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by
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of the
UNITED STATES

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of the United States.

The Savings and Loan Associations system in the United States constitutes the primary source of home financing in this country.

In this brief manual we present a synthesis of the general form in which mortgage loans are handled in Associations in the United States, from the time the loan is requested until the mortgage is satisfied upon complete payment of the principal, interest and other obligations thereunder.

Latin-American readers should realize that some concepts expressed in this manual are not applicable in their respective countries. However, we feel that the reading of this report will be useful in forming an idea as to how a mortgage credit institution operates in this country, where the home financing technique is most advanced.

The knowledge acquired from this manual will enable readers to apply principles used in the United States to local conditions existing in their respective countries.

MORTGAGE LOAN SERVICING

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MORTGAGE LOAN SERVICING

A - Creation of the loan

The procedure used by many Associations for processing loans is a simple, practical and speedy one, and is used by Associations from the moment the prospective mortgagor requests a loan until said mortgagor accepts.

This procedure is divided into three categories:

1) Customer contact.
2) Loan commitment.
3) Acceptance.

1) Customer contact

In most cases, initial contact with the prospective mortgagor commences when the mortgagor requests to see the Association loan officer to discuss possibilities of obtaining a loan. Frequently, the Association is acquainted with the applicant and the property he intends offering as collateral. The probability that the Association may know the applicant depends on the size of the community. In any metropolitan community, a fully completed loan application is of prime importance. Usually, reliance can not be placed on personal knowledge as to credit, employment, family background, etc., of the applicant as might be the case in a small community. In larger cities a more thorough verification of the contents of the application is usually required since personal knowledge may be lacking. The loan application is the key that opens the process whereby a loan may be granted, and in substance, must contain all the information concerning the applicant, the property, and the type of loan requested. This information must be accurate, simple, clear, and as detailed as possible.

Importance of the application

Making a home loan is one of the most important transactions entered into by the average person during his lifetime. The Association uses this first contact to obtain all information necessary to arrive at a decision. This, at the same time, gives the applicant the opportunity to become acquainted with the services offered by the Association. The Association should inform the applicant about the terms and conditions of the loan best suited to his needs. It is important that the Association ascertain that the prospective mortgagor can afford to purchase the property at the stated price and can afford to pay the monthly instalments and other charges and expenses. It is also important that the Association determine that the property is good and adequate security for the loan, and that all the other conditions concerning the loan are logical.

Initial contact

As stated above, applicant contact in a small community is made by a personal visit to the Association. In larger cities, contact is frequently made by telephone, by which means the Association secures the preliminary information required to complete the application. Also, in larger cosmopolitan cities, where loan competition is as keen or keener than in the savings field, a loan applicant may call four or five different Associations to obtain the loan commitment most favorable to him.

There are two types of loan applications: the formal and informal. The informal application is taken by telephone for submission to the Appraisal Department, and thereafter, based on the information obtained, the loan commitment is offered. Some Associations are able to offer a tentative (but not binding) commitment after the first 'phone call requesting the loan, but subject to appraisal and credit approval. We do not necessarily approve of this procedure and it should be avoided if at all possible.

A formal application is completed when the prospective mortgagor applies for a loan commitment. When the commitment is given and accepted by applicant, it then becomes an integral part of the loan records.

When the application is for a commitment for a construction loan as well as a permanent loan, it is essential that the mortgagor present to the Association the drawings, specifications, and cost breakdown for the construction.

Many of the difficulties that are likely to arise can be avoided in the initial contact with the customer. The prospective mortgagor is entitled to know at this first interview the approximate cost of the loan, the rate of interest, the term, the amount of the instalments, and the time that will elapse before the application is approved and the corresponding instrument is executed.

If the Association has particular fees or charges, it is advisable that the applicant be informed at the first meeting. In areas where there is great demand for mortgage money, loan fees and charges are likely to be high. One of the principal reasons an Association in a competitive market is able to place a loan is the promptness with which it processes the loan application and furnishes the applicant a commitment.

At the initial contact, the prospective mortgagor should be informed of the position of the mortgagee (the Association) with respect to enforcement of the terms of the note and mortgage. Also, the interviewer must be able to explain all details of the loan. The interviewer should be acquainted with types of structures, loan policy, house rentals and other such matters about which the customer might inquire.

It is in order to emphasize that the Association maintains a policy of rejecting those applicants who a preliminary study of the application reveals do not qualify for a loan. This policy will save the Association unnecessary processing expenses, and for those applicants who will definitely be turned down, there will not be a lengthy period of uncertainty.

The following are some recommendations to the interviewers:

a) Receive each applicant as if he were paying a social call. Do not appear to be pressed for time and do not engage in any other activity while he is present. Generally, don't do anything that might make him feel neglected.

b) Start the conversation with topics of general interest. Make the applicant feel his visit is appreciated.

c) Give the applicant a chance to volunteer the information rather than pressing him with questions that might hurt his feelings. Mention casually some facts or circumstances he should know before receiving the loan.

d) Never say "No" at once. Allow the applicant to present his case, even

if it is certain the loan requested cannot be granted.

e) If you must say "No," if possible suggest an alternative. In many cases where the request may be a regulatory violation, mention can be made of the provisions of the regulations. This will convey to the applicant the idea that the desire is to help him. This will avoid resentment to the Association.

f) In saying "No," express regret at having to do so.

g) Invite the applicant to call again. Remind him that the Association has other services to offer.

h) Do not say "Yes" as if a favor were being done. Rather, do so as if the applicant were doing the Association a favor by requesting the loan.

i) Thank the applicant for having submitted the application.

The informal or preliminary application

The informal or preliminary application should be a brief form which provides the following information:

a) Applicant's full name (if he is the owner, agent, attorney-in-fact, attorney-at-law, or, in the case of a construction loan, contractor or builder).

b) Application number. For reference purposes, it is useful to assign consecutive numbers to all the applications, both formal and informal.

c) Date of application.

d) Applicant's address.

e) Telephone number. It is important to obtain means of easy communication with the applicant, as it saves time and work.

f) Home owner's name, if the application is made by a person other than the owner.

g) If the applicant is a legal entity, the full names of its officers.

h) Address and location of the property.

i) Legal description of the property. It is customary in the United States to give a legal description as follows: Subdivision "X," Block 5, Lot 16.

j) Land:

1) Length of each side and total area.
2) If located on a corner or inside.
3) If it is waterfront.
4) If it is regular or irregular in shape.
5) Cost and date of purchase.
6) Municipal limitations on structures in the area.

k) House characteristics:

1) If it will be built, is under construction, or has been built (in the

latter case, the construction date should be stated).

2) Number of units (from 1 to 4 family residences).

3) Number of bedrooms and of bathrooms.

4) Air-conditioning or heating, central or individual.

5) Concrete, concrete block, wood construction or other.

6) Additional structures (Example: offices).

7) If it was purchased, year and price paid.

l) Use of the funds. The regulations of Associations provide that they must be advised of the purpose for which the loan funds are intended. A proper form must contain the following information:

1) In the case of a purchase or sale: the amount to be paid or to be received, as the case may be; if the house is furnished or unfurnished; the initial or down payment, and whether or not there will be a second mortgage. It is important that all these facts are known so that the Loan Committee may have a clear picture of the circumstances before committing. In many cases, the granting or refusal of a loan will hinge on one of the above factors.

2) In the case of refinancing: Many mortgage loans granted by Associations are used by the mortgagors to pay off existing mortgages.

3) In case of refinancing of a mortgage with the same Association: The loan number; the date; the original amount; the current balance; the amount of the monthly payments for amortization of principal and interest; the amount paid as one-twelfth of the taxes and insurance; and the payment history must be stated.

This type of loan is to refinance or to increase the balance under the terms of the original mortgage. In these cases, the mortgagor effects a small saving with respect to the closing costs which more than likely will only apply to the increase.

4) For other purposes. Although this information is not often used, it is advisable to include it in the form to help the interviewer in special cases.

m) Loan requirements. Within the structure of good operating technique, it is recommended to ascertain in the first interview the purpose for which the loan is intended. The interviewer should obtain as much information as possible, so that the Association will not lose time in paper work. As the loan market becomes more competitive, it becomes more necessary to have additional information available. Thus, for instance, in those areas in the United States where it is more difficult to place loans than to obtain savings accounts, competition shows that frequently an Association is unable to make a loan because a competitor offers a similar transaction with more favorable terms. Since the person seeking a mortgage loan in these areas frequently contacts several Associations, it is important to know the minimum and maximum conditions that would be acceptable. The fundamental conditions are the amount of the loan, rate of interest, term, and closing costs.

Information should be obtained from the applicant to find out if this is

the first application he has filed and the reasons that prompted him to come to the Association. This will furnish a general idea as to applicant's purposes and needs and will thereby assist the Association in establishing guide-lines for lending.

n) Other remarks. The interviewer should write in the space provided for this purpose any observations gathered from the conversations in this first interview, that may assist the Loan Committee in arriving at a final determination. Frequently, an applicant mentions that some other Association or financial institution has offered him a loan and explains the conditions of such proposal. In this case, a note should be made of this information.

o) Employee or officer of the Association who prepares the application. The informal application is prepared by the Association officer or employee as clearly and completely as possible. The interview, whether personal or by telephone, should only take the necessary time to obtain from the applicant the information required and to explain to him the essential conditions that should be brought to his knowledge regarding the loan. The form is used as working material of the Association and does not form an integral part of the mortgage loan file; it will be used by the appraiser as a source of information for preparation of the appraisal, and by the Loan Committee to arrive at a commitment.

The formal application

Unlike the informal form treated in the preceding subsection, the formal application must be filled out by the applicant, printed or typewritten, and becomes an integral and fundamental part of the mortgage loan file. The Supervisory Agency examines the application carefully to verify that the final granting of the loan was based on the information obtained therefrom, which information must be more complete regarding the applicant and the property. And, finally, the application is signed by the applicant formalizing his request for a loan on the terms requested by the prospective mortgagor.

