

Example Slides

School of Loan
Origination

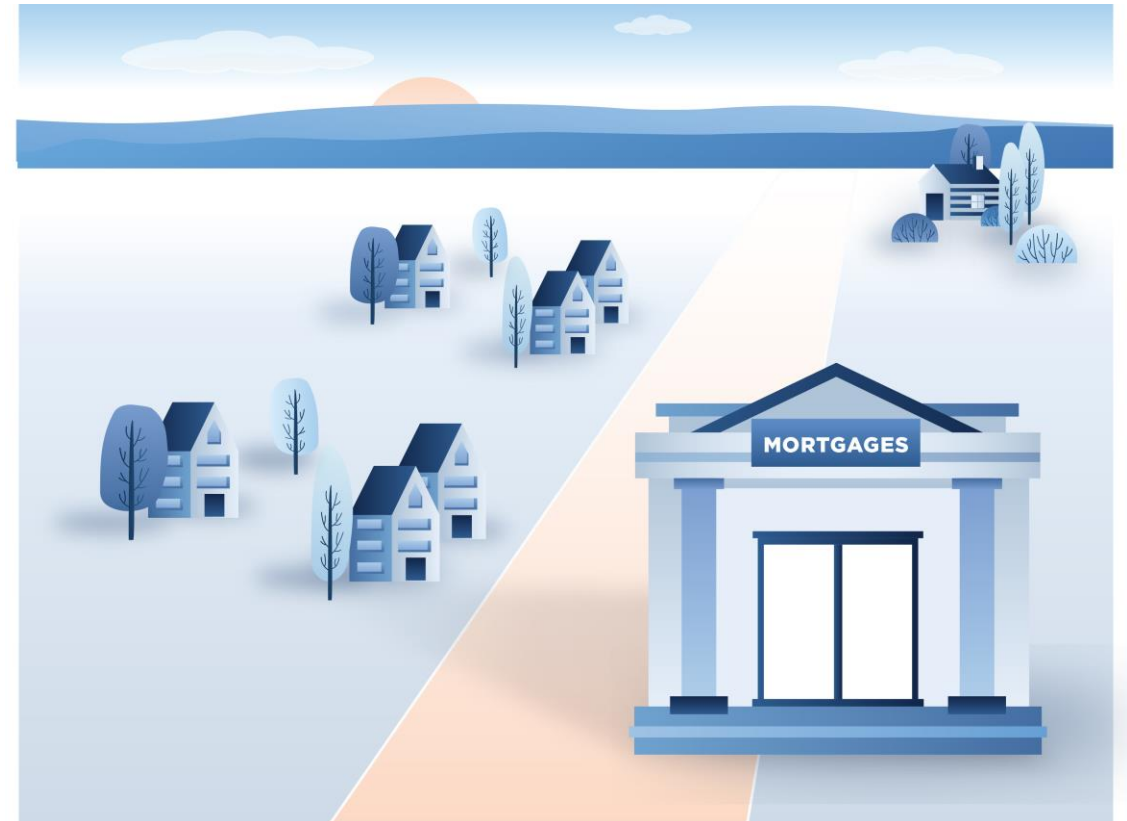


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Today's Mortgage Lending Environment

- One of the most highly regulated financial industries
- Dynamic, fast-changing, and increasingly complex
- Constant regulatory, investor, and market updates
- GSEs and federal housing agencies adapting priorities
- Economic and affordability uncertainty impacting borrowers



Laws Governing the Origination Process

Real Estate Settlement Procedures (RESPA-Reg. X)

- Section 8 – Prohibition on Kickbacks
- Section 9 – Prohibition on Seller-Required Title

Equal Credit Opportunity Act (ECOA-Reg. B)

- To prevent discrimination in issuing credit

Fair Housing Act (FH Act)

- To prevent discrimination in housing

Truth in Lending Act (TILA-Reg. Z)

- Home Ownership and Equity Protection Act
 - High-Cost (Section 32) Mortgages and Higher-Priced Mortgages
- Loan Originator Rule (LO Comp)
- TILA-RESPA Integrated Disclosures (TRID)
- Advertising Requirements
- Appraisal Independence
- Ability-to-Repay and Qualified Mortgage (ATR/QM)

Disclosures

Why are they needed?

- To inform consumers of rights granted by law
- To inform consumers of costs of the transaction, settlement, and long-term cost of credit in a timely manner

What does disclosure mean?

- To gain acknowledgement that consumers were notified of their rights, evidenced by the consumer's signature on the disclosures

When are they required?

- When running credit reports
- At time of application
- During the process as aspects of the transaction change
- Prior to closing
- At closing
- During loan servicing

How Price Paid Can Affect the Rate

If 6.25% is par and 1 discount point buys .25% in rate...

