¼ hours)
Section 5:
    Case Study Assignment (20-30 minutes)

TOTAL TIME: 7–7½ hours

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Day Two
Section 6:
  Technical Property Appraisal (1 hour)
Section 7:
  Case Study Analysis (3½ hours)
Section 8:
  Loan Decision (30-45 minutes)
Section 9:
  Legal Appraisal (1 hour)
Section 10:
  Loan Disbursement Procedures (1 hour)

TOTAL TIME: 7–7¼ hours

ASK the participants to consider the overall objectives and schedule so that they can set personal learning goals for the workshop.

DISPLAY Overhead 5: Focus of Standard Guidelines.

EMPHASIZE the following points.

- **Standardization builds on best practices of HFIs**. The intention of the manual and workshop is to assist in bringing standardization to housing finance by building on the best practices now used by major housing finance companies. Underwriting guidelines are the major focus of this workshop.

- **Key areas** covered by standard underwriting guidelines include the following.

  — Analyzing **the borrower's ability to repay the loan** (based on the financial resources of the borrower)

  — Analyzing **the borrower's willingness to repay the loan** (based on the borrower's history of handling debt and other financial obligations)

  — **Adequacy of the value of the property to support the amount of the loan**

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- **Verification and documentation:** The foundation of a complete loan file. This program reviews verification sources and documentation methods. Standards in this area help prevent fraud, justify decisions on loans and provide historical information that helps institutions improve and refine underwriting guidelines and compensating factors.

  A complete loan file includes both verification documents and a written explanation of why the loan was approved or rejected. Another loan officer should be able to review the file and thoroughly understand the reasoning of the loan officer who made the loan decision.

- **Guidelines as a flexible framework:** Independent judgment and compensating factors. Standardization does not reduce the responsibility and opportunity for loan officers and senior credit officers for using independent judgment on individual loan decisions. Standardization provides a framework for these decisions and a method to document the reasons, especially when compensating factors contribute to the loan decision.

  Standard guidelines are not rigid rules that must be precisely followed. They are guidelines to making decisions in a consistent and justifiable way.

  Underwriting high-quality loans expects institutions to maintain a careful balance between the "science" of gathering information and analyzing risk and the "art" of making a judgment that gives applicants every possible consideration. When the balance is maintained, institutions make loans that meet borrower's needs without adding excessive financial burdens. These loans are prudent investments that recognize risk is a manageable part of the lending process.

  A loan officer's goal is to approve as many investment quality loans as is feasible and reasonable. This includes accepting a certain amount of risk, especially for marginal borrowers such as low income individuals.

- **Standardization contributes to quality and expansion of housing finance.**

  — Objective treatment of applicants leads to increased confidence in the lending system by borrowers and generally to increased loan volume.

  — A uniform method of evaluating the lending portfolios of various housing finance institutions inspires confidence in the quality of the portfolios of institutions complying with the guidelines. This makes them more attractive to investors and others concerned about safety and stability of the institutions' investments.

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Section Two: Analyzing
Ability to Pay

OVERVIEW

Analyzing the borrower's ability to make the mortgage loan payments is the starting point for determining whether to approve the loan. This part of the program is long and is therefore divided into two parts. Part A covers standard credit documentation, the standard residential mortgage loan application and analyzing employment and other income. Part B covers verification and analysis of assets and liabilities and calculation of ratios. Compensating factors are considered throughout this section.

TEXT SECTION

Chapter 2: Analyzing the Borrower's Ability to Pay

OBJECTIVES

After completing this section, participants should be able to:

- Follow standard guidelines in credit verification and documentation;
- Analyze the sources and stability of a borrower's employment and income according to standard guidelines and compensating factors;
- Analyze a borrower's assets, liabilities and net worth according to standard guidelines and compensating factors;
- Calculate and analyze a borrower's payment-to-income ratios according to standard guidelines and compensating factors.

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TIME ESTIMATE

Part A: 2 hours
Part B: 2 hours

MATERIALS

- Overheads 6-12
- Felt-tip markers and blank flipchart pages or overhead transparencies

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INSTRUCTIONAL PLAN—Part A

Topic Introduction

DISPLAY Overhead 6: Analyzing the Borrower's Ability to Pay.

REVIEW the topics briefly.

EMPHASIZE that this section explains how to obtain and verify information needed for assessing the ability of a borrower to repay the mortgage. The group will review how to process the information and relate a borrower's mortgage payment to income, assets and liabilities. The group will also discuss and calculate the ratios used for determining loan entitlement and take note of circumstances (compensating factors) when a borrower can be qualified for a higher entitlement.

ENCOURAGE questions throughout the section (within your time limitations). Also, emphasize that participants will be able to discuss the recommended guidelines in relation to case studies in their evening study groups and the following morning's workshop session. The main focus at this point is to discuss the guidelines and compensating factors and acquire a common understanding.

Standard Credit Documentation

DISPLAY Overhead 7: Standard Credit Documentation.

EXPAND on the points on the overhead. Possible explanations include the following:

- **Completeness of Documentation**. The application package needs to contain sufficient information for the loan officer to reach an informed decision about whether to approve the mortgage. The application package should also include supplementary information needed to verify, clarify or substantiate information in the borrower's application. The loan officer should also produce a written explanation of the loan decision and place this in the loan file.

- **Authenticity of Documentation.** Documents should be legible originals that do not have alterations, erasures or correction fluid ("whiteouts"). Facsimiles or photocopies are not acceptable substitutes for original documents.

- **Age of Documentation.** Credit documents should be no more than 90 days old on the date the promissory note and loan agreement are signed. If the verifications would be more than 90 days old, the lender should obtain updated written verifications on a date within 90 days of loan closing.

- **Types of Credit Documents.** The necessary credit documents are listed below. Many of these documents will be covered in the workshop.

  — Residential Mortgage Loan Application Form

  — Blanket Authorization Form signed by the borrower. This form grants the lender permission to request confidential information about the borrower from banks, creditors and employers, and authorizes them to release such information to the bank.

  — Verification of Credit/Creditor's Opinion or other acceptable credit verification documentation

  — Verification of Deposit/Bank's Opinion

  — Verification of Employment

  — Tax returns (both individual and business returns, if appropriate) for the past two years, with all applicable schedules attached. These are required for self-employed borrowers; salaried employees who are required to file tax returns; and individuals who earn all or most of their income from commissions.

  — Tax Deduction at Source (TDS) certificate issued by the employer

  — A year-to-date-profit-and-loss statement for a self-employed borrower's business

  — A balance sheet for the previous two fiscal years for a self-employed borrower's business

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— Self-employed Income Analysis form for a self-employed borrower

— Comparative Income Analysis form for a self-employed borrower

— Borrower Interview Sheet completed and signed by the Loan Officer/Loan Manager

— Agreement of Sale, Sales Deed, Purchase and Sales Agreement, Permission/No Objection Certificate from appropriate Development Authority

— Property Description and Analysis

CONDUCT a class discussion on required credit documentation at the participants' institutions. You may wish to ask the following question.

Does your institution require additional documentation? What type? Why?

REFER participants to a Residential Mortgage Loan Application and Borrower Interview Sheet.

Use the forms in the back of the text, or in the handouts if you have provided them there.

CONDUCT the following group activity.

Activity — Types of Information to Verify and Analyze

Process:

1. Introduce the activity. Explain that the first part of analyzing the borrower's ability to pay is to identify all the types of information about the borrower that should be gathered and verified. Most of this information will be listed on the application.

2. Divide the workshop group into small groups of 3-5 individuals.

3. Assign one of the following categories of borrower information to each group.

   - Income
   - Assets
   - Liabilities

   If you would have more than three small groups, assign the same category to more than one group or increase the size of the groups. However, more than seven in one group will reduce participation from all members.

4. Distribute a felt-tip marker and a blank flipchart page or overhead transparency sheet to each group.

5. Ask each group to appoint a recorder/spokesperson.

6. Ask the groups to create a list of the types of information about the borrowers that could be verified and analyzed in their assigned category. For example, the income group(s) would list employment income and other types of nonwage income. Tell the groups to list as many items as possible that could conceivably apply to this category.

   Also, ask the groups to list where this information would be noted on the loan application and borrower interview sheet. Have the groups use the sample forms for uniformity.

7. Allow the groups about 15-20 minutes to create the lists. Then, call on the spokespersons to verbally present each group's list.