In addition to the information obtained in the informal application, the formal application must contain:

a) Full name of the applicant and of his wife, if married, as they will appear in the mortgage loan.

b) The legal description of the property must include the book and the page of the public register wherein it is recorded.

c) The amount, rate of interest, and amount of the monthly payments regarding the loan requested.

d) In stating the purpose for which the funds are intended, the mortgagor must specify:

1) In the case of construction loans, the name of the builder and the amount of the building contract.

2) In the case of the refinancing of a first mortgage, the full name, address and telephone number of the mortgagee, the original amount of the loan, and the current balance thereunder. This information is useful when sending a check for the current balance to the first or subsequent mortgagee upon the execution of the instrument.

3) In the case of the refinancing of second or subsequent mortgages, the same information contained in the preceding paragraph must be included regarding any such subsequent liens.

4) Details of any other liens or restrictions on the property.

e) The applicant must state whether he intends to live in the property.

f) If there are any insurance policies in force, the applicant must give the name of the company, the numbers of the policies, risks covered, expiration dates, amount of premiums payable, etc.

g) The taxes payable in the current year, and whether there are any arrearages, or if any advance payments have been made.

h) In the United States, the registration history of real estate is compiled in books, called "abstracts," which contain true copies of all the instruments recorded in the real-estate record office. Generally, such books are kept in companies specially dealing in this business, and the abstracts are kept up to date by the addition of further registrations. This application must state where the registration history of the property involved is kept.

i) Personal credit information. This information, which is not shown on the informal application, is of obvious importance. Briefly, this part of the application must contain:

1) The age of the applicant and of his wife, if married.

2) The name of the employer for whom he works, position held, time he has been working, telephone number, address, and kind of business of said employer.

3) Life insurance policy, if any.

4) The applicant's dependents and their ages.

5) The same information under subsection (2) above, regarding applicant's wife, if employed.

6) A balance sheet or summarized personal financial statement, which will form an integral part of the application. The assets must show bank deposits, whether in savings or checking accounts, (the examination of the formal application constitutes a source of new savings accounts, as the applicant voluntarily reveals to the Association if he maintains savings accounts in other institutions, and in the majority of cases it is not difficult to have the funds transferred to the Association granting the loan. We recommend that the officer or employee in charge of examining these forms advise the Savings Department of the existence of any such savings accounts in other institutions), business investments, investments in securities, shares or bonds, in real estate (real value less mortgages), automobiles, and their evaluation, and other assets. The liabilities must show in detail the monthly payments toward the obligations the applicant may have, and the reasons therefor.

7) A statement of annual income, showing the income received by the head of the household, the spouse, if any, and the descendants or dependents of the head of the household living with him. These various incomes must be added to show the total family annual income.

8) Credit references of the applicant, including bank and business credit references.

9) In most States there are laws prohibiting coercion in the placing of hazard insurance with respect to mortgage loans. For this reason, the formal application contains a sworn statement, to be signed by the applicant, designating the insurance agency that will place the fire and related risks on the property which is the subject of the loan. In actual practice, the person who receives the loan frequently accepts the recommendation the Association may make for the designation of a specific agency or company, and since frequently some of the directors or officers of the Association operate insurance agencies or have interests in them, a large number of loans granted by the Association are covered by insurances placed through this agency. This voluntary declaration forms an integral part of the formal application in many States.

10) The signature of the applicant and of his spouse, if married.

11) The date.

As it will be seen, this formal application is a comprehensive document that requires more information, and its drafting and preparation entails a greater effort on the part of the applicant. It is for this reason that the majority of the Associations do not require the presentation of this application completely filled out until the commitment made by the Association is accepted by the applicant. In many cases, the officer or employee who had the first contact with the applicant will help him complete the application.

2) Loan commitment

If, based on the initial interview, where the necessary information is obtained to prepare the informal application, the interviewer feels there are no reasons which justify the flat refusal of the loan requested, he must complete said informal application and send it to the Appraisal Department, together with the necessary documents in the case of a construction loan, so that with all these papers the appraised value of the property that would guarantee the loan may be determined.

Once the Appraisal Department returns the informal application, together with the appraisal form, the Loan Committee is in possession of all the prerequisites to make a decision.

The Loan Committee should reach a decision as to whether or not the loan should be granted. If the decision is favorable, the Committee should determine the conditions of the loan with respect to the amount, rate of interest, term, and closing cost. If it is unfavorable, the applicant must be so informed politely, and the reasons for the refusal should be explained to him.

When the applicant is notified that the Committee has agreed to grant the loan requested, it should be explained to him that the offer is being made subject to:

a) The approval of the credit report.

b) The availability of the funds at the time of final acceptance of the transaction; and

c) The mortgage to be placed must be a first lien on the property.

There are other Associations, mainly in those areas where loan competition is on a lesser scale, or does not exist at all, in which the Loan Committee acts only when the credit report is available and is accepted. Naturally, in this case the offer or commitment to grant the loan is not subject to the result of the mentioned credit report.

This difference is logical, as one of the positive weapons in a lending competitive market is the promptness in offering a loan, and since it takes several days to obtain a credit report, the more aggressive Associations use this technique or procedure to offer the loan, subject to the approval of said report.

It is not a bad policy for the Loan Committee to act based on the available credit report in those areas where no difficulties exist in the mortgage investment field, but prompt and efficient service must be offered to the applicant. The commitment offer must be speeded, but it should be taken into consideration that the Association may have to refuse the loan later because of the credit report being negative. This will affect adversely the image of the Association.

Generally, the same person who interviews the applicant informs him of the Committee's decision and, if a loan is offered, the terms of the offer. As stated above, the greater part of the initial conversations take place over the telephone; three types of reactions or answers will arise on the part of the applicant regarding the offer made to him:

a) The applicant refuses the offer. In this instance, the case is filed by alphabetical order in a file of applications which have been approved by the Committee and rejected by the applicants, because the same applicant might reactivate the application at a future time.

b) The applicant informs the Association that within a few days he will notify the Association whether or not he will accept the loan. This postponment is probably caused by the fact that he has submitted similar applications to other Associations and is waiting to hear from them before deciding which one he will accept. The Association must keep a file of pending applications. The Loan Department should examine them from time to time and make a final contact with those applicants. If the loan is not then accepted, the case must be sent to the file mentioned in the preceding paragraph.

c) The applicant accepts the offer. In this case, the Association must send to applicant a written commitment reciting terms and conditions.

The commitment letter should consist of a form to be completed in quadruplicate. The original provides space for the applicant's acceptance, and a signed copy constitutes his evidence of the offer made. The third copy is sent to the Association's attorneys with instructions as to the terms and conditions of the loan and other pertinent instructions in regard to the mortgage closing. The fourth copy is filed in the Loan Department.

A well conceived loan offer or commitment form contains:

a) The date.

b) The full name of the applicant and his or her spouse, if married.

c) The legal description of the property.

d) The address of the property.

e) The Association's decision to grant the loan for "X" amount, at "X" rate of interest, for "X" term, stating the amount of the monthly payment for amortization of principal and interest, and the one-twelfth for taxes and fire and related risks insurance premiums. The form must also state the total number of monthly payments to be made during the life of the mortgage, and the date of the first payment.

f) The closing cost, and the specific expenses payable by the applicant, as the case may be.

g) The form must clearly state that the loan offer or commitment is subject to the approval of the applicant's credit; the approval of the property title by the Association's attorneys; and the availability of funds by the Association at the time the instrument is executed.

h) In the case of construction loans, the amount that will be subject to holdback until completion of construction, and the conditions under which this holdback will be disbursed.

i) The effective period of the loan offer or commitment. In the United States it is generally from 15 to 30 days.

j) The specific instructions as to what the applicant has to do upon receiving the commitment.

k) The authorized signature of an officer of the Association.

l) Blank space for the applicant's signature accepting all the terms and conditions of the offer, and the acceptance date.

It is essential that an authorized officer of the Association review the figures, the information and other particulars inserted in the blank spaces of this form, to ensure that they truly reflect the Loan Committee's agreement.

It is quite common for the Loan Committee to assemble and for one of its members, say the Secretary, to keep minutes whenever the Committee meets, and for another member of the Committee to enter the commitment on the appraisal form of each case under consideration.

The Committee minutes should be kept on a simple form showing the applicant's full name, the appraised value of the property, the necessary and fundamental information about the loan commitment, and any observations concerning the loan. The form should provide space for dating and initialing by the Committee members.

Frequently, a Loan Subcommittee is formed to daily handle the routine applications requesting home loans. This Subcommittee may consist of the Head of the Loan Department, the Head of the Appraisal Department, and one or two subordinates from each of these Departments. This arrangement is most likely in Associations where the amount of transactions and the competition warrants a daily meeting.

The Loan Committee meets, say once a week, to ratify the Subcommittee's decisions and to consider all the commercial, urbanization, and apartment building applications that may have been presented. Logically, this Committee comprises more officers than the Subcommittee, because the number of loans to be considered is much greater than the number of house or individual loans handled by the Subcommittee.

It is apparent that only in very small Associations the Board of Directors reviews each loan. Generally, the Board appoints two of its members to represent it on the Loan Committee. The loan policy and the decision to be made on each specific loan is only part of the complex mechanism of the Associations. The Board of Directors also has other important functions and responsibilities in addition to passing on individual loans.

3) Acceptance

Once the applicant receives the loan commitment in duplicate and has accepted its terms and conditions, he returns the original to the Association, duly signed.

Normally, the Association accompanies the loan commitment with a formal application, so that the latter can be prepared and signed by the applicant upon his acceptance of the loan.