Rate decrease = price increase:

- 5.75% rate = 2 points paid by borrower

Rate increase = price decrease:

- 6.00% rate = 1 point paid by borrower

“Par” refers to no points from borrower or lender:

- 6.25% rate cost borrower = “0” points

Lender credit = price exceeds PAR price (above par):

- 6.75% rate credit to borrower = 2 points paid by lender

FHA Government Loans

Advantages of FHA loans

- Higher LTV - minimum down payment 3.50%
- Lower credit scores
 - Lenders set their own minimum
- Higher DTI than conventional
- Better pricing - lender credit for closing costs
- Low down payment

Disadvantages of FHA loans

- 1.75% UFMIP (up-front mortgage insurance premium)
- .40-.75% monthly mortgage insurance premium
- MIP remains for life of loan if LTV > 90%; otherwise cancels after 11 years
- Collateral becomes important (peeling paint, structural, safety issues addressed)

Payment Options: Review

Fully-Amortizing

- Payment includes principal and interest
- Loan balance declines each month
- Standard structure for QM loans

Interest-Only

- Payment covers interest only during the IO period
- No principal reduction during that time
- Results in higher payment when amortization begins
- Generally non-QM under current ATR/QM standards

Deferred Interest (Negative Amortization)

- Minimum payment does not cover interest due
- Unpaid interest is added to principal
- Loan balance increases over time
- Not permitted in QM, GSE, FHA, VA, or USDA programs

Note: Interest-only and negative amortization features are generally limited to non-QM or portfolio products today.

Schedule 1 (Form 1040)

2a Alimony received. Check consistency with other documentation.

3 Business income or loss. Used for sole proprietor or single member LLC. Do not use this number; use Schedule C.

5 Rental real estate, etc. Do not use this number; use Schedule E.

7 Unemployment. Check guideline before using.

SCHEDULE 1 (Form 1040) **Additional Income and Adjustments to Income** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service **2025** Attachment Sequence No. 01
 Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR: _____ Your social security number: _____

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss _____

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions): _____		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Check if any from Form(s): <input type="checkbox"/> 4797 <input type="checkbox"/> 4684	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation. If you repaid a 2025 overpayment (see instructions), check here <input type="checkbox"/> and enter amount repaid: _____	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	

Schedule 1 (Form 1040) 2025 Page 2

Part II Adjustments to Income

11	Educator expenses	11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903. If claiming only storage fees (see instructions), check here <input type="checkbox"/>	14	
15	Deductible part of self-employment tax. Attach Schedule SE	15	
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions): _____		
20	IRA deduction. If you are married filing separately and lived apart from your spouse for the entire year (see instructions), check here <input type="checkbox"/>	20	

19a - Alimony paid. Must be counted as an expense.

<https://www.irs.gov/pub/irs-pdf/f1040s1.pdf>

5/6 ARM Example

➤ Loan Terms:

- Start rate: 6.0%
- Margin: 2.25%
- Caps: 2% initial / 1% semiannual / 5% lifetime (2/1/5)
- Index at time of first adjustment: 3.75%

➤ Questions:

1. What is the fully indexed rate at the first adjustment?
2. What will the new rate be at the first adjustment (after applying caps)?
3. What is the maximum possible rate over the life of the loan?

Solution:

Q1: Fully-Indexed Rate (FIR):

$$\mathbf{FIR = Index + Margin}$$

$$3.75\% \text{ (index)} + 2.25\% \text{ (margin)} = \mathbf{6.0\%}$$

The fully indexed rate equals the start rate in this example.

Q2: New Rate at First Adjustment (After Applying Caps):

$$\mathbf{New Rate = lower of FIR vs. (Start Rate + Initial Cap)}$$

$$\text{Start Rate} + \text{Initial Cap} = 6.0\% + 2.0\% = 8.0\%$$

$$\text{FIR} = \mathbf{6.0\%}$$

$$\text{New Rate} = 6.0\%$$

(No increase because FIR is below the initial cap limit.)

Q3: Maximum Rate Over the Life of the Loan:

$$\mathbf{Max Lifetime Rate = Start Rate + Lifetime Cap}$$

$$6.0\% \text{ (start rate)} + 5.0\% \text{ (lifetime cap)} = \mathbf{11.0\%}$$

Calculating DTI – Salaried Income

Qualifying income must be accurate before structuring

Front = PITI/gross monthly income (before taxes withheld)

Back = PITI + other debt/gross monthly income

\$120,000 annual salary/12 months = \$10,000 gross monthly

PITI = \$2,200/mo.