8. After each spokesperson presents the list, ask the whole group if any items can be added. Encourage the participants to be creative within the boundaries of what is likely.

9. After all the lists have been reviewed, ask the participants,

   What other information is included on the loan application and why? What is the purpose of collecting this information?

   Answers will vary but the participants will probably mention details of the loan, details of the property and personal information such as references. Most of this provides additional information to the loan officer when weighing financial factors. For example, number of children affects how much of the borrower's income can be applied to the loan.

   Emphasize that all information provided by the borrower with regard to income, assets, liabilities, credit, employment and the property must be independently documented by the loan officer and included in the loan file.

Verifying and Analyzing Employment and Income Stability

DISPLAY Overheads 8-9: Employment and Income Stability.

EXPAND on the points on the overhead. Where appropriate, ask questions of the participants to determine their experience with these types of nonwage income. Also, discuss use of any other sources the participants mention.

Possible explanations include the following:

- **Employment Verification.** This should cover three years. Verify with more than one employer if appropriate. Verify school or military records if appropriate. Use Verification of Employment form (or another similar form). The verification should be returned directly to the lender, not returned by the borrower. Post office box addresses are not acceptable; street addresses should be used. The verification should not be more than 30 days old. Check income tax returns if the borrower has filed them.

- **Analysis of Employment Stability.**

  — Frequent **job changes** with advancement and stable or increasing income can be positive. Frequent job changes without advancement or in unrelated areas can lead to unstable income. Need explanation or should have offsetting financial strengths.

  — **Continuous employment or gaps.** Gaps in employment should be explained if they last more than one month. Seasonal but regular employment can be considered stable if applicant meets financial obligations.

  — **Comments from employer.** Negative comments from current employer need very careful consideration.

  — **Compensating factors** can include confirmation in a job, professional qualifications or employment as an officer in all-India service, or any central services, or a state service

- **Analysis of Nonwage Income.** To be considered as income, it should be properly documented and likely to continue for at least one year.

  — **Productivity-Linked Incentives.** At least a two-year history of payment and reasonable expectation of continuity are needed.

  — **Overtime Payment.** Should have a verified record of continuous payment over the past three years, and the employer indicates it is likely to continue during the next year.

  Where overtime amounts have varied but payments have been regular, an average of the past two years' overtime may be used.

  If overtime income has a declining trend, it should not be used unless compelling offsetting factors are documented by the loan officer.

  — **Bonus Payment.** The minimum bonus of 8.33% under the Payment of Bonus Act may be used.

  If a higher bonus has been paid over last three years, and the employer verifies probability of continuity, an average of the most recent two years' bonuses may be used.

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- **Commission Income.** Should be consistently received for at least three years. Employer should verify payment and confirm likelihood of continuity.

  An average of past three years' verified commission payments may be used. If there is a significant declining trend, loan officer uses best judgement on what portion of commission to use. Documentation of reasoning should be included in loan file.

- **Expense Reimbursement from Employer.** May be used if this is likely to continue in the foreseeable future. Should be verified by employer and likely to continue. Generally, average of two most current years' reimbursements may be used.

- **Interest Subsidy on Mortgage Payment.** May be used if will continue beyond first year of mortgage. Employer should indicate, in writing, amount and anticipated duration. Subsidy should be added to gross income when calculating installment-to-income ratio.

- **Pension Payment** from previous career such as military service. May be used if source, amount and likelihood of continuance can be verified by loan officer.

  A copy of the borrower's pension pass book, confirming regular deposit of payments, serves to verify the pension. A copy of the pension payment order should also be included in the loan file.

- **Interest and Dividend Income.** May be used if properly documented and received for past two years. Loan officer may use an average of the most recent two years. Subtract funds used as margin money or for closing costs before calculating interest. The fixed deposit receipts or share/debenture certificates should be held in custody of housing finance institution for first the two years of mortgage.

- **Rent Receipts.** May be used only where supported by lease agreements and/or tax returns. Generally, only 60% of gross rental income may be used. If a larger fraction of rental income is used, compelling factors should be documented by the loan officer.

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- **Nontaxable Income.** Sources and likelihood of continuing should be properly documented. When considering nontaxable income, amount of tax savings may be computed and added to the income.

- **Military Income.** Allowances for flight, hazard, rations, clothing allowance, quarters allowance and special proficiency may be considered as long as future continuance can be documented.

- **Capital Gains/Losses.** Where a borrower has consistently reported capital gains for the past three years on tax returns and the prospects are reasonable for such transactions continuing, an average of past three years' capital gains (and losses) should be used to adjust the borrower's income. The sources of the capital gains should be verified, as should remaining assets, to ensure that no income-generating asset has been sold that might impair the flow or amount of future income.

CONDUCT a class discussion on the analysis of income. You may wish to ask the following questions.

What documentation would be acceptable for each of these types of income? What would be unacceptable?

Answers will vary. Refer the participants to the documentation forms in the back of the text, if appropriate.

How would you decide that continuance of nonwage income has "reasonable" prospects for continuing?

How can you prevent or detect fraudulent documentation?

INSTRUCTIONAL PLAN—Part B

Verifying and Analyzing Assets, Liabilities and Net Worth

DISPLAY Overhead 10: Verifying and Analyzing Assets.

EXPAND on the points on the overhead. Where appropriate, ask questions of the participants to determine their experience with these and other types of assets. Also, discuss use of any other assets the participants mention.

Possible explanations include the following:

- **Borrower Cash Requirement.** Borrower must have sufficient liquid assets to cover the difference between loan entitlement and the total cash required. These include (1) **margin money** for the property, (2) **loan closing costs** and (3) **reserves** (cash equal to at least two pre-equated monthly installments for the loan should remain with the borrower after loan closing). A minimum margin of 25% of the property's market value or sales price, whichever is less, is strongly recommended. Equity in the property may be considered as part of the margin money.

  If liquid assets are insufficient, a financing "gap" occurs. Sources and amounts of funds to fill the gap should be documented and verified by the loan officer.

- **Acceptable Sources of Borrower Cash.**

  — **Bank Deposits.** Bank should complete Verification of Deposit and return it directly to financing institution. Also, loan officer should examine copies of past six months' statements or copies of actual passbook pages for same period. Unusually large deposits or withdrawals must be explained and documented.

  — **Proceeds from the Sale of Shares/Debentures and Other Investments.** Borrower may have invested in shares, debentures or other instruments such as Indira Vikas Patra, Kisan Vikas Patra, National Savings Certificates, etc. Borrower may sell these investments. Existence of investments must be verified and documented.

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— **Gifts from Relatives.** For underwriting purposes, a 'relative' is a spouse, father, mother, grandparent, brother or sister of the borrower or spouse. Gifts may provide up to 50% of the margin money amount. Gifts should be verified by obtaining a signed confirmation from the donor that the gift has been made, the amount of the gift, the source of the gift, the donor's relationship to the borrower and a statement from the donor that no repayment is expected. Receipt of the money should be cross-verified. Copies of statements showing withdrawal from the donor's account and deposit to the borrower's account are needed.

— **Borrowed Funds.** These are generally not acceptable sources of funds for margin money. If the loan officer has reason to believe that any margin money has been borrowed, caution and close scrutiny should be employed.

Possible indications of borrowed funds include the following: large unexplained deposits to borrower's account, recently opened bank accounts and a sudden jump in average bank balance.

Borrowed funds can be acceptable sources of funds for the margin money *only* in cases where loans have been secured against verified assets of the borrower, such as term deposits, shares/debentures or life insurance policies. Monthly payments must be considered as debt when calculating total monthly obligations. If the loan does not require monthly payment, a notional installment should be calculated and considered in determining total monthly obligation ratio.

— **Loans from Friends or Other Relatives.** Such loans should not exceed 10% of the value of the margin money. Such loans should be verified, and the loan agreement examined to confirm repayment terms. Monthly payment should be considered when calculating total monthly obligations.

— **Sale Proceeds.** Proceeds from sale of a borrower's existing property may be considered. A source should be documented by obtaining copy of sale agreement executed by borrower.

- **Margin Money Requirement: Compensating Factors.** In the unusual case where the loan officer approves a loan-to-value ratio higher than 75 percent, he or she should document compelling reasons.