It is particularly interesting to note that in areas where there exists intense competition, some applicants use the Association's written commitment to try to obtain a more advantageous commitment elsewhere. There are also applicants who never return either the commitment or the formal loan application. Associations keep a special register of these cases which is reviewed and followed-up periodically.

B - Processing of the loan

1) Obtaining essential documents to grant the loan. Credit report. Transmittal to the Attorneys.

Following the acceptance by the applicant, the Loan Department must obtain the documents which are essential to enable the Association's attorneys to execute the instrument. These documents are:

a) The credit report.
b) The property registration history.
c) The survey of the property.
c) The insurance policies against fire and other contingencies.

a) The credit report. The quality of the report is dependent upon the availability of information and the time allowed for investigating the applicant's credit. In a small city, a confirmation of the facts offered by the applicant may be sufficient to determine the extent of the risk taken by the Association in granting the loan.

In the case of Associations located in larger cities, where the Association is not acquainted with most applicants, and their employers or references, the credit report is obtained by creating a Credit Department as part of the Association, or by entering into a contract with a firm engaged in this business. It is usual to obtain these reports from credit companies specializing in the investigation of character and credit of applicants. In many places, these companies make a minimal charge for reports; this charge usually averages about $4.00 per report.

Regardless of whether the credit report proceeds from a Department of the Association of from an independent company specializing in this activity, the main purpose is:

1) To determine the extent of the risk in the mortgage loan involved;

2) To determine the possibilities and the degree of financial responsibility of the prospective mortgagor in honoring his obligations .

3) To minimize the possibility of foreclosure by reason of borrower's default in meeting his periodic instalments as required under the terms of the mortgage.

4) To serve the interests of the prospective mortgagor and the Association.

Importance of the Credit Department

The information obtained through the credit report is extremely valuable. It may reveal lawsuits instituted or judgments recovered against applicant. Credit reports furnished by a credit agency may confirm some of the information obtained in the first interview or contained in the formal application, but, despite this, it is an additional and necessary protection that reveals the applicant's past history and present situation. Although this type of report cannot foretell the future, it does offer a basis for evaluating applicant's ability to meet his obligations and the manner in which he does so.

The credit agencies furnish information about the habits and character of the applicants; their present and previous employment; their promptness in paying other debts, etc. If the applicant is self-employed, these agencies obtain necessary information that enables the Association to determine the financial worth of the person investigated. Some Associations are more thorough and check the information obtained through independent credit agencies against their own sources of information.

If the applicant is employed, it is advisable to verify his statements about his employment, basic salary, bonuses, payments for overtime, and future prospects. There must be determined, within the salary income, the base pay and the portion pertaining to bonuses and overtime, as the latter do not have the constancy as do the former.

Basic income

One of the determining factors in granting a loan is the applicant's basic income. Basic income is that received by the applicant, excluding the payments for overtime, temporary work, bonuses, and from other casual or incidental sources. However, the basic income may originate from one or more sources, and although the principal ones are the salaries and wages, these other sources can also be significant. Steady income received from investments qualify as basic income, but income from speculative investments must not be included in this classification.

Following is a useful questionnaire for investigators, which should be submitted to the applicant and other contacts from which credit information is sought:

General:

1) Present employment:

a) Date when started.

b) Do you have the status of a permanent employee?

c) Type of work done?

d) Monthly salary or wage?

e) Have you changed employment during the past two years?

f) Has failing health prevented you from doing your work efficiently?

2) Previous employment:

a) Period of time you worked.

b) Why did you leave the employment?

c) What was your monthly salary or wage?

3) Bank account:

a) Where do you have or did you have a bank account, and since when or how long did you maintain it?

b) Have you ever overdrawn your account?

c) Have you been granted a loan? If so, for what amount? Balance due now: $.....

d) Payment history:

4) If you are self-employed:

a) Occupation or vocation.

b) How long have you been in business?

c) Average monthly income over the last 24 months: $.....

5) Loan or financial institutions of which the applicant is or was a customer:

a) When did you obtain the loan?

b) Amount of the loan: $.....

c) Form of amortization and payment (specify the rate of interest).

d) Payment history.

6) Identity and character of the applicant (from other than applicant):

a) Estimated age. Marital status. If married, since when?

b) Persons supported by him or dependents besides his spouse, and which of them live in his home. List any income of dependents.

c) Is the applicant known to be a person of moral character and good habits?

d) Do you know of any difficulty in his home?

e) What is the reputation of his associates and friends?

f) According to public opinion, does he live within his income?

7) Sources of income:

a) Annual income from employment or business.

b) Approximate income from other sources, such as rents: $.....

c) What is the estimated net worth?

d) If the spouse is employed, give the name of the spouse's employer.

e) Position held.

f) Approximate income.

g) Number of years working.

The credit report should also contain all the information that can be obtained directly from the applicant or from any other persons, to verify the applicant's statements, including whether he carries life insurance, owns automobiles, jewelry, personal effects, etc. The credit report is to be held strictly confidential and the applicant should be informed accordingly.

House expenses and other directly related costs

Once the report has been completed, the Credit Department will determine the degree of risk involved in granting the loan in question to a person on the conditions shown in said report, based on the rules prescribed by the Association, namely:

1) That the loan conforms to the provisions of the law,

2) That the loan conforms to the loan policy of the Association,

3) That the property offered as security is satisfactory.

As stated before, it is also fundamental that the possibilities of non-fulfilment on the part of the debtor be kept at a minimum. This is determined through a careful review of all the information contained in the report, calculating how much the applicant may logically pay for house expenses based on his income and other factors. In this calculation, two general principles are accepted in the United States:

1) House expenses should not exceed 25% of the net family income. In applying this principle, "house expenses" are considered to be:

a) Interest and amortization of principal.

b) Heating expenses.

c) Maintenance (estimated at between 1% and 2% of the value of the house, for one year).

d) Taxes, insurance, and water consumption.

This 25% rule must be applied with a certain degree of flexibility. In the United States, it is only taken into account for families with an annual income of $4,000 to $6,000, and this percentage diminishes for families with larger incomes. Thus, statistics show that families with a $4,000 income spend 27.5% in house expenses; those with a $6,000 income, 22.5%; those with $8,000, 19.4%;

those with $10,000, 18%; those with $12,000, 17%; and those with $25,000, 12%. As it will be seen, the percentage diminishes as the annual family income increases.

2) To buy a home, a person or family in the United States may invest up to two or two and a half times the annual gross income.

Again, this general principle must be applied with reservations. There are certain circumstances which allow the Associations to take certain liberties in interpreting the determination of the annual income, considering:

a) Salary increases calculated in advance.

b) Persons with a satisfactory employment history.

c) Employment which allows permanent additional work.

d) Families which take real pride in home ownership.

On the other hand, Associations must take into consideration the expenses of families with many members, for which cases a restrictive loan policy is indicated, unless the applicant has cash reserves. Although, naturally, a family with many members will spend more money in maintenance than a smaller family, both the social aspect and the necessity to provide adequate shelter for large families should be taken into consideration, bearing in mind the privacy and minimum comfort required for each of the members.

This means that if a general principle is established whereby the value of a house may not exceed two or two and a half times the family annual income, some exceptions will have to be made to the rule in the case of large families. For instance, a married couple with seven children requires a house with more than two bedrooms, and possibly, the granting of a loan to finance a house of this size will not conform to this general principle.

It is therefore essential and vital that all Latin Americans who are consciously willing to help solve the housing problems in their countries, bear in mind that the best means of achieving this goal is to provide adequate housing for the great number of families needing them. It is our suggestion that the housing program leaders undertake an education program to teach its people to interpret the housing problem with a national-conscience frame of mind. In this process, it is possible that in some countries it may first be necessary to convince the future home owners of the necessity of confining their desires to houses suitable for their needs and not luxury houses, as otherwise they will be depriving other families in need of houses from the opportunity to obtain them.

The leaders of housing programs in Latin America must honestly and vigorously combat, in those places where it may exist, the frequent habit of acquiring houses beyond the buyer's economic ability.

Where collective ostentation prevails in a community, it should be discouraged to make way for a conscientious, objective and rational housing policy, but this in no way should imply that inadequate housing will be provided. The location and planning of the houses is far more important than the materials and luxurious finish some prospective owners expect.

In the United States, the housing problem has been solved in part through extensive financing resources. Also, the Northamerican people have always been

conscious of the fact that they must adjust their needs to housing within their means without being ostentatious. The statistics are the best proof of this.

Credit characteristics

Equally as important as the applicant's economic capacity to perform his obligations under the loan, are his habits, customs and moral character regarding his debts. In other words, it is important that the Association determine, based on the investigation of the applicant's credit, his earnestness towards fulfilling his obligations. This earnestness will determine, in the majority of cases, the form in which the loan will be amortized.

Although the head of a household may delay the payment of some other obligations, experience shows that he will give priority to the payment of the debt on a home because he is conscious of the fact that his family will always need a roof over their heads, and therefore a foreclosure is not likely to arise.

For this reason, the person who occupies his own home is a better prospect to pay promptly than a debtor who does not occupy it personally.

The pecuniary interest that a person has in his home upon obtaining the loan is directly related to the initial payment made thereon. If this initial payment represents a substantial amount in the applicant's worth, he is more conscious and fulfills the monthly payments better. By the same token, the mortgagor pays better as he amortizes the debt, although there are exceptions that confirm this rule.

Another factor that should be considered in the credit investigation is the kind of family life among the family members. Where there is a happy family life, a mortgagor will try to protect this family, and to this effect, will endeavor to amortize the debt on his house. This type of person realizes that the monthly mortgage loan payment takes priority over any kind of personal expense. The reduction of this mortgage is of major importance in his lifetime; frequently, he will even cover this risk with life insurance so as to provide a free and clear home for his family in the event of his death.