Front = \$2,200/\$10,000 = 22%

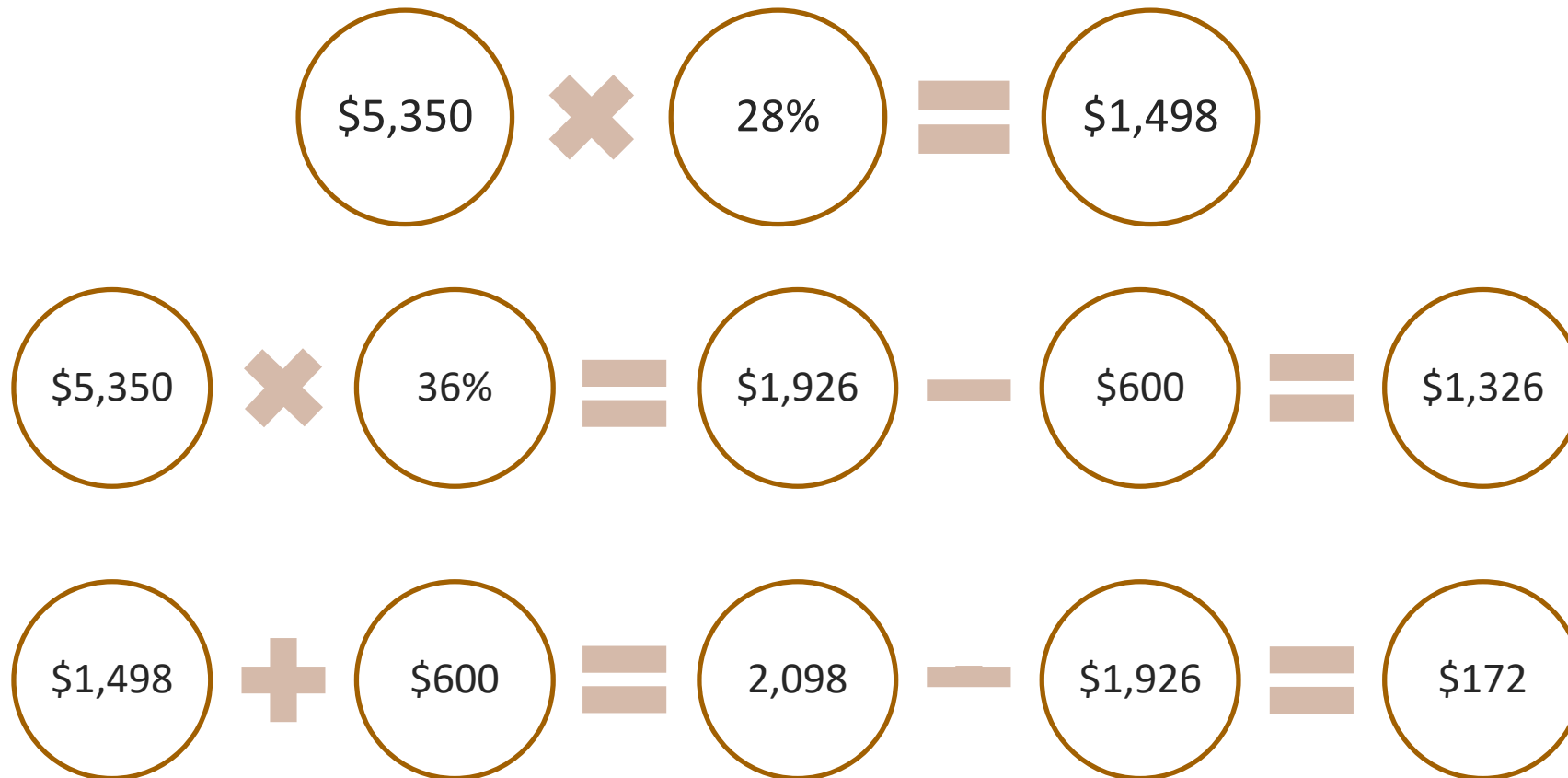
Back = \$2,200 + (\$550 + \$875 + \$1,535)/\$10,000 = 52%

- Car Payment = \$550/mo.
- Credit Cards = \$875/mo.
- Alimony = \$1,535/mo.

22% / 52%

Maximum DTI is driven by AUS findings, product type, and investor overlays

Case Study 6: Calculating the Max Qualifying Payments



Max PITI of \$1,498 + the current monthly debt of \$600, exceeds the max back-end of \$1,926 by \$172.

Critical Considerations in a Loan Decision

Does the property meet collateral guidelines?

- You can't know enough about the property
- Property type impacts price and documentation requirements

Does the transaction meet investor guidelines?

- LTV/equity
- Arms-length transaction (a non-arms length transaction can be a sign of undisclosed agreements)
- Cash-out or cash-in
- Meets ATR/QM requirements or investor-defined ATR for non-QM

Does the borrower profile meet investor guidelines?

- Ability to repay
- Willingness to repay