Compensating factors could include any one of the following:

— Substantial net worth after loan costs are considered

— Demonstrated ability to devote greater-than-normal portion of income to meet repayment obligations and good credit history

— Total obligations-to-income ratio of less than 45% of gross income and good credit history

CONDUCT a class discussion on the analysis of assets. You may wish to ask the following questions.

Are there other reasons you might approve a loan-to-value ratio of higher than 75 percent?

How would you handle a situation where a borrower appeared to have sufficient cash but verifications show that the cash is insufficient by a small amount? By a large amount?

Verifying and Analyzing Liabilities and Net Worth

DISPLAY Overhead 11: Verifying and Analyzing Liabilities and Net Worth.

EXPAND on the points on the overhead. Also, refer to the liabilities list that the participants created earlier in the session. Ask questions to determine participants' experience with various types of liabilities.

- **Liabilities**. Include all debts that extend beyond 12 months. Each debt should be documented and payment terms and history verified. All verifications should be obtained directly from the creditors.

- **Net Worth = Assets – Liabilities**. Calculated in section 4 of standard loan application form. A strong net worth position can be insurance against unexpected obligations or temporary interruption of income. A borrower with a strong net worth position generally has demonstrated competence in managing financial affairs and may have developed a strong savings habit.

CONDUCT a class discussion on analysis of liabilities and net worth. You may wish to ask the following questions.

Do you ever consider debts of a shorter term than 12 months? When?

What is your institution's process if a borrower has not disclosed a debt and you discover it?

What do you do if a borrower has significantly understated the amount of a debt?

Calculating and Analyzing Payment-to-Income Ratios

DISPLAY Overhead 12: Payment-to-Income Ratios.

EXPAND on the points on the overhead. Also, as mentioned in the text, different institutions use different methods of calculating income. For this program, participants should use gross monthly income for consistency with the recommended guidelines.

- **Installment-to-Income (IIR) Ratio**. EMI, or equated monthly installment, divided by the borrower's gross monthly income. Maximum 30%.
- **Total Obligations-to-Income Ratio**. Total monthly obligations divided by gross monthly income. Total obligations include EMI and monthly payments toward other liabilities. Maximum 50%.
- **Compensating Factors**. Higher ratios may be justifiable in the following situations.
  - — Large amount of margin money, in excess of 30% of property value
  - — Entire amount of margin money coming from borrower's personal savings
  - — Documented history of large savings
  - — Documented history of wise use of credit and maintenance of a spotless credit history

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- Documented history of successfully repaying obligations with higher EMI than current loan
- Educational qualifications or training that give the borrower potential for increased earnings
- Documented net worth of at least 50% of the mortgage loan, even in the absence of earnings
- Small number of dependents
- Posting of additional security in liquid or semi-liquid collateral
- Borrower's employer agrees to recover the EMI from the salary and remit proceeds directly to the financing institution
- Borrower's employer guarantees the loan

CALCULATE several sample ratios on a flipchart or chalkboard. Provide the participants with the amounts and ask them to perform the calculations.

CONDUCT a class discussion of the calculations in terms of acceptability. You may wish to ask the following questions.

What if one ratio is acceptable and one is not? Could you still approve the loan? If so, on what basis?

What other compensating factors would your institution consider if one of the ratios is too high?

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3

Section Three:

Self-Employed Borrowers

OVERVIEW

Section Three of the program covers the differences in underwriting self-employed borrowers. They present special challenges to the loan officer when verifying and analyzing income and employment.

TEXT SECTION

Appendix A: Employment and Income—Self-Employed Borrowers

OBJECTIVES

After completing this section, participants should be able to:

- Analyze special characteristics and documentation of a self-employed borrower;
- Analyze financial statements and tax returns;
- Complete the following loan analysis forms:
  - Comparative Analysis of Business Income (or similar form)
  - Self-Employed Income Analysis (or similar form)
  - Field Credit Investigation Appraisal (or similar form)

TIME ESTIMATE

1 hour (You may wish to lengthen or shorten the time depending on the applicability of the topic to your audience.)

MATERIALS

- Overheads 13-16
- Optional: If you decide to conduct the optional group activity described at the end of this section, you will need to prepare sample loan documents and copies in advance. See the Activity titled "Sample Loan Analysis" Forms for complete information.

INSTRUCTIONAL PLAN

Introduction

ASK *What is the definition of a self-employed borrower?*

Answer:

An individual having at least 25% ownership interest in a business and obtaining at least 50% of income from the business.

ASK *How is underwriting a self-employed borrower different?*

Answers will vary but are likely to include some of the following points. Write the answers on a flipchart or chalkboard.

- Income is more difficult or complicated to verify. More investigation is needed.
- Income is more complex to analyze.
- Stability of income is more difficult to predict.
- Loan officer must have good understanding of the borrower's business and accounting processes.

Documentation: Borrower Documents and Loan Analysis Forms

DISPLAY Overhead 13: Self-Employed Borrowers: Documentation.

EXPAND on the points on the overhead.

Possible explanations include the following:

Documentation in addition to loan application includes the following:

- **Tax Returns.** Last three years.
- **Financial Statements.** Audited. Last three years.
- **Provisional Income Statement.** End of month preceding date of application.

DISPLAY Overhead 14: Self-Employed Borrowers: Income Stability.

EXPAND on the points on the overhead as appropriate for the group's level of interest.

Possible explanations include the following:

- **Length of Self-Employment.** Three years minimum or two years prior employment in similar field or strong compensating factors are desired.

- **Type of Business Structure.** Liability must be determined.

  — **Sole proprietor.** No distinction between personal and business liabilities. Liabilities secured by personal and business assets should be documented. Business debts are excluded from total obligations-to-income ratio if serviced by business receipts.

  — **Partnership**. Partners are liable jointly and severally. Where business debts are paid out of business incomes, they need not be considered in calculating the total obligations-to-income ratio.

  — **Limited Company.** Is more regulated than sole proprietorship or partnership. Shareholders' liability limited to equity share in company. Company files separate tax return. A borrower who is a director in a company may derive income from the company in two ways: from salary and from dividend income on share holdings. While salary income may be stable, dividend income may vary from year to year. If salary constitutes more than 50% of a borrower's income, may be qualified as a salaried borrower. However, if it does not, should be qualified as a self-employed borrower.

- **Viability of the Business.** Determine structure and personal liability of borrower. Then, examine financial information and make field credit investigation.

DISPLAY Overhead 15: Financial Statement Analysis.

EXPAND on the points on the overhead as appropriate for the group's level of interest.

Possible explanations include the following:

- **Balance Sheet**
  - — **Assets.** Current assets contrasted to fixed assets.
  - — **Liabilities.** Current liabilities contrasted to long-term liabilities.
  - — **Capital (Net Worth)**
- **Profit and Loss Account**
  - — **Income.** Sales generally largest part.
  - — **Expenditures.** Cost of goods sold, labor, etc.
  - — **Net Profit(Loss).** Past trends give clues to future viability.
- **Tax Returns.** Should corroborate financial statements.

DISPLAY Overhead 16: Loan Analysis Forms.

EXPAND on the points on the overhead as appropriate for the group's level of interest.

REFER to the forms in the back of the text for examples.

- **Comparative Analysis of Business Income** (or similar form)
- **Self-Employed Income Analysis** (or similar form)
- **Field Credit Investigation Appraisal** (or similar form)

CONDUCT the following optional group activity.

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Activity — Sample Loan Analysis Forms (Optional)

If the group of participants is particularly interested in self-employed borrowers, you may wish to work through samples of the Comparative Analysis of Business Income and Self-Employed Income Analysis forms.

Process:

Prior to the workshop,

Complete a sample of each of the two documents that includes information and calculations based on an actual or hypothetical loan application. Then, create partially completed forms that only list the information that is derived from other sources such as financial statements or tax returns. Sections that refer to percentage changes from year to year, etc. should be left blank. Make copies of these partially completed forms for all the participants.

At the workshop,

1. Divide the group into small groups and distribute the partially completed forms.

2. Verbally review the figures you have provided on the forms.

3. Ask the participants to perform the calculations and finish completing the forms.

4. Explain the context for the case and conduct a group discussion on the calculations and significance for this case.

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Section Four: Analyzing
Willingness to Pay

OVERVIEW

How has the applicant handled credit in the past is an important indicator of how future debt may be handled. The primary way of analyzing willingness to pay is by careful review of the borrower's credit history. This section explores how a loan officer can develop a credit history for a borrower and use alternate methods for determining a borrower's willingness to pay.