Another important factor in considering the risk is the determination of who are the mortgagor's usual associates, personal and business. The old proverb, "Birds of a feather flock together" can be applied in this situation. A person who maintains social relations with other persons of good behaviour and moral character, and of his same social and economic standing, generally is preferred to an individual who seeks to associate with persons of a lower or higher social or economic standing.

In order to determine the applicant's paying capability, the first step is to determine what percentage of his income will be used for the monthly loan payments and the cost of meeting other housing expenses. The Association's Credit Department must then compare the expenses the applicant may have at that time against those he will have upon obtaining the loan. In many cases, it can be gathered from these comparisons whether the mortgagor will be able to meet his future budget. Some Associations use a form which contains two columns: one shows the applicant's budget before taking the loan, and the other, the budget calculated on the assumption that he has already obtained the requested loan.

Final decision

Once all the elements of determining the degree of risk involved in making a loan have been studied and noted, the final decision must be made by an officer,

or group of officers, delegated by the Board of Directors or by Management, as the case may be. There is great variation in practice of Associations in designating officers who will approve loans. In most cases, this responsibility is delegated to a Loan Committee which may consist of several Directors and Officers, or of Officers only. One of the principal decisions of the Board of Directors and of Management is the selection of the officers to perform these duties.

Regardless of who makes the final decision, the fact is that the approval of the applicant's personal credit is extremely important. None of the individual factors can be considered separately, but the entire information obtained about the applicant and his economic capacity must be taken into account.

In some Associations, the officer or officers who pass on credit will rather refuse a loan than run the risk of approving it when there is doubt as to the mortgagor's credit. In case of doubt, the credit report must be analyzed more thoroughly, and sometimes more information should be obtained to determine if it is possible to grant the loan. Many mortgagors about whom the Association has doubts in the beginning, later prove to be responsible borrowers. It is for this reason that other Associations give more thought to he refusal of a loan than to its approval, because a dissatisfied customer not only will never come back, but frequently will injure the Association's image in the community.

Reasons for refusal of loans

Statistical studies made in the United States reveal that the main reasons causing Associations to refuse loans, based on the credit report, are the following:

1) Financial:

a) The analysis indicates that the amount of the monthly payment is not logically proportionate to the applicant's monthly income.

b) The sales price of the house is not proportionate to the applicant's annual income.

c) Other obligations, such as the necessity to purchase furniture, household appliances, etc., plus the closing cost, weaken the applicant's financial ability.

d) The applicant does not have anough cash to cover the difference between the loan and the sales price of the house.

e) The applicant's income is not sufficient to cover the monthly payments unless his spouse's income is taken into account, and the possibility of this income continuing is sometimes questionable.

2) Personal:

a) The mortgagor's experience and habits in the payment of his obligations indicate that if he obtains the loan he might not be able to keep current.

b) The reason or desire to acquire the house indicates that it will be used for a temporary home and will be sold soon thereafter.

c) The applicant's character and sense of responsibility are not entirely satisfactory.

d) The family relations are not satisfactory.

e) The applicant is involved in marital problems commencing after the loan request.

f) He has only been in his present permanent employment for a short period and permanency in such employment is doubtful.

g) The mortgagor does not live within his income.

h) He associates socially with individuals of poor reputation.

i) An analysis of the transaction indicates the possibility of fraud, subterfuge, or misrepresentations.

As an additional fact, it is interesting to point out that the reasons for refusing applications can be grouped into four categories, with the following percentages:

Financial reasons	80%
Personal reasons	15%
Weak financial situation of builders (construction loans)	3%
Real estate	2%
	100%

(The latter-mentioned category includes those cases where the property does not constitute good collateral, either by reason of its age, type or location, or because it is located outside the area where the Association can operate, the reasonable value of the property is less than the property sales price, or the furniture is included in the sales price and the entire furniture cannot be considered as forming an integral part of the property in question).

b) Legal history of the property: In the United States there exists what is known as the "abstract," which, in the form of a book or file, contains the legal history of the property, reproducing all the entries appearing in the public register concerning a given property, which public register is generally kept in the area Court House where the property is located. Every time a transaction is made affecting the property, this transaction is recorded in the public register in the Court House, and a copy of the document originating the transaction is incorporated in the "abstract." Normally, the "abstract" is kept by the owner of the property or by companies who do this business and charge a fee for keeping them up to date. It is essential that the Association's Loan Department have the abstract examined by its lawyers to verify its genuiness and the condition of the property with respect to liens. Once the loan is granted, the transaction is recorded in the public register and is incorporated in the "abstract."

We wish to emphasize that the simplicity and promptness with which an "abstract" is obtained, with all the up-to-date entries regarding the encumbered property, extremely facilitates the granting of the loan. Summing up, the "abstract" is a true and exact copy of the particular registration of the property concerned, as recorded in the public register.

The same companies mentioned above, which prepare the "abstracts" and keep

them up to date, due to their specialization, also furnish a type of insurance of the property titles, at the request of an interested party and for a premium. To this effect, they issue a certificate in the name of the purchaser or mortgagee, which is in force until a new change in ownership takes place or the lien is cancelled, as the case may be. Because of the prestige enjoyed by these companies, frequently their insurance certificates are preferred to the study made by the Associations, especially when the Associations do not have a legal force specialized in registration matters or when there is any possibility of legal action arising from property titles.

c) Survey of the property: In each State of the Nation there is a Bureau which issues licenses to official land surveyors to certify the plans of real estate located within the State. These certified plans are known as "surveys," and constitute the essential element required to grant a loan, so that the Association lawyer may ascertain that the description and the location of the property shown on the title coincides with the information contained in the survey. The Association requests this survey from the applicant, and if he does not have it, orders one made for the account of the applicant. Sometimes, surveys are accepted even two years after they were made.

d) Fire and related risks insurance policies: Every improved property securing a loan has to be insured against fire and similar contingencies. For this reason, before granting the loan, the pertinent Department of the Association must verify the existence of such insurance policies or require that they be taken out prior to the signing of the instrument.

As explained above, the formal loan application contains the applicant's designation of an agency or insurance company to cover these risks, and also the information concerning any existing insurance. In other words, the insurance policies are ordered issued on the applicant's instructions, and if it were not possible to secure the policies before the loan is granted, the Association must instruct its attorneys not to deliver the proceeds of the loan until the arrangements to obtain the policies have been concluded.

Once all the aforementioned documents have been obtained, the Loan Department will send to the Legal Department a form that may be called "Transmittal of Information and Documents for Granting the Loan."

We previously mentioned that this form may be the third copy of the loan offer or commitment, of which two copies are sent to the applicant for his acceptance.

The instructions to the lawyers must be clear and precise, because they will prepare the legal documents to grant the loan based on the instructions supplied to them. The following information must be shown on this form, if the mentioned third copy is not used:

a) Amount of principal, annual rate of interest, and loan term.

b) Amount of the monthly payments on principal and interest.

c) Closing cost and compensation for expenses not reimbursed otherwise.

d) Date of the first payment: For loans on completed houses, the regulations provide that the first payment must be made within two months after closing. For construction loans, the first payment must be made within the first twelve months. It is the policy of many Associations that it be made in the fourth

fifth or sixth month, which is the average length of time it takes to construct a home.

e) Additional expenses chargeable to the customer, for example the credit report and the photograph of the property for appraisal purposes.

f) The amount representing one-twelfth of the taxes, and fire and related risks insurance, payable by the mortgagor together with the monthly payment for amortization of principal and interest.

g) If the mortgagor will produce the insurance policies covering fire and related risks.

h) If the "abstract" or property registration history is accompanying the form, or where it is stored.

i) The same information as under (h) regarding the survey of the property.

j) In the case of construction loans, if there will be any final holdback.

k) In the case of construction loans, the contractor's name and a brief description of the work to be done.

l) If the applicant has previously made a loan with the Association.

m) Information on amounts and payment of current and last prior taxes on property.

n) Attach the formal application, prepared by the prospective mortgagor.

o) Any other information that may be of importance to the attorneys for the execution of the instruments.

It is essential that a responsible officer of the Association review the form before it is sent to the lawyers to ensure that it agrees with the loan offer made.

2) Signing of the Instrument. Simplicity and promptness in its preparation.

In the same manner as the Loan Department officer or employee who interviews the applicant the first time, it is essential that the person who represents the Association in the execution of the mortgage loan instrument, the last one who will have personal contact with the mortgagor, do so in such a way so as to create a favorable image of the institution.

The execution of the mortgage loan instrument may be defined as the aggregate of the incidental actions or procedures used in creating a first mortgage lien on real estate given as security for a loan made by the Association as lender, to an applicant, as borrower. Some Associations have an officer represent them in this formal act, while others are represented by the same lawyer who prepared the final documents or loan instrument. The person bearing such representation must explain to the mortgagor the meaning of the documents to be signed, the payments that he becomes obligated to make, the cost for receiving the loan, etc. The representative should conduct himself politely so as to inspire confidence and good will in the mortgagor, since at that time he is a good-will ambassador and an exponent of the Association's public relations. Satisfied mortgagors are a source of new customers

as a result of the free publicity they give when they feel gratified—a publicity that no money can buy. A customer who is loyal to an Association, attracted by the personal service it renders, may prove very beneficial to the Association.

Normally, from two to four days elapse after the attorney receives the documents and instructions until the loan instrument is signed, although there are cases where in special circumstances it can be executed on the same day.

The prospective mortgagor and his legal representative, the owner of the real estate and his legal representative (if the financing is for the purchase of a house), and the representative of the Association, who, as stated above, in many cases can be the Association lawyer, are present when the loan instrument is executed.

