

# Mortgage Lending Functions



MORTGAGE BANKING  
SOLUTIONS

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## Operational Overview



# OUTLINE

- Requirement to be a Lender
- Steps of the Lending Function
- Underwriting Structure
- Mini-Correspondent
- Key Terms

MBS has helped companies achieve every stage



# Requirement of a Lender 1 of 2

- Lender manages the Lending Function
- Underwriting is conducted:
  - Delegated
  - Non-delegated
- Lender has relationship with warehouse line bank
- A warehouse line is used to close the loan
- Loan Closes in the Originator's name
  - HUD1 shows name of entity taking application
  - Note show Lender's name as the payee





# Requirement of a Lender 2 of 2

- Lender has relationship with Investor
- Investor buys the loans based on lock registration
- Lender assumes Repurchase Risk
- Repurchase Risk exists from contract breach
- Lender has a “Loan Level” accounting system
- Accounting produces profit per loan reports
- Lender has a Compliance Management System (“CMS”)



# The Lending Function 1 of 2

- Application –
  - complete Form 1003,
  - provide disclosures
- Processing – validate content of Form 1003
- Lock registration –
  - best efforts commitment or
  - Sell forward TBA-MBS for hedge
- Underwriting - verify meets investor guideline
- Loan Closing/Funding – warehouse line borrowed
- Accounting cycle begins with Loan Funding



# The Lending Function 2 of 2

- Shipping – deliver loan documents to investor
- Loan Sale/Purchase
  - Investor sends purchase wire to warehouse bank
  - Warehouse bank pays off line, deposits net gain
- Accounting cycle complete
  - Loan Sold
  - Report profit per loan, branch, LO, product, etc
- Interim Servicing for First Payment –
  - IRS 1098
  - FDCPA & CFPB QWR compliance



# Underwriting Structure

## Conventional underwriting (Fannie & Freddie)

- Delegated
- Non-delegated

## Government underwriting (GNMA & VA)

- FHA– Direct Endorsement (DE & CHUMS)
  - Application must be taken by an employee of the lender
  - Underwriting must be performed by employee of lender
- For non-direct endorsement FHA activity
  - Application taken by employee of a sponsored broker
  - File is sent to an FHA DE lender for closing





# Mini-Correspondent

## Mini Correspondent Operating Structure:

- The warehouse bank and investor are the same entity
- The lender does not have independent warehouse line
- The lender does not have independent investor
- The lender has no repurchase risk

## Mini Correspondent Closing Procedure:

- The investor performs the underwriting function
- The investor provides funds for closing
- Loan closes in the lender's name
- The investor purchases the loan from the lender

Often implemented to avoid the YSP disclosure





# Key Terms

Mortgage Banker = Lender / Retail

Mortgage Broker = Originator / Wholesale

Gain on Sale:

- Premium or Discount,

- SRP - Servicing Release Premium (true value 1%)

- MSR – Mortgage Servicing Right (approximately 1%)

Servicing Value:

- Present value of the net future cash flows including:

  - Service fees of 25bp for agency to 44bp for GNMA

  - Escrow balance - value extraction

Servicing Risks:

- Prepayment, Delinquency and Advance, Foreclosure



# Road Map to Success

MBS can provide you with your  
Road Map to Success to  
Achieve any Stage of  
Mortgage Banking

Doctor Schell the Profit Doctor™



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