TEXT SECTION

Chapter 3: Analyzing the Borrower's Willingness to Pay

OBJECTIVES

After completing this section, participants should be able to:

- Obtain credit information from the borrower;
- Create a borrower's credit history;
- Verify and document the borrower's credit history according to standard guidelines;
- Check borrower references;
- Analyze the borrower's credit history according to standard guidelines;
- Analyze additional sources of security and how they reinforce the borrower's willingness to repay the loan.

TIME ESTIMATE

1¼ hours

MATERIALS

- Overheads 17-20
- Felt-tip markers, blank flipchart pages and push pins or tape

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INSTRUCTIONAL PLAN

Introduction

EXPLAIN that the primary way of establishing willingness to pay is by verification and examination of the credit history of the borrower.

The loan officer develops a credit history of the borrower from information provided by the borrower; obtains independent verification by the creditors; determines the creditworthiness of the borrower; and documents it in the mortgage loan file.

Obtaining Credit Information from the Borrower

ASK *Where does the loan officer obtain the first information on the borrower's credit history?*

Answer:

The loan application and the borrower interview sheet. All credit information obtained on these forms should be verified and documented in the loan file by the loan officer.

DISPLAY Overhead 17: Obtaining Borrower's Credit History.

EXPAND on the points on the overhead.

Possible explanation includes the following:

- **Types of Debts or Payments.** Includes debts to financing agencies and banks, taxes, school fees, rent and utility accounts (electricity, water, telephone, etc.).
- **Three years information on debts**:
  - — Name and Address of Creditor/Obligator
  - — Account Number
  - — Amount of Credit/Obligation
  - — Monthly Payment

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— Months Remaining

— Unpaid Balance

— Date Credit Established

— Date Credit Repaid

— Date of Last Payment

— Date of Next Payment

Verifying and Documenting Credit History

DISPLAY Overhead 18: Verifying and Documenting Credit History.

EXPAND on the points on the overhead.

Possible explanations include the following:

Each item in the credit history should have a written verification form and/or verification notation by the loan officer. Methods include references, Verification of Credit (Opinion of Creditor), Banker's Opinion Letter and telephone or face-to-face interview with banker or creditor.

- **Borrowing from a Bank or Nonbanking Finance Company.** Document with pass/account sheets. With blanket authorization from the borrower, information regarding accounts can be verified directly from the financing institution.

- **Utilities.** Verify utility bills and details of payment.

- **Credit Cards.** Agencies can furnish information directly.

- **School Fees.** Schools can furnish information about fees and how they are paid.

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- **Bank Accounts.** Although not a debt, savings habits also indicate a borrower's ability to handle money responsibly. Obtain a **Banker's Opinion Letter** with the following information.

  — Name of Account Holder and Account Number

  — Type of Account

  — Date Account Established

  — Current Balance and Average Balance (most recent 3 months)

  — Any problems with the account (unapproved overdrafts, etc.)

  — Reason Account Closed

- **References.** Two should be obtained from a supervisor, colleague or friend, someone who has known the borrower for at least three years. That person should be able to describe the borrower's ability to meet obligations. Family members are not acceptable references. The loan office may discover undisclosed information. All information should be independently confirmed and documented.

CONDUCT the following activity if appropriate and time permits.

Activity — Checking Borrower References

Process:

1. Introduce the activity. Explain that asking appropriate questions is the key to thoroughly checking references, interviewing the borrower or conducting any other successful interview. The questions must obtain the needed information efficiently but with sufficient details. Follow-up questions are also needed. The loan officer then documents this information for the loan file rather than depending on memory.

2. Divide the workshop group into small groups of 3-5 individuals.

3. Distribute a felt-tip marker and a blank flipchart page to each group.

5. Ask each group to appoint a recorder.

6. Ask the groups to create a list of questions to ask when checking the references a borrower would provide. Write down all the possible questions even though not all would be appropriate for the same reference. For example, questions might be a little different for a colleague rather than a personal friend. If a certain question would only be appropriate for a certain type of reference, that should be noted. Groups should also think about follow-up questions to use.

   The questions should ask for information on the borrower's inclination to meet financial obligations, his or her general state of health, including any known disability, and any information about the borrower's liabilities.

7. Allow the groups about 10-15 minutes to create the lists. Then, call on the recorder to post the list on the wall using tape or push pins.

8. After the lists are posted, ask the whole group to look for similar questions on the various lists. Also, look for questions that only appear on one or two lists.

9. After all the lists have been reviewed, ask the participants to select the questions they think are best and write them down in their notes. The intent is to give them new ideas and ways to obtain the information they need.

10. (Optional) You may wish to conduct an additional activity if you want to further review techniques for asking follow-up questions. You may wish to put yourself (or a volunteer) in the role of a person who has been provided as a reference for a borrower. Ask various participants to ask questions of the "referee." The "referee" should feel free to be creative in answers and invent appropriate information. However, the "referee" should not volunteer more information than requested. The interviewers should have to ask the appropriate questions to get the information.

Standards for Analyzing the Credit History

DISPLAY Overhead 19: Analyzing Credit History.

EXPAND on the points on the overhead.

Possible explanations include the following:

- **Payment History.** A borrower should not have more than one 30-day late credit within the past 12 months and one 60-day late within the past three years.

- **Banking Activities.** Minimum six months duration or obtain information from prior bank. Banker's Opinion Letters cannot be more than three months old at loan funding.

- **Borrower Explanations and Loan Officer Evaluation.** A borrower should write a letter of explanation of any derogatory items. Isolated/minor items with satisfactory explanations are acceptable if the credit is otherwise excellent. Other documentation such as copies of unexpected medical bills can be further support. Loan officer should evaluate explanations on the Evaluation Summary Sheet.

CONDUCT a group discussion. You may wish to ask the following questions.

What types of banking transactions or problems would cause concern about the borrower's willingness to pay?

What are examples of satisfactory explanations of a late payment or other derogatory information? What would not be satisfactory?

How would you document your evaluation of a satisfactory explanation? What would you write in the loan file?

Additional Security: Reinforcing Willingness to Pay

DISPLAY Overhead 20: Additional Security.

EXPAND on the points on the overhead.

Possible explanations include the following:

- **Guarantors.** Two are recommended. A guarantor is capable of bringing about moral pressure and usually succeeds in preventing defaults.

  A guarantor should be someone who can support the mortgage obligation if necessary. If such a guarantor not available, a second guarantor can be added to compensate.

  A guarantor should be underwritten same as the borrower and must submit financial portions of the Residential Mortgage Loan Application. Before he or she can be accepted, a summary view of the guarantor's credit history should be developed and verified, employment and income details verified, and net worth calculated.

  A guarantor is normally a colleague, supervisor or friend. Guarantors employed in the government, public sector undertakings, banks, and leading public limited companies (i.e., those whose stocks are traded on the major exchanges) are preferred. Relatives can be selectively accepted as guarantors. Reasons for accepting relatives should be documented by the loan officer and included in the loan file.

- **Additional Collateral.** Pledge of securities can qualify borrower for higher loan amount, and, in selective cases, as a substitute for one guarantor.

  Acceptable securities include shares, debentures, term deposits, Indira Vikas Patra, Kisan Vikas Patra and National Savings Certificates. Collateral should be equal to 150% the incremental difference in the loan amount. Pledged collateral should be retained in the custody of the HFC until the mortgage is fully repaid or loan balance is sufficiently paid down.

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Section Five:
Case Study Assignment

OVERVIEW

During this part of the program, you will organize the participants into small groups and explain how they will underwrite the hypothetical case studies they have brought to the workshop. Between this session and the next, the participants will meet, discuss, create additional loan documents and make a loan decision.

TEXT SECTION

Chapters 1-4 (as needed)

TIME ESTIMATE

Workshop: 20-30 minutes
Study Group: 2-2 ½ hours

MATERIALS

- Handout 2: Analysis of Case Studies
- Blank copies of the loan documents from the text (in case participants need additional copies)
- Letter-size envelopes: three times the number of participants

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INSTRUCTIONAL PLAN

REVIEW briefly the topics covered in the workshop up to that point. You may wish to redisplay Overhead 1: Program Objectives.