Documents to be signed at the execution of the loan instrument

Omitting purely legal aspects, we set out below the essential documents which are prepared and signed by the mortgagor in the execution of the loan instrument:

a) The mortgage.

b) The note in favor of the Association.

c) The closing statement.

a) The mortgage

Undoubtedly, the significant document in a mortgage contract is that by which the mortgage itself is evidenced. It sets forth the conditions of the loan, the manner of repayment, and reserves the right of foreclosure to the mortgagee, in the event of default in the payment.

The kinds and texts of mortgage deed forms are varied. In many States, to facilitate the registration and for uniformity's sake, simple and short printed forms are used which contain all the rights and actions deriving in favor of the mortgagee. This system not only simplifies the document, which is kept by the mortgagee in its files after recording in the public register, but also reduces registration costs and permits uniformity in the public register documents.

Normally, this form consists of two or three printed pages which contain, among other, the following particulars:

1) Full name of the mortgagee and of the mortgagor.

2) Description of the real estate guaranteeing the loan and a legal description of same.

3) Amount of the loan.

4) The object of the mortgage, which is to guarantee the note issued on that same day by the mortgagor in favor of the mortgagee.

5) All the relevant legal clauses setting forth the obligations to be performed by the mortgagor and the manner in which he is to perform them; and all the rights and actions acknowledged to the mortgagee for the collection of its credit, and the means to enforce them in case of default by the mortgagor, for which eventuality

a mortgage lien is expressly levied on the real estate in question.

This form is signed by the mortgagor or mortgagors in the presence of two witnesses, and their signatures are attested by a Notary Public. Later, it is sent to the public register for recording, and revenue stamps are affixed thereon in the amount prescribed by law.

It is interesting to mention that in many mortgage forms it is only necessary to fill the blanks regarding:

1) The date.

2) The full name of the mortgagee or mortgagees.

3) The legal description of the real estate, which usually consists of two or three typewritten lines.

4) The amount of the loan.

5) The full name of the mortgagor or mortgagors, below the line where the signatures are affixed.

This shows how easily and quickly this and the other documents relating to a mortgage loan can be prepared.

b) The note in favor of the Association: The second document is a mortgage note under which the mortgagor or mortgagors obligate themselves to pay the sum specified together with the interest thereon, in the monthly payments also specified, beginning on the date stipulated, and the due date of subsequent payments. The note also contains stipulations regarding prepayments and whether or not a surcharge or penalty will be levied on such prepayments; the manner of computing the interest; when the note can be declared in default and the surcharge for arrearages and the manner of computing; the payment of lawyers' fees where their services are retained for collection; and a statement to the effect that the note is guaranteed by a first mortgage on real estate owned by the person subscribing the note.

In addition to the spaces for the signature of the mortgagor or mortgagors, space is also provided for the signature of any guarantors who may be jointly and/or severally liable under the note.

The note is filed with the others of its class, and the corresponding file must be kept under the security measures required for important documents.

c) The closing statement: When the loan instrument is executed, a closing statement is prepared showing the net amount to be delivered to the mortgagor after paying all the expenses arising from the mortgage or as a consequence of the loan itself, in the case of a loan on an existing house, or that will be deposited in the Construction Fund of the Association, in the case of a construction loan. The closing statement is frequently prepared on a printed form in which it is shown:

1) The full name of the mortgagor or mortgagors.

2) The date.

3) The legal description of the real estate.

4) The loan number.

5) The closing statement itself. We give below the main items comprising this type of closing statement, using the actual figures of a loan made by an Association in the United States:

	Debit	Credit
a) Amount of the loan		$9,750.00
b) Closing cost (2%)	$ 195.00	
c) Interest collected in advance (6% from 9/20 to 9/30)	16.25	
d) Credit report and photograph for the appraisal	7.00	
e) Deposit or fund for the payment of insurance and taxes	---	
f) Fire and related risks insurance	50.00	
g) Intangible mortgage tax	19.50	
h) State revenue stamps	9.80	
i) Bringing registration history up to date	32.50	
j) Recording of the mortgage	3.25	
k) Survey	35.00	
l) Recording of cancellation of existing mortgage	1.75	
m) Check in favor of the previous mortgagee (showing his full name)	4,733.62	
n) Holdback on final payment (frequently in the case of construction loans)	---	
o) Construction Fund	---	
Total disbursement	$5,103.67	
Net loan (check in favor of the mortgagor, showing his full name)	4,646.33	
	$9,750.00	$9,750.00

The foregoing is a specimen of a closing statement made upon the execution of a loan instrument. It refers to a loan for $9,750.00, with a closing cost of 2% and an annual interest of 6%.

We can see from clause (c) of the above statement that the interest was collected

in advance from the date the loan was made, September 20, through the last day of that month, so that the first monthly payment agreed upon may be made on the first of October. This is the recommended policy to be followed, so that all loan payments will be due on the first day of each month.

Clause (d) shows the cost of the credit report and of the photograph which is attached to the appraisal form.

Clause (e) shows the portion of the tax and insurance escrow that should be accrued to that date.

(In this case there were no insurance policies, or if there were any, they had been cancelled and the tax for the whole year had been paid.)

Clause (m) shows the amount due to the previous mortgagee. In the case in point, the mortgagor had a mortgage for $4,733.62 and the Association was making a loan for $9,750.00.

Clause (n) is provided to show a reasonable amount which, for the Association's protection, is withheld for a specific reason. Normally, this holdback is returned to the mortgagor after certain conditions have been satisfied.

Clause (o) shows the amount deposited in the Construction Fund Account in those cases where a loan is requested for this purpose.

The total disbursements, deducted from the amount of the loan, leaves the net amount for the mortgagor.

6) The closing statement form should show the amount of the monthly payment for amortization of capital and interest, and the one-twelfth of taxes and the fire and related risks insurance (escrow payment).

7) The form must also show the due date of the monthly payments and the date of the first payment.

8) The bottom of the form will provide space for the signatures of the mortgagor or mortgagors and two witnesses.

And so ends the transaction by which the mortgage deed is executed and the closing statement is made.

In the case of loans on existing houses, the funds are delivered to the mortgagor once the mortgage has been recorded in the public register. This transaction takes but a few days. Some Associations have a special system for the disbursement of funds on existing houses, by which the closing attorney makes the disbursements on behalf of the Association. The attorney uses funds supplied to him by the Association in a check payable to him before the instrument is executed. However, the Association usually delivers the funds directly to the borrower, following the attorney's instructions as to the amounts and the items to which they refer.

Before concluding this subject, it is in order to recommend that the Association maintain a system whereby the Loan Department may keep a record of the documents it sends to the lawyer for the closing, and also prepare a weekly report showing the number and amounts of the loans the lawyer may be processing at the beginning of each week, plus those sent during the week, less the loans closed during the week of the report. This will allow the Loan Department to keep an accurate

progress report of pending loans.

In addition, and this is required by the Federal Home Loan Bank Board, the Association must keep a "Loan Register," with numbered pages containing columns or divisions for the following information:

1) Loan number.

2) Full name and address of the mortgagor.

3) Date of the note.

4) Amount of the loan.

5) Appraised value of the property and date of the appraisal.

6) Interest rate on the loan.

7) Amount of the monthly payments.

8) Purpose for which the loan is intended:

   a) Construction.
   b) Purchase.
   c) Refinancing.
   d) Improvements.
   e) Other.

9) Amount allocated for the payment of one-twelfth of the taxes and insurance.

10) Type of loan:

   a) Residential.
   b) Commercial.
   c) Apartment building.
   d) Urbanization.
   e) Other.

11) Closing cost.

The columns are filled as the Loan Department obtains the necessary information. Once the mortgage deeds, the notes and other documents are received from the lawyers, the remaining data is entered in the columns to complete the registration.

3) Essential documents required for the file

Once the lawyers have recorded the mortgages in the public register, they return the mortgage deeds, the notes and other documents to the File Department of the Association, which normally forms part of the Loan Servicing Department.

Generally, upon receipt of the documents sent by the lawyers, a cardboard folder is immediately prepared, which will contain in one of its sides the documents required by the Federal Home Loan Bank Board examiners. These are classified as essential documents of the file. The mortgage notes are kept in a separate file, under strict control, in the same numerical order in which the loans were made. It is recommended that these notes be kept in the vault.

In their annual examination, the Federal Home Loan Bank Board examiners review in detail the required documents, namely:

a) The fire and related risks insurance policies, to verify that:

1) The coverage is adequate.
2) The policies are in force.
3) The policies are endorsed in favor of the Association.
4) The policies were originally issued in the mortgagor's name or were endorsed in his favor.

b) The legal report rendered on the property title, or the insurance certificate issued thereon by a title company. This document contains the lawyer's opinion. He certifies that he examined the registration history of the property, whose legal description appears in the same document, stating the date of his opinion, and that said examination revealed that a loan secured by a mortgage on the property in question, in favor of the Association, for the amount specified, was recorded and there is no other lien or preferential credit affecting this first-mortgage security.

c) The mortgage deed.

d) The closing statement.

e) The appraisal form.

f) The formal application.

g) The survey.

h) The credit report.

In addition to these essential documents required by the Supervising Authorities, there are the certifications required to make the various types of loans.

It is recommended that a filing system be used to group these essential documents in the same order and in the same side of the folder. The other documents, communications, letters, receipts, etc., that must be kept can be grouped in the other side of the folder. Logically, if the essential documents are kept as recommended, both time and money will be saved, not only in the Government examinations, but also by the Association employees themselves.

The Government Supervisory examiners study the files closely. They examine the formal applications, the minutes of the Investment Committee, the loan offers and the loan register. In other words, they examine the loan conditions from the application through the execution of the instrument, and make comparisons to verify that the various types conform to the same conditions and requisites.

C - Loan Servicing

1) Normal collections

Associations handling a large volume of business, where the savings tellers have a considerable work load, maintain a separate department for the receiving of mortgage payments only. Naturally, small Associations use the same savings teller to receive savings and monthly mortgage payments.