ASK the participants to refer to their "Workshop Preparation" assignment of creating a case study loan file. Verify that all the participants have brought one. Also, verify that the participants have prepared three copies of the "Evaluation Summary" form. It should NOT show the ratio calculations and loan decision.

EXPLAIN the process they will use that evening to underwrite the cases. (If the workshop is being conducted on a schedule other than two consecutive days, you may need to adjust how the participants work on this assignment.)

Process:

1. Divide the group into study groups of three. If possible, assign individuals from three different housing finance institutions to a group. Tell the study groups that they will meet that evening.

2. Refer to Handout 2: Analysis of Case Studies.

   Review the instructions with the participants and answer any questions they have.

3. Assign a number to each case and ask the participants to write the number on the "Evaluation Summary" forms and the large envelope or folder that contains the documents. For example, the first study group would be assigned case numbers 1, 2 and 3. The second study group would be assigned case numbers 4, 5 and 6.

   Distribute nine letter-size envelopes to each group. Tell the group to write the case numbers on the envelopes (three envelopes for each case), and put the appropriate envelopes in each loan file. For example, the loan file for case study #1 would contain three envelopes labelled #1.

   For your own reference, make a list of the case numbers that have been assigned to each study group.

3. Tell the participants that a large part of the next day's session will also be spent underwriting cases. Each study group will exchange its set of three cases with another study group. The groups will then underwrite the new set of cases without knowing the decisions made by the previous group. If time allows, the study groups will again exchange cases and underwrite an additional set of three cases. At the end, the workshop group will discuss the overall results of the cases.

4. Remind the participants of the starting time of the workshop on the next morning. Briefly mention the topics that will be covered during the next day.

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Section Six: Technical
Property Appraisal

OVERVIEW

This section reviews analysis of the property appraisal. The value of the mortgaged property should constitute adequate security for the loan. Even in the current situation where foreclosure is extremely slow to execute, the borrower's legal pledge of adequate security substantially increases his or her ultimate willingness to repay the loan. Thus, the appraisal is a necessary document in the underwriting of the loan.

TEXT SECTION

Chapter 4: Technical Property Appraisal

OBJECTIVES

After completing this section, participants should be able to:

- Assess qualifications of property valuers;
- Calculate and evaluate the loan-to-value ratio according to standard guidelines and compensating factors;
- Evaluate the adequacy of the property as security according to standard guidelines.

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TIME ESTIMATE

1 hour

MATERIALS

- Overheads 21-25

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INSTRUCTIONAL PLAN

Introduction

EXPLAIN that before the group discusses the case studies they examined in their study groups, you want to review the important elements of technical property appraisal. After this review, the participants will have an opportunity to reexamine their cases to reassess the appraisals and their loan decision.

ASK *Why is the technical appraisal important, considering that foreclosure is so slow to execute that it is not a strong protection from default?*

Possible answer:

Although slow, foreclosure is still the legal alternative in case of default. However, the property also needs to support the amount of the loan so that the borrower feels it is worthwhile to make the payments and gain eventual ownership. For the borrower, the potential loss of the property should not be as strong a motivator as the desirability of ownership. The property has to have sufficient value to maintain desirability to the borrower, and the technical appraisal is one way to establish that value.

Maximum Loan-to-Value

DISPLAY Overhead 21: Loan-to-Value.

EXPAND on the points on the overhead.

Possible explanations include the following:

- **Maximum 75% of the lowest of:**
  - — **Purchase price,**
  - — **Cost of construction, or**
  - — **Appraised market value**
- **Compensating factors.** Larger loan amounts may be considered if compensating factors are documented.

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ASK *What compensating factors may allow a higher loan-to-value ratio?*

Qualifying Property Valuers

ASK *What qualifications are important for property valuers?*

Possible answer:

Technical appraisals should be carried out by approved property appraisers. Appraisers should be empaneled valuers familiar with valuating properties similar to the subject property and in the same geographical area.

The loan officer is responsible for recommending valuers for approval to the lender. To be considered for approval, the valuer should submit three recent sample appraisals covering property types similar to those that will be appraised for the lender and a resume or curriculum vitae, which includes educational background, experience in appraising residential property, professional affiliations and references from organizations or businesses for whom he has worked in the appraisal field.

Technical Appraisal Standards

DISPLAY Overhead 22: Technical Appraisal Standards.

EXPAND on the points on the overhead. Explain that these are standards the appraiser should meet.

Possible explanations include the following:

- **Appraised Value.** Current market value as estimated by a certified valuer who has personally inspected the property in and out and who has no present or contemplated future interest in the property appraised.

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- **Market Value.** The price that a property most probably would bring in a competitive and open market under all conditions requisite to a fair sale, in which the buyer and seller are each acting prudently, knowledgeably and without undue stimulus. Implicit in this definition is the consummation of a sale on a specified date, and the passing of title from seller to buyer under conditions whereby:

  (1) Buyers and sellers are motivated to maximize their economic benefit;

  (2) Both parties are well informed or well advised, and each is acting in what he or she considers his or her own best interest;

  (3) A reasonable time is allowed for exposure in the open market;

  (4) Payment is made in Indian rupees or by financial arrangement comparable thereto; and

  (5) The price represents the normal consideration for the property sold unaffected by special or creative financing, or by sales concessions granted by anyone associated with the sale.

- **Identification of Property.** Complete property address or nearest intersection if house number is not available. Also, legal description, if lengthy, can be attached as addendum or reference made to location in public records.

- **Identification of Property Rights.** Freehold or leasehold. If multifamily, indicate if cooperative or condominium.

- **Value of Concessions or Charges Paid.** Indicate any if paid by the seller or another party, with financial interest in the sale or financing.

- **Documentation.** Lender should make the appraisal assignment in writing, instructing the valuer to prepare a written report within a specified time, indicating the estimate of value. The appraisal report should be in writing and signed and dated by the appraiser. Appraisals should be no more than 90 days old at the time of loan closing. If an appraisal is more than 90 days old at the time of disbursement, a recertification of value should be obtained from the appraiser.

DISPLAY Overheads 23-25: Appraisal Report Sections.

EXPAND on the points on the overhead.

- **Property Information.**

  — **Common and legal description**

  — **Site information:** Zoning, topography (size, shape & soil condition), utilities, access (sidewalks and streets)

  — **Improvements** (detached, cooperative, condominium, row house, etc.): Description of exterior, description of construction, description of interior (room sizes and total living area, age, condition, real estate tax assessment, certification that home has been built according to plans and specification approved by HFC/bank

  — **Negative conditions:** Such as possible toxic materials, noxious fumes and proximity to power facilities

- **Community Information.**

  — **Municipality**

  — **Commentary about the area** within a two kilometer radius; access (highways and public transportation), convenience factors (shopping, schools, medical facilities, etc.); predominant occupancy (residential, business, retail, industrial, farms, etc.)

  — **Sales of vacant land and homes** during the preceding year.

  — **Plans for future development** in the area

  — **Demographic information** on the city/town: Number of inhabitants, number of households and average size

  — **Status of housing construction**: Number and structure of housing units (by size), standard of the stock (age, utilities, size of buildings), scale of housing construction activity over the last three years

  — **Description of similar projects under construction** locally

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- **Estimation of Value.**

  — **Sales comparison:** The valuer should select at least three properties that are similar to the subject and have been sold during the previous year. After making adjustments for location, condition, and other physical features, a value should be indicated for the subject.

  — **Cost estimate:** An estimate of the current cost to build an exact replica of the improvements less depreciation and plus the cost of the land.

  If the loan is for new construction or upgradation, the cost of the improvements is generally used as a close approximation of value. Copies of the detailed construction estimate, plans, materials list and all relevant permits should be examined and included in the loan file.

  Having employed both approaches the valuer should reconcile the results. The final estimate of market value should be substantiated indicating the basis of the valuer's conclusion.

- **Attached Exhibits.**

  — **Site plan**

  — **Location map**

  — **Floor plans** indicating dimension by room with computation showing total living area

  — **Photographs (exterior and interior)**

  — **Photographs of each property used as a comparable** in the sales comparison approach

ASK *What are common problems you face regarding technical property appraisals? How do you handle them?*

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Section Seven:
Case Study Analysis

OVERVIEW

The participants analyzed case studies during the previous evening. This morning, the study groups will analyze additional cases to increase their expertise at underwriting according to standard guidelines. An important part of this section is the opportunity for the participants to exchange knowledge about a variety of factors that lead to the loan decision.