In some areas, American people are accustomed to sending by mail their

mortgage payments.

There are several systems utilized by the Associations for the collection of mortgage monthly payments. Among these are the following:

a) The system where the mortgagor, the same as any Savings Department customer, has a passbook in which are entered the payments made towards amortization of capital, interest, and the one-twelfth portion of the taxes and insurance, if such is the case. This book shows the debit balance of the loan after each payment. This system requires that mortgagors send their loan passbooks by mail every month, together with the check payable to the Association.

b) Other Associations have the system of coupon books, one coupon for each month of the year. In this case, the mortgagor sends in the check for the monthly payment, attaching the coupon for the corresponding month. Each coupon contains the necessary information to identify the number of the loan, the full name and address of the mortgagor, and the amount of the monthly payment, and gives a description of the payment. The coupon is returned to the mortgagor every month with a note thereon stating that it has been paid. A "window" envelope is used in mailing, which allows the reading of the mortgagor's full name and address without having to type for mailing purposes.

c) Other Associations use a collection system which consists in sending 12 envelopes to the mortgagor at the beginning of the year (if the loan is obtained during the course of the year, the envelopes are sent to the mortgagor for the remaining months of the year). The name and address of the Association is printed on the face of these envelopes, and the portion referring to the sender contains information that identifies the loan, the full name and address of the mortgagor, and a description of the total amount payable.

In the first collection system, the mortgagor always knows the balance of his loan, how much he has paid for interest and amortization, and the amount he maintains on deposit with the Association for the payment of taxes and insurance.

In the second system, the mortgagor does not have this information and has to depend on the accounting system being used.

The last system has the disadvantage that the Association does not remind the mortgagor of his obligations, but this system is favored by some Associations as being the more economical.

In those places where it is not usual to pay by mail, the monthly payments are made personally at the Association or collectors are used to go to the mortgagor to collect the payment. Local conditions determine in each individual case which of these systems is more advantageous.

It is important to emphasize that the tellers must have no authority to accept payments for less than the actual amounts of the monthly instalments agreed upon. Such payments may only be accepted with the approval of an officer of the Association. If partial payments are accepted, the conditions of the contract are not fulfilled, and we believe that the changing of such conditions does not fall within a sound administrative policy.

The management must institute collection procedures that not only are expedient and speedy, but will also provide an adequate internal control of these moneys. It must be borne in mind that nearly all the income of the Association

proceeds from these payments, and, with increase in volume, serious complications may arise if attention has not been given to setting up an effective collection system.

As an internal control measure, it is advisable that the teller who receives the monthly payments not be the same person who posts them to the individual ledger cards. If special circumstances make it necessary for the same person to do the posting, there must be another employee to balance the daily payments received against the credits entered in said ledger cards.

As is the case with the servicing of savings accounts, the fundamental objective of the Association must be to improve the collection system, so that the act of paying every month be as simple as possible, and the management should constantly endeavor to improve such system.

2) Delinquent payments

An important phase is that which refers to the organization of the Delinquent Payments Department and its ability to prevent the delinquent mortgage portfolio from increasing as the Association expands its activities.

As a general principle, it is said that the number of delinquent loans is in direct relation to the organization, ability, procedures and general efficiency of the Department responsible for collections.

The problems with collections start when the mortgagor, in some way or the other, does not fulfill some conditions of the loan contract, especially those which refer to the monthly payments. A delinquent mortgagor is one who does not make payments promptly as agreed under the note or the mortgage deed.

The delinquency consists in not paying promptly the monthly payments on amortization of principal; the taxes; the fire and related risks insurance premiums; and the various charges the Association may have paid in advance.

The principal functions of the Delinquent Payments Department are:

a) To try to make the delinquent mortgagor a punctual mortgagor in the payment of his obligations.

b) To prevent punctual mortgagors from becoming delinquent. A delay of 30 days is classified as "normal delinquency," frequently called the "grace period." The length of this grace period depends on the terms and conditions of the mortgage obligation, but the majority of the Associations grant a grace period of 30 days. Before the expiration of the grace period, the Delinquent Payments Department must notify the mortgagor of the delinquency he is already incurring.

c) To make certain that all delinquent taxes, advances, and the various charges, are paid.

d) To maintain special vigilance on the loans which have been subject to criticism by examiners of the Government Supervising Agency.

e) To maintain special control on the loans the balance of which, in relation to the appraised value, is above the proportion normally allowed by the legislation.

f) To maintain an up-to-date file of the changes in delinquency classification, to analyze properly its increase or reduction.

g) To order an inspection whenever the delinquency becomes chronic or serious.

h) To recommend the foreclosure proceedings that may be deemed necessary.

i) To recommend the abandonment of foreclosure proceedings when deemed advisable.

j) To maintain cordial relations with the mortgagors at all times.

k) To make suggestions to the Loan Department as a result of observations and study of delinquent mortgagors, to avoid the recurrence of such causes as may frequently appear to give rise to delinquency.

Causes and their classification

Delinquent mortgagors can also be classified in two categories:

a) Temporary delinquency.

b) Chronic delinquency.

a) Temporary delinquency: This requires the attention and possible assistance from the Delinquent Payments Department, which usually can be done through continuous and automatic contacts. Normally, these mortgagors pay the amount due if they are constantly reminded of the importance of doing so.

The delinquency in this category is generally caused by:

1) Illness of the mortgagor or any member of his family.

2) Change of employment.

3) Strike.

4) Temporary deficit in the family budget.

b) Chronic delinquency: This type requires that the Delinquent Payments Department exercise care and constant watch over the status of the loans affected by this delinquency.

The delinquency in this category is usually caused by:

1) Serious illness of the mortgagor or any member of his family.

2) Temporary or permanent unemployment.

3) Prolonged strike.

4) Marital difficulties.

5) Excessive obligations, which in many cases arise from the purchase of a house with a value greater than the mortgagor can afford. When buying a house, many mortgagors overlook the necessary special or additional expenses required for finance costs, furnishing and maintaining.

6) Dissatisfaction with the house. One of the usual reactions in these cases is the discontinuance in the monthly instalment payments.

In making an analysis of the mortgagors, a distinction should be made between those who intend to pay but cannot do so because of their economic situation, and those who are not even embarrassed at having defaulted in their obligations.

On many occasions, following the initial contact with the prospective mortgagor, either personally or by telephone, he is re-classified and the means of collection procedure for him may be changed accordingly. It would be difficult to try to explain in this pamphlet the various approaches or arguments that can be used for each type of delinquent mortgagor because each argument and collection method depends on many different factors. However, it is preferable to establish a uniform pattern for collecting mortgage obligations, but to vary as circumstances may warrant in individual cases.

Each collection method or procedure has its advantages and disadvantages. It is recommended that the Manager maintain written policies and procedures, and these should be subject to approval of the Board of Directors. Thus, Management and the Board of Directors can analyze the projected plan of action and make such modifications as experience may dictate. As a rule, the Delinquent Payments Department must regularly report to Management, so that the latter may in turn report to the Board of Directors. Some Managers make monthly reports to the Board regarding mortgagors who have been delinquent for more than 30 days, with comments and observations on individual cases and the total situation. This reporting method facilitates the suggestions made by the Directors, whether they be generic or specific.

Once the policies and procedures for collecting from delinquent mortgagors have been determined, it is important that a specific person be entrusted with the implementation of these policies and procedures. Unless a rigid collection policy is followed, slow payers will have a tendency to become more delinquent.

If the mortgagor receives notification as soon as he becomes delinquent, he will realize that the Association will not tolerate delinquency. This is the most effective way to educate the mortgagors to make their payments promptly.

Collection systems for delinquent mortgagors

It has long been maintained that delinquent mortgagors can generally be classified as "those who can pay and have the intention to do so; those who can pay but do not want to; and those who cannot pay." Since the majority of delinquent mortgagors fall within the first category, it is presumed that the mortgagors can pay and have the intention to do so, and therefore when a mortgagor fails to pay it is because of an oversight, unless there are indications to the contrary. If delinquency persists and legal action has been instituted, it can be assumed that the mortgagor cannot or does not want to pay.

Based on this assumption, the collection action can be divided into three stages:

a) The reminder.

b) The steps toward collection.

c) Legal action.

a) The reminder: In setting up a collection policy, the Management must fix the day of the month on which unpaid monthly instalments become delinquent.

In many Associations the monthly instalments mature on the first day of each month, but a grace period of 30 days is allowed and the loans are not considered

delinquent until the first day of the following month. However, by that date there will be two payments due, which makes the mortgagor's situation even more difficult.

Some Associations fix different dates on which the payments are due, as, for example, the 5th, the 10th or the 15th, but generally not after the 20th. If by that date or within the following 5 days payment has not been received, the mortgagor is considered delinquent. The advantage of this system is that if payment is not made, there are several days left in the month to endeavor to collect before the next instalment becomes due. If a mortgagor has difficulties in making a monthly payment, it stands to reason that it will be more so if he has to make two payments in the same month.

A few Associations permit the mortgagor to select the day of the month in which he prefers to make the monthly payments, and when permitted, it is so agreed at the execution of the mortgage. The Associations which use this system favor it alleging that if a mortgagor chooses his own due date, the payment record will improve.

Regardless which of these systems is used, a reminder must be sent immediately to the mortgagor who has not paid on the date fixed therefor. The reader will remember that in this stage the Association has presumed that the mortgagor has simply overlooked the payment, and the reminder usually consists of a letter or, in some cases, a telephone call. The impersonal type of letter is particularly recommended for mortgagors who have overlooked payment. The form must be simple, brief, and in polite terms, advising the mortgagor that apparently he has overlooked the instalment due and that if he pays promptly his payment record will not be affected, also asking him "to disregard the reminder if he has already sent his check." Some Associations send a second reminder a few days ahead of the expiration of the grace period, which, as stated before, in the majority of cases is for 30 days.

b) The steps toward collection: After the grace period, the Association assesses a late charge which emphasizes that the Association considers the mortgagor's delinquency a serious matter. From this point, all the endeavors and collection action by correspondence and through personal and telephone contacts depend entirely on the particular circumstances of each case.