TEXT SECTION

Chapters 1-3 (as needed)

OBJECTIVES

After completing this section, participants should be able to:

- Apply standard underwriting guidelines when underwriting case study loan files;
- Apply compensating factors, as appropriate.
- Analyze documentation for adequacy according to standard underwriting guidelines.

TIME ESTIMATE

3 ½ hours

MATERIALS

Case study loan files and a flipchart or chalkboard

INSTRUCTIONAL PLAN

Introduction

DIRECT the participants to rejoin their study groups from the previous evening.

ASK the study groups to reexamine their three case study loan files. They should consider the following questions:

Have you changed the decision now that some time has passed since you made it?

In retrospect, does any of the information seem more or less important?

Have any issues that were raised in the program section on Technical Property Appraisals affected your decision?

Have you gained additional insight about the property that changes your decision?

Even if the decision remains the same, do you want to add more information to explain or justify the decision?

TELL the study groups to adjust their "Evaluation Summary" sheets if they have changed their decision or if they want to add more information to justify the decision.

Then, they should seal the envelope that contains their decision and verify that a member of the group's name is on the envelope.

Finally, they should place the envelope in the appropriate loan file. (Or, you may direct them to keep the sealed envelopes if you wish.)

CONDUCT the following group activity.

Activity — Underwriting Additional Case Studies

Process:

1. Tell each study group to exchange its set of case study loan files with another group. Or, you can have each group pass its set to the group to the right (or left) if you have an odd number of participants. Use any system that is appropriate for the participants.

2. Direct the groups to open the files and underwrite the cases according to the same process and guidelines they used for the original set of case study loan files.

3. Tell the groups to document their decision and justification on an "Evaluation Summary" form for each loan and place it in one of the empty letter-size envelopes. Seal the envelopes. Place the appropriate envelope in the appropriate case study loan file.

4. Depending on the group, allow about 1 to 1½ hours for the participants to underwrite the loans and document the decisions. Allow more time if needed but you may need to adjust your time schedule and content for the rest of the day.

5. If time allows, ask the groups to exchange the set of cases again so that they underwrite a third set of cases. Allow the same amount of time. If necessary, have the groups underwrite only one or two cases from the third set if time is limited. Again, they should document the decisions and place the "Evaluation Summaries" in envelopes, which should then be sealed.

6. After the groups have finished, tell them to return the set of cases to the group. You may need to refer to your list of groups and case numbers to expedite this process.

7. The original group should unseal the envelopes of the "Evaluation Summaries" and compare the results. Allow 20-30 minutes for this discussion.

Emphasize that it is likely that there will be differences. The differences themselves are not as important as what they mean to the workshop participants. These are hypothetical cases so the loan officers do not have all the information they would usually have. Emphasize discussion of the cases and not arguments about who was "right" or "wrong."

Write the following questions (or others of your choice) on a flipchart or chalkboard to stimulate discussion.

- How did the "Evaluation Summaries" differ?
- Were the loan decisions different?
- Were the loan decisions the same but the justifications and explanations different?
- Were certain "Evaluation Summaries" more detailed? Less detailed?
- Which differences were significant and which were not?
- If there were significant differences, can you explain what may have caused them?
- Was some information impossible to include that you would normally have when underwriting a case?
- Could the loan verification forms and other documents have been more detailed?
- Could other information have been verified or investigated?
- Did various loan officers interpret the information differently?
- Did the loan officers apply the standard guidelines consistently or not?
- Overall, what appears to have caused the significant differences, and how could these decisions and explanations be made standard in the future?

8. Reconvene the full workshop group and ask the participants for one or two insights that they gained from this activity. Again, ask them to emphasize what they learned and plan to do differently rather than discuss details of the cases. Allow 10-20 minutes for this discussion.

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Section Eight:
Loan Decision

OVERVIEW

This section reviews the documentation and communication guidelines for the loan decision. It also covers file retention recommendations.

TEXT SECTION

Chapter 5: Loan Decision

OBJECTIVES

After completing this section, participants should be able to:

- Document the loan decision in the loan file according to standard guidelines;
- Communicate the loan decision to the borrower;
- Describe recommended guidelines for loan file retention.

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TIME ESTIMATE

30-45 minutes

MATERIALS

- Overheads 26-28
- Sample loan approval and denial letters

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INSTRUCTIONAL PLAN

Documenting the Decision

EXPLAIN that the guidelines for documenting the decision have already been covered in the review of the case studies and only a few points need to be emphasized here.

DISPLAY Overhead 26: Documenting the Decision.

EXPAND on the points on the overhead.

Possible explanations include the following:

- **Document Decision in Loan File.** The loan officer uses the Evaluation Summary or Loan Evaluation Sheet. **Only verified information** may be considered. The evaluation should indicate which, if any, **compensating factors** were considered by the loan officer. **Field credit investigation reports** should be attached as supporting evidence.

Communicating the Decision

DISPLAY Overhead 27: Communicating the Decision.

EXPAND on the points on the overhead.

Possible explanations include the following:

- **Communicate decision to borrower.** Use prescribed Loan Approval Letter or Loan Denial Letter, as appropriate. **Retain copy and evidence of mailing** in the loan file.

- **Loan Denial. Indicate reason(s)** in the Loan Denial Letter. The **borrower/applicant can appeal** the decision within 30 days from date of receipt of the denial letter. The borrower/applicant can also submit additional information for the loan officer's consideration.

- **Loan Approval. Borrower response process** means that the borrower must reply, in writing, to a Loan Approval Letter within a **time limit** of 30 days of the date of approval or sanction will automatically lapse.

REFER to sample Loan Denial and Loan Approval letters you distribute (if any). Discuss the language and presentation.

File Retention Guidelines

DISPLAY Overhead 28: Loan File Retention.

EXPAND on the points on the overhead.

Possible explanations include the following:

- **File Security**. Maintain in a secure place.
- **Time Period**
  - — **Disbursed Loans**. Three years after loan payoff.
  - — **Commitments Extended but not Accepted.** One year from the date of approval.
  - — **Loan Denial**. One year from the date of decision.

ASK *Why would you retain files on loans that were not disbursed?*

Possible answer:

These files add historical information about your institution's lending practices and standards.

The denied loan files can help a lender better determine which factors are more or less likely to lead to early payment difficulties. The files of the denied loans can provide comparisons with loans that are disbursed but quickly experience payment difficulties. Any similar characteristics in the disbursed loans can be examined. Files of the denied loans can be compared to loans that contained a few similar characteristics but have not experienced payment difficulties.

The files of approved loans that are not accepted may give clues to the lender on why loans are not accepted. If a pattern appears here, it may help the lender improve loan policies, design or pricing.

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Section Nine:
Legal Appraisal

OVERVIEW

This part of the workshop is a general overview of the basic legal matters related to mortgage loan underwriting. The emphasis is on the important operations and documents needed to search the property title and effect a mortgage by deposit of title deeds.

TEXT SECTION

Chapter 6: Legal Appraisal

OBJECTIVES

After completing this section, participants should be able to:

- List advocate qualifications;
- Explain advocate responsibilities in terms of inspection of records and preparation of reports;
- Describe the requirements for effecting a mortgage by deposit of title deeds.

TIME ESTIMATE

1 hour

MATERIALS

- Overheads 29-31

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INSTRUCTIONAL PLAN

Advocate Qualifications

DISPLAY Overhead 29: Advocate Qualifications.

REVIEW the points on the overhead.

- **Approved by finance institution**
- **Familiar with title searches**
- **Proven record in the area**

ASK *Why are the advocate's qualifications important?*

Possible answer:

The quality of the title search primarily depends on the skills, thoroughness and ethics of the advocate. If the advocate is not qualified, the accuracy of the search would be doubtful.

Advocate Responsibilities

DISPLAY Overhead 30: Advocate Responsibilities.

EXPAND on the points on the overhead.

Possible explanations include the following:

- **Inspection of Records**
  - **Registrar's Office Records.** Lawyer searches all records to determine whether property is encumbered.
  - **Time period.** Minimum 13 years (or longer if institution requires) or since the local Development Authority first issued an ownership certificate, whichever occurred first.