Once a revision of the mortgage file and of the individual ledger card has been made, the person in charge of the Department makes inquiries of those persons who have contact with the mortgagor to obtain current information about him. Thereupon, the Association makes direct and personal contact with the mortgagor in several ways: In some cases, a telephone call from an officer of the Association may be effective; or the mortgagor may be invited to visit the offices of the Association to discuss his problems; or the visit by an officer to the mortgagor's house may be necessary. In every case, the contact should always be personal and friendly, and in the sense that the Association is trying to assist the mortgagor to solve his problems.

In discussing the situation with the mortgagor, the Association tries to ascertain the cause of the difficulty and the possible solution that may allow a normal resumption of monthly payments. When it is apparent that the mortgagor is desirous to pay but is unable to do so, the Association will offer a payment plan different from the one agreed in the original loan, and if this new payment plan does not solve the problem, the Association, as the last resort, will propose the voluntary conveyance of the property by the mortgagor to the Association to avoid foreclosure proceedings.

c) Legal action: In this stage, the Association makes a final effort to induce

the mortgagor to pay and notifies him in writing of the Association's intention to refer the matter to its lawyers for prosecution.

If no reply is received, the Association then transmits instructions to its attorneys to institute legal action.

If contact cannot be made with the mortgagor, the Association frequently sends an inspector to examine the physical condition of the house and to secure the property (if the property is abandoned) to prevent acts of vandalism against it by third parties.

Determination of delinquent mortgagors

Once the period of grace has elapsed, an examination must immediately be made of all the loans which are not current. It is extremely important for Management to know which are the delinquent mortgagors, and for this purpose it is essential to have a speedy and efficient system to determine this.

There are several methods available which may be used in preparation of a delinquent list:

a) Keeping all the individual ledger cards in one file and placing the cards on which payments are entered in another file. At the end of the grace period, the delinquent mortgagors will be those whose cards have been left in the first file.

b) Keeping all the cards in the same file, placing those on which payments are entered in a different position.

c) Keeping individual ledger cards with the initials of the months of the year printed on them, repeated three or four times in successive lines for the same number of years. As payments are made, the initials of the corresponding month are checked off, and at the end of each grace period it can be visually determined which loans pertain to delinquent mortgagors.

d) Keeping special registers to record the payments as they are received or produced.

e) Some Associations determine the delinquent mortgagors by going over the entries made on each individual ledger card. The cards which show delinquency are separated and a list is made of them. Sometimes, they are marked to indicate that they refer to delinquent mortgagors.

In short, there is a wide variety of methods to determine quickly the delinquent status. Each Association should study them to establish the one that best suits its needs. But, the most important thing is to have an efficient system.

Record of collection efforts

A good system should include for each delinquent mortgagor an individual record which will reflect all the steps taken toward collection from the moment the first reminder is sent out. A record in the form of ledger cards should also be kept of all existing loans, in numerical order. There should be entered on the cards a memo pertaining to delinquent mortgagors according to the time they have been delinquent, such as "From 30 to 60 days," "From 60 to 90 days," "From 90 to 120 days," and "Sent to the lawyers." Each one of these classifications should be marked by means of metal tabs or cardboard in different colors attached to the cards.

The delinquency record of each mortgagor will assist the Department in taking

precautionary measures to prevent a recurrence.

Late charge

In nearly all loans made by the Associations, a late charge for delinquent payments is set forth in the mortgage deed or in the note. It is thought that by imposing this charge, the mortgagor will be stimulated to pay punctually. The charge is assessed in those cases where the monthly payment is not made before a given date, and, as stated before, in the majority of cases a grace period of 30 days is granted.

This charge produces additional revenue for the Association, but usually is insufficient to cover the operating cost of the efforts and additional collection steps taken. The Associations, rather than desiring to have to make this charge, prefer that payments be made on time. Often letters are sent to the mortgagors who have paid late charges on two or three occasions, explaining that these sums could have been used toward something more useful for their families and inviting them to make an effort to pay promptly.

Many mortgagors are under the impression that because they have paid a late charge they are entitled to delay their monthly payments. The Associations should try to correct this misunderstanding.

There are several types of late charges. Some Associations increase the interest on the loan for the delinquent monthly payment. For instance, on a loan at 5-1/2% per annum, for 20 years, with a balance of $10,000, the monthly mortgage payment is $68.88 a month. If the late charge provided for increasing the interest for that month to 6-1/2%, the mortgagor would have to pay $74.60 instead of $68.88. Other Associations which charge different rates of interest on the various loans, fix on the printed notes a rate of interest, say 9% per annum, during delinquency. This formula is very simple in its application, since a loan at 6% per annum would accrue a late charge at the rate of 3% per annum, while for a loan at 5-1/2% it would be 3-1/2%.

At times, this type of charge proves too severe, and, as a general policy, the charge should not even be made, because, rather than being a stimulus for prompt payment, it creates an additional burden that makes the mortgagor's situation more difficult.

A different type of charge consists in fixing a certain rate of interest on the loan, and if all the monthly payments are regularly made during a period of six months, at the end of this period a portion of the amount paid on interest is credited to the principal. For instance, if the rate of interest is 6% and during the previous 6 months the mortgagor has paid regularly, he is only charged 5-1/2% and the balance is applied to the amortization on the principal. In other words, if the balance of a loan is $10,000, for 20 years, the principal will be reduced by $16.82.

Another type of late charge is one which assesses a fixed amount for each delayed payment. This fixed charge could be $10 for each payment in arrears.

Delinquent Payments Department

The importance of the Delinquent Payments Department cannot be overemphasized. Its organization and proper functioning will be a factor in reducing losses through default by the mortgagors. It is also advisable to hold Department expenses to a minimum.

In this Department, it is essential to determine the specific responsibilities of the officers and employees, and their respective duties. In small Associations, the responsibility falls on the person in charge of the collections. In larger Associations, greater specialization is required, and the importance of this Department will depend on the number of delinquent payments normally handled. Frequently, when the percentage of delinquent payments increases, other employees are transferred to this Department to reinforce it temporarily until the peak load of work passes.

Statistics

The national statistics of the United States show that in 1963, 1.3% of the conventional loans fell within the delinquent classification. This percentage exceeded the 1957 statistical figures by 60%. Out of each 1,000 loans made, 4 were foreclosed in 1963, and 1.5 in 1953. Based on this increase, a special study was made of delinquent mortgagors' loans, and after an exhaustive nation-wide analysis, it was concluded that the mortgagor's moral character continues to be the fundamental factor in the collection of mortgage loans. We believe that the primary factor to be considered in making a loan is the property given as security thereon; secondly, the mortgagor's moral character; and finally, the analysis of the credit report.

The statistics have also revealed that delay in payments occurs more frequently when the loan has been in existence from 2 to 5 years. 64% of the delinquent loans were made between 1958 and 1961, and 52% of the loans which are current were made in this same period. After a loan has been in existence for more than 5 years, the possibilities of delinquency diminish.

Delinquency is frequent in the cases of homes encumbered by mortgages from $10,000 to $15,000. Also, loans which were made for a term of 25 years or more have proved to be less susceptible to delinquency.

The majority of delinquent loans fall within the category of 70% to 79% of the appraised value, and those falling within the 80% or more range also have still higher degree of delinquency. This degree diminishes with respect to new houses and increases in the case of houses which are from one to five years old. Another known fact is that the higher the rate of interest, the larger the proportion of delinquent payments.

The mortgagors of the Associations in this country have an average annual income of from $5,000 to $10,000. Now then, this type of person accounts for 49% of the delinquent loans, and also for 49% of the current loans. It is considered that the mortgagor who has his own business is 1.5 times more susceptible to becoming delinquent than the mortgagor who lives from wages or salary. Another interesting fact revealed by the statistics is that self-employed persons, salesmen and non-classified workers show a greater tendency to payment delinquency. "White collar" workers, executives and professionals show the lowest incidence of delinquency. Those who hold more than one position, widows and divorcees, are also more prone to delinquency.

Persons under 40 years of age have a greater tendency to delinquency than those over 40. Of all the ages, those ranging from 35 to 39 are most susceptible to delinquency.

The statistics also indicate that the greater the number of dependents, the greater the tendency to delinquency.

The person with the greatest tendency to become a delinquent mortgagor is one who is self-employed, is between 35 and 39 years old, has four or more dependents,

an annual income of from $5,000 to $7,000, who refinanced his loan less than two years ago and has only been in his present employment from one to two years.

It can be gathered from these same statistics that the reasons which caused default in the payment of loans made by the Associations, were as follows:

a) Irresponsibility in the performance of obligations: 27%.

b) In the order of their importance:

1) Excessive obligations.

2) Marital difficulties.

3) Maintenance of two houses.

4) Gambling.

5) Permanent illness.

6) Loss of income from rentals.

7) Others.

3) Foreclosure of the mortgage. The Association as owner of the foreclosed property.

Omitting the legal technicalities used in foreclosure proceedings, we will point out their main characteristics and the procedures used by the Associations in this country to protect their assets, when they are forced to foreclose the mortgage security through default by the mortgagor.

After the Delinquent Payments Department has taken all the collection steps without success, instructions are sent to the Legal Department to institute foreclosure proceedings. As stated before, an inspector of the Association should be sent to take measures to secure the property, especially when the mortgagor has abandoned the residence.

The laws governing the foreclosing of mortgages vary in the United States according to the State, and in many the procedure is a simple, economic and speedy one. In others, on the contrary, foreclosure may take more than a year, and costs could be as high as 10%. In short, there are four foreclosure proceedings recognized by the legislation of the various States, those most generally used being the foreclosure sale and the deed of trust.

The following is a brief description of these four proceedings:

a) Foreclosure proceedings: The amount owed to the Association is judicially determined and a term of from 2 to 6 months is fixed for the mortgagor to pay. If he fails to do so, the Association automatically becomes the owner of the property. As it can be seen, the procedure is quite slow.

b) Foreclosure sale: The Judge appoints the day and the time for the sale of the property at public auction in order to obtain the necessary funds to pay the mortgagee, the amount of the debt having been previously determined. The mortgagee is allowed to participate in the foreclosure sale, and in practice usually is the only or the highest bidder, and in payment of the sale price applies

the amount of its indebtedness to the extent thereof.

c) Foreclosure by enforcement of deed of trust: This proceeding is accepted in many States of the Nation and is based on a deed of trust contained in the mortgage loan. It is often used because it is simpler, faster and less costly; but again, it must be set forth in the original mortgage loan contract or have been previously obtained from the mortgagor. The mortgagor is notified of the day and time of the auction, and the mortgagee may participate as a bidder. The creditor Association issues a title to the highest bidder, which nearly always is the Association itself.

d) Foreclosure by possession: In four States of the Nation mortgage loans may be foreclosed simply by entering the property and taking quiet possession thereof in the presence of witnesses. The entry certificate has to be recorded in the public register, and the possession must be maintained for the minimum period of time prescribed by law. A variant of this procedure is also used, whereby the Court is requested to issue a resolution regarding the amount of the indebtedness and the date on which the mortgagee may enter the property and take possession thereof.

Additional amounts to determine the debt

The interest, late charges, and the expenses and costs incurred in the foreclosure proceedings are added to the amount of the loan. The expenses and costs comprise the attorney's fees, the cost of notices in the newspapers, receiver's fees, auctioneer's fees, the issuance of the title, revenue stamps, the recording in the public register, Court and other expenses arising from the execution of the proceedings. If the mortgagor had failed to pay the taxes and the Association had paid them to protect the mortgage security, as well as the fire and similar risks insurance premiums, these disbursements will also be accumulated.

Personal responsibility of the mortgagor

In the United States the mortgagor is in most cases personally responsible for the payment of the debt, even if the property is foreclosed and the mortgagee becomes the owner thereof. If the proceeds of the auction are not sufficient to cover the debt, the mortgagor becomes personally answerable for the deficit. In other words, in addition to the real action, in the majority of cases the personal action may also be exercised.

The price obtained at the foreclosure sale is considered as payment toward the debt, as far as it may cover it. For example, if the debt is for $15,000, including principal, interest, expenses and costs, and the property is sold for $14,000, the debt is reduced by that amount, leaving $1,000 deficiency. The Association may sue for this deficiency and if successful levy against other property of the mortgagor, including his personal property. In this same example, if the foreclosed house is sold for $16,000, the Association is entitled to consider the difference ($1,000) as a profit on the sale of the property foreclosed, and the mortgagor has no right of action against said difference.

It is for this reason that the Associations either gain or lose on the sale of properties foreclosed, depending on the market conditions at the time.

Voluntary sale

In order to avoid legal expenses and procedures, frequently, and mainly when the mortgagor is a responsible person, he and the Association agree to the voluntary sale of the property for a nominal amount, and upon receiving the title to the property, the Association cancels the mortgage lien on the house and releases the

mortgagor.

Although these sales are considered valid, the Courts have examined them in some cases for fraud to determine that no influence or pressure has been used on the mortgagors by the Associations. The advantages of this system to protect the Association's assets are obvious.

The Association as owner of the foreclosed property

As a general principle, the Association is a financing institution and not an institution engaged in the real estate business; therefore, every effort should be made to immediately sell the properties acquired through foreclosure. Of course, this only refers to conventional loans, as under the F.H.A. and V.A. systems, the Associations have their loans insured or guaranteed and a different procedure is followed.

In certain areas in the United States where there is an overproduction of housing, the Associations have found themselves with many properties acquired through foreclosure proceedings or voluntary sales. Although we doubt that this problem may exist in Latin America for many years to come, the following recommendations are made for this situation:

a) Create a special department to handle the sale of the houses.

b) Contact real estate brokers to sell them.

c) Maintain detailed inventories of the houses.

d) Send monthly lists to prospective buyers, with detailed information about the houses.

e) Promote the sales through the more appropriate publicity media.

f) Maintain the houses in good physical condition.

When the Association sells these houses, it grants or allows loans on them for up to 97% of their value. The legislation is liberal in this respect and permits the Associations to do whatever is necessary to eliminate this type of assets. Normally, the buyer is required to make an initial payment of at least 3%-5% of the sale price, but preferably more. When the Association is unable to sell these repossessed properties, then, as an alternative, it might lease them for rents that at least will cover a reasonable interest on the investment, plus the expenses of taxes, fire and similar risks insurance premiums, and maintenance.

4) Maintenance of insurance policies against fire and other contingencies

One of the measures adopted by Associations over the last few years is to require the mortgagor to pay every month a one-twelfth portion of the insurance premiums.

In small Associations, the Loan Department, or the person in charge of loans, does the basic work of maintaining up to date insurance records, and in larger Associations an Insurance Department is created within the Loan Servicing Department to handle this work.

After the loan commitment has been granted, the policies are requested from

the designated agency or company. The originals will be kept in the corresponding loan file.

An individual record of the insurance on each loan should be maintained and should include the details and expiration date of each insurance policy. The cards should be filed according to the expiration dates of the policies, so that the person in charge of this function may order their renewal at the proper time.

As a separate function, the Accounting Department must maintain a record of these monthly accumulations and should periodically analyze same to determine if there will be sufficient monies in this fund to pay the next insurance premiums when due. Each accounting ledger card should have a column for the balance of this account, which account is termed "escrow" in the United States.

The mortgagor should not be pressed to obtain the insurance policies through a given agency or company. As explained, he should select freely the agency or company he desires.

As previously stated, the insurance must cover 80% of the appraised value of the property, allowing for depreciation; and for urbanization loans, the coverage must represent 80% of the urbanization value, exclusive of the price of the land.

The Government Supervising Agency checks very thoroughly that care is exercised in maintaining the policies in force and that they cover the amounts of the loans.

The premium of the policies to which we refer is approximately $5 for each $1,000 insured, but varies greatly depending on the coverage, conditions, location, etc.

5) Keeping the payment of house taxes up to date

If it is important to collect the one-twelfth portion of the insurance premiums together with the monthly payment, it is even more important to collect a one-twelfth portion of the taxes on the property. It should always be borne in mind that the taxes on a house constitute a prior lien in relation to the mortgage, and therefore, by maintaining the taxes currently, the Association is protected in its position as first mortgagee.

Regardless whether this escrow system is used, the tax register must be reviewed periodically to ascertain if the taxes on the mortgaged properties have been paid. If they have not, steps must be taken to require mortgagors to pay them. If this is not successful, the Association should advance the money and charge the loans. In this case, the mortgagor would be considered delinquent because he has not fulfilled one of the terms of the mortgage contract.

Associations which collect the one-twelfth of the taxes, compute in advance the monthly amount required. When the taxes are paid from the funds deposited monthly, it should be determined that the monthly amount is sufficient for the succeeding year also. If it is not, the mortgagor must be advised to increase the monthly instalment in order to accumulate twelve payments totalling the actual tax. In the United States property assessments and rates are periodically examined by the Municipalities and the Counties and frequently modified.

There are two theories on the escrow system. The theory against the escrow system is based on the fact that the Association benefits by the free use of the money for these payments during the year. The theory favoring the escrow system states that this assists mortgagors in budgeting their expenses. This last

theory further assumes that delinquency diminishes when this system is used. We strongly support this last point and recommend the institution of this system.

Normally, a notice is mailed to the mortgagors one month ahead of the due date of the taxes. This notice is to request mortgagors to send to the Association all tax bills. Also the mortgagor is put on notice that in the event the escrow is insufficient, the mortgagor will be called upon for the difference.

A card file should be set up to record the amount of the taxes and the dates of the payments. In the case of Associations handling a large volume of business, this file may be kept by the Servicing Department.

Before concluding, we wish to explain that the Associations which collect escrow of a one-twelfth portion of the insurance premiums and of the taxes, should retain these in a single escrow account.

6) Life insurance for the payment of the mortgage in case of the mortgagor's death

An additional service offered by many Savings and Loan Associations is life insurance protection, whereby a mortgagor insures his life and, in the event of death, the proceeds are used to extinguish the mortgage debt.

The risk of the home owner dying before the mortgage has been cancelled is greater than the risk of the house being destroyed by fire. The insurance statistics in the United States show that for each house destroyed by fire during the existence of the loan, there are 16.3 cases of death of mortgagors. This fact alone stresses the importance of this service.

The death of the mortgagor, who is the head of the household, not only is a misfortune to his family but can cause serious problems to the Association. From the point of view of public relations, it is not a wise policy to foreclose a house on a widow. However, on the other hand, the Association has responsibilities to its members and depositors which it is obligated to safeguard.

The insurance companies offer special policies for this purpose. The important consideration is that insurance coverage should be for an amount equal to the balance of the loan, on a decreasing scale. The majority of these policies do not require medical examination, but only evidence of insurability.

There are various insurance plans available to cover this risk, and each State has its customs in this respect. In some, the Associations allow the employees who hold saleman's licenses to sell these policies. Other Associations either do so directly or use an independent insurance agent. This latter course is the preferable since the service to the mortgagor should be rendered without exerting pressure, always leaving him to choose the agent he may desire.

The service rendered by the Association consists in collecting the one-twelfth portion of the annual premium together with the monthly payment, and although this service is costly, the additional protection it affords warrants it.