- **Preparation of Reports**

  — **Abstract of Title.** Should contain a brief summary of the title deeds and other relevant documents in chronological order stating encumbrances, charges and satisfactions of encumbrances. Acceptable documents of title include a sale deed, partition deed, gift deed, arbitration award conferring title, certificate of sale granted by a civil court, deed of transfer, probate of a will or a lease deed. Other documents such as tax receipts may also be examined. The lawyer must inspect all documents contained in the abstract of title and include the findings in the legal appraisal report submitted to the loan officer.

  — **Search Report and Certificate of NonEncumbrance.** Should contain a statement of inspection of records in the Registrar's Office and should provide proof. Also, should contain the history of title, how title was derived and whether there are encumbrances on the property.

  Also, the certificate should list the documents which must be lodged with the lender to perfect a Mortgage by Deposit of Title Deeds. The report should indicate whether the property is freehold or leasehold. On leasehold property, the report should also identify what, if any, permits should be obtained and from which authorities in order to perfect the mortgage.

- **Limits on Age of Legal Appraisal.** Should be issued prior to loan approval, but not more than 30 days before loan closing. Supplementary certificate should be obtained for the period from the date of the non-encumbrance certificate up to the date of the mortgage.

ASK *What problems could occur if title to the property was not clear and unencumbered?*

Answer: If the title to the property is not clear, the property will not be good security for the loan. More importantly, however, if the borrowers find that they do not hold clear title, then they may not have as strong a commitment to the loan.

Effecting Mortgage by Deposit of Title Deeds

REVIEW the Transfer of Property Act in terms of effecting a mortgage by deposit of title deeds.

DISPLAY Overhead 31: Requirements for Effecting Mortgage by Deposit of Title Deeds.

REVIEW the points on the overhead.

- **Made only in notified towns or cities**
- **Made by the borrower or agent**
- **Made by the creditor or agent**
- **Includes all deeds which are material evidence of title**
- **Made with intent to create a security interest in an immovable object**
- **Possession is not delivered**
- **Borrower confirms in writing the purpose of deposit of deeds**

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Section Ten: Loan

Disbursement

OVERVIEW

The last step of the loan process covered in this program is loan disbursement. The procedures at this stage ensure that the financing institution has a security interest in the property and the borrower has legally accepted the responsibility of the loan.

TEXT SECTION

Chapter 7: Loan Disbursement Procedures

OBJECTIVES

After completing this section, participants should be able to:

- Prepare loan disbursement documents according to a system;
- List the documents needed for borrower execution;
- Describe standards for the loan closing.

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TIME ESTIMATE

1 hour

MATERIALS

- Overheads 32-34
- Handout 3, Workshop Evaluation Form

INSTRUCTIONAL PLAN

Document Preparation

ASK *What procedures does your institution follow to ensure that loan documents are prepared accurately and completely?*

DISPLAY Overhead 32: Loan Document Preparation.

EXPAND on the points on the overhead.

Possible explanations include the following:

- **Checklist of required documents.** One way to ensure that all documents are prepared is to follow a standardized checklist.

- **Document proofreading.** Both the document preparer and a proofreader should check the documents and certify the correctness in a separate memorandum of certificate.

DISPLAY Overhead 33: Documents for Borrower Execution.

EXPAND on the points on the overhead.

Possible explanations include the following:

The following documents are prepared for the borrower's execution at the loan closing.

- **Typed Residential Mortgage Loan Application** form. All information should be verified, and no corrections should be allowed.

- **Loan acceptance note**

- **Housing loan agreement**

- **Letter evidencing deposit of title deeds**

- **Assignment of additional collateral, when applicable.** An example is a life insurance policy.

- **Other additional documents as required.** Loan officer should indicate which documents are required on the loan document disbursement sheet.

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Loan Closing

EXPLAIN that the next stage in the process is the loan closing.

DISPLAY Overhead 34: Loan Closing.

EXPAND on the points on the overhead.

Possible explanations include the following:

- The loan must be closed **on the premises** of financing institution.
- **Documents are completed in one sitting.**
- **Documents are executed on stamped paper of adequate quality.**
- **Erasures and overstrikes are authenticated** and dated by the borrower and a representative of the financing institution.
- **Documents are registered** with proper authority **before loan proceeds are disbursed.**

Workshop Summary and Evaluation

ASK if the participants have any remaining questions about the workshop topics.

REFER to or distribute Handout 3: Workshop Evaluation.

ASK the participants to fill out the evaluation and leave it on a stack in the back of the room. Also, encourage participants to talk to you after the session if they have comments they would like to discuss.

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Training Course in Underwriting Mortgage Loans

Part Two: Workshop Preparation Materials for Participants

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Prepared by
The Institute of Financial Education, Chicago

For
Indo-US Housing Finance Expansion Program

Abt Associates
B2/13 (2nd Floor)
Vasant Vihar
New Delhi 110 057

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Workshop Preparation

To prepare for the *Underwriting Mortgage Loans* workshop, complete the following assignment.

1. **Read** the *Standard Underwriting Guidelines* text and write down any topics or questions you would like to discuss at the workshop.

2. **Prepare** a case study loan file on a hypothetical loan request according to the following directions.

   - Develop information about a completely hypothetical borrower or base the loan request on an actual borrower. However, if a genuine borrower is used as the source, you should change all identifying information.

   - Include all the documents necessary to underwrite the loan but do NOT document a loan decision.

   - To prepare the documents, use copies of the sample loan documents in the back of the *Standard Underwriting Guidelines* text. (You will be exchanging files with other workshop participants so similar documentation will ease review and group discussion.) However, you will also find it necessary to supplement the sample documents with some of the forms used at your institution. Make sure that all documents include the information and verification referred to in the *Standard Underwriting Guidelines* text.

   - Fill out both the financing institution's section and the verifying source's section on all verification forms. Make the verification look as genuine as possible.

   - Write any letters of explanation from the borrower that might be needed.

   - Document the hypothetical interviews with the borrower and two referees.

   - Fill out most of the information on the "Evaluation Summary" form but do NOT calculate the ratios or write down the loan decision. Make three copies of the "Evaluation Summary."

   - Make the loan request challenging to underwrite. It should not be immediately obvious that the loan should be approved or rejected.

   - Place the loan documents in a large envelope or folder and bring them to the workshop.

During the workshop, you will underwrite your loan file and other files in study groups on the evening of the first day and on the morning of the second day. The purpose will be to apply the underwriting guidelines presented in the program and review the documentation. Underwriting these cases in groups will give you the opportunity to discuss underwriting methods and exchange information about your experiences. Therefore, prepare a loan file that is as complete as possible.

Program Objectives

- Consider the benefits of standard lending guidelines
- Gather, verify and document loan information according to standard guidelines
- Follow standard guidelines in credit documentation
- Analyze the sources and stability of a borrower's employment and income according to standard guidelines

Program Objectives (cont.)

- Analyze a borrower's assets, liabilities and net worth according to standard guidelines

- Calculate and analyze a borrower's payment-to-income ratios according to standard guidelines

- Analyze special characteristics and documentation of a self-employed borrower

- Create and analyze a borrower's credit history according to standard guidelines

Program Objectives (cont.)

- Analyze additional sources of security and how they reinforce the borrower's willingness to repay the loan

- Assess qualifications of property valuers

- Calculate and evaluate the loan-to-value ratio according to standard guidelines

- Evaluate the adequacy of the property as security according to standard guidelines

Program Objectives (cont.)

- Apply compensating factors to give borrowers every consideration
- Document and communicate the loan decision according to standard guidelines
- Describe standards for legal appraisal
- Follow standard loan disbursement procedures

Program Schedule

Day One

Section 1: Introduction to Standard Underwriting Guidelines

Section 2: Analyzing a Borrower's Ability to Pay

Section 3: Analyzing a Self-Employed Borrower's Ability to Pay

Section 4: Analyzing a Borrower's Willingness to Pay

Section 5: Case Study Assignment

Day Two

Section 6: Technical Property Appraisal

Section 7: Case Study Analysis

Section 8: Loan Decision

Section 9: Legal Appraisal

Section 10: Loan Disbursement Procedures

Focus of Standard Guidelines

- Standardization builds on best practices of HFIs
- Key areas:
  - The borrower's ability to repay the loan
  - The borrower's willingness to repay the loan
  - Adequacy of the value of the property to support the amount of the loan
- Verification and documentation
- Guidelines as a flexible framework
- Standardization contributes to quality and expansion of housing finance

Analyzing the Borrower's Ability to Pay

- Standard Credit Documentation
- Standard Residential Mortgage Loan Application
- Verifying and Analyzing Income Sources and Stability
  - Employment Income*
  - Non-wage Income
- Verifying and Analyzing Assets and Liabilities*
- Calculating and Analyzing Ratios*
- Self-Employed Borrowers*

*Including Compensating Factors

Standard Credit Documentation

- Completeness of Documentation
- Authenticity of Documentation
- Age of Documentation
- Types of Credit Documents

Employment and Income Stability

- Employment Verification
- Analysis of Employment Stability
  - Job Changes
  - Continuous Employment or Gaps
  - Comments from Employer
  - Compensating Factors
- Analysis of Non-wage Income
  - Productivity-Linked Incentives
  - Overtime Payment
  - Bonus Payment

Employment and Income Stability (cont.)

— Commission Income

— Expense Reimbursement from Employer

— Interest Subsidy on Mortgage Payment

— Pension Payment

— Interest and Dividend Income

— Rent Receipts

— Non-taxable Income

— Military Income

— Capital Gains/Losses

Verifying and Analyzing Assets

- Borrower Cash Requirement
  - Margin money, loan closing costs and reserves
- Acceptable Sources of Borrower Cash
  - Bank Deposits
  - Proceeds from Sale of Shares/Debentures and Other Investments
  - Gifts from Relatives
  - Borrowed Funds (acceptable if secured by assets)
  - Loans from Friends or Other Relatives
  - Sale Proceeds
- Margin Money Requirement: Compensating Factors

Verifying and Analyzing Liabilities and Net Worth

- Liabilities
  - Debts that extend beyond 12 months
  - Verify and document directly from creditors
- Net Worth = Assets – Liabilities
  - High net worth can be strong indicator of ability to pay

Payment-to-Income Ratios

- Installment-to-Income (IIR) Ratio
- Total Obligations-to-Income Ratio
- Compensating Factors

Self-Employed Borrowers: Documentation

- Tax Returns
- Financial Statements
- Provisional Income Statement

Self-Employed Borrowers: Income Stability

- Length of Self-Employment
- Type of Business Structure: Sole proprietorship, partnership, limited company
- Viability of the Business

Financial Statement Analysis

- Balance Sheet
  - Assets
  - Liabilities.
  - Capital (Net Worth)
- Profit and Loss Account
  - Income
  - Expenditures
  - Net Profit(Loss)
- Tax Returns

Loan Analysis Forms

- Comparative Analysis of Business Income
- Self-Employed Income Analysis
- Field Credit Investigation Appraisal

Obtaining Borrower's Credit History

- Types of Debts or Payments
- Three years information on debts:
  - Name and Address of Creditor/Obligator
  - Account Number
  - Amount of Credit/Obligation
  - Monthly Payment
  - Months Remaining
  - Unpaid Balance
  - Date Credit Established
  - Date Credit Repaid
  - Dates of Last Payment and Next Payment

Verifying and Documenting Credit History

- Borrowings from a Bank or Non-banking Finance Company
- Utilities
- Credit Cards
- School Fees
- Bank Accounts
  - Banker's Opinion Letter
- References

Analyzing Credit History

- Payment History
- Banking Activities
- Borrower Explanations and Loan Officer Evaluation

Additional Security

- Guarantors
- Additional Collateral

Analysis of Case Studies

1. Number your files according to the numbers your instructor assigns.

2. Determine a meeting time and place convenient for all members of the study group.

3. When you meet, review your three case study loan files, discuss the information and make a loan decision on each according to the following guidelines:

   - Underwrite the loan files according to the standards in the *Standard Underwriting Guidelines* text even if these are different from your usual practices. However, make separate notes on any differences, especially if you have questions about them. Consider compensating factors for marginal borrowers.

   - Work as a group and try to achieve a group decision on each loan file. If you cannot agree, make a note to that effect.

   - Check that all necessary loan documentation and verification information is included in each file. If additional documentation is needed, fill out additional forms or write out the information. For example, if a debt shows a late payment, you may need a letter of explanation from the borrower. (It is your choice as to whether the letter offers an acceptable explanation or not.) Or, you may notice that an asset or liability has not been verified with the appropriate document or notation from the loan officer. If so, create the needed documentation. Your goal (within the practical limitations of a hypothetical case) is to make sure the loan file includes all the information and documentation the text recommends to underwrite the loan.

   - Focus your decision on underwriting the borrower, since you will discuss the technical appraisal in the next workshop session.

     You should, however, review the information about the property to make sure it is consistent within the context of the case.

3. After underwriting each file, complete the missing information on one copy of the three "Evaluation Summary" forms in the file. This information includes the calculation of ratios and explanation of the loan officer's decision. Include all the necessary information to justify and explain the decision. Sign the form for your case.

4. Place the completed "Evaluation Summary" for each case in a separate numbered envelope. (Your instructor will distribute envelopes.) The number on the envelope should match the number assigned to that case. Place the envelope (unsealed) in the appropriate loan file. Leave the other two numbered envelopes in the file.

5. Keep the files together as a set and bring them to the next workshop session.

Loan-to-Value

- Maximum 75% of the lowest of:
  - — Purchase price,
  - — Cost of construction, or
  - — Appraised market value
- Compensating factors

Technical Appraisal Standards

- Appraised Value
- Market Value
- Identification of Property
- Identification of Property Rights
- Value of Concessions or Charges Paid
- Documentation

Appraisal Report Sections

- Property Information
  - Common and legal description
  - Site information
  - Improvements
  - Negative conditions

Appraisal Report Sections (cont.)

- Community Information
  - Municipality
  - Commentary about the area
  - Sales of vacant land and homes
  - Plans for future development
  - Demographic information
  - Status of housing construction
  - Description of similar projects under construction

Appraisal Report Sections (cont.)

- Estimation of Value
  - Sales comparison
  - Cost estimate
- Attached Exhibits
  - Site plan
  - Location map
  - Floor plans
  - Photographs (exterior and interior)
  - Photographs of each property used as a sales comparable

Documenting the Decision

- Document Decision in Loan File
  - Verified information only
  - Compensating factors
  - Field credit investigation reports

Communicating the Decision

- Communicate decision to borrower
  - Retain copy and evidence of mailing
- Loan Denial
  - Indicate reasons in letter
  - Borrower appeal process and time limit
- Loan Approval
  - Borrower response process and time limit

Loan File Retention

- File Security
- Time Period
  - Disbursed Loans
  - Commitments Extended but not Accepted
  - Loan Denial

Advocate Qualifications

- Approved by finance institution
- Familiar with title searches
- Proven record in the area

Advocate Responsibilities

- Inspection of Records
  - Registrar's Office records
  - Time period
- Preparation of Reports
  - Abstract of Title
  - Search Report and Certificate of Non-Encumbrance
- Limits on Age of Legal Appraisal

Requirements for Effecting Mortgage by Deposit of Title Deeds

- Made only in notified towns or cities
- Made by the borrower or agent
- Made by the creditor or agent
- Includes all deeds which are material evidence of title
- Made with intent to create a security interest in an immovable object
- Possession is not delivered
- Borrower confirms in writing the purpose of deposit of deeds

Loan Document Preparation

- Checklist of required documents
- Document proofreading

Documents for Borrower Execution

- Typed Residential Mortgage Loan Application
- Loan acceptance note
- Housing loan agreement
- Letter evidencing deposit of title deeds
- Assignment of additional collateral, when applicable
- Other additional documents as required

Loan Closing

- On the premises
- Documents are completed in one sitting
- Documents are executed on stamped paper of adequate quality
- Erasures and overstrikes are authenticated
- Documents are registered before loan proceeds are disbursed

Workshop Evaluation

1. What are your mortgage loan responsibilities at your housing finance institution?

___

___

2. What was the most valuable topic of the workshop? Why?

___

___

___

3. What was the least valuable topic of the workshop? Why?

___

___

___

4. What was the difficulty level of the workshop for you? Why?

___ Too difficult ___ About right ___ Too easy

___

___

___

5. How could the workshop be improved for future programs?

___

___

___

6. Other comments:

___

___