LENDING 101 - PART 1

Who's Who in the Mortgage Process

The first step in understanding the mortgage process is understanding who is involved. This section of the course will describe the different types of mortgage financing providers and the pros and cons of each. Once you understand what providers are available, you will need to do your own research to figure out what makes the most sense for your personal financial scenario.

You can get a mortgage through:

- A mortgage banker or lender
- A mortgage broker
- A portfolio bank
- A big box bank
- Private money

After completing this section of the course, you should know the characteristics of each of these providers and the key differences between them.

Speaking the Language

As you progress through the course, make sure you understand these key terms:

- **Direct to Agency:** Works directly with Fannie Mae, Freddie Mac, FHA and VA (no intermediary)
- **Overlays:** Additional rules or guidelines above federal regulations
- **Jumbo Loan:** A loan amount over what is considered the conforming loan limit
- **Mortgage Broker:** An intermediary between you and the lender, but doesn't actually loan you the money
- **Mortgage Banker:** Lender that processes, underwrites and funds your loan

BANKER VS. BROKER

A good place to start is understanding the difference between a mortgage banker or lender, and a mortgage broker.

Mortgage Bank	Mortgage Broker
Work "direct to agency" – meaning they work directly with Fannie Mae, Freddie Mac, FHA and VA	Work as the intermediary between you and the bank that will service your loan
Rules are set and guided by the federal government	Have additional rules and regulations or "overlays" above what the agencies have
Can be more expensive but they handle all their own processing, underwriting and funding	Typically are less expensive in cost and interest rates
More consistent and clear path to financing	Process can take longer than a bank – they must adhere to their own timelines and the servicer's timelines

> "I personally work at a mortgage bank. And one of the reasons that I like working for a mortgage bank is for that consistency and for how quickly I can get a home loan done."

PORTFOLIO BANK VS. BIG BOX BANK

For a portfolio bank, think something like MidFirst or FirstBank. Your big boxes are banks like Chase, Bank of America, and Wells Fargo.

Portfolio banks offer flexibility:

Community banks, credit unions and smaller banks typically have more flexibility and can provide additional loan products that aren't available with Freddie Mac or Fannie Mae. This includes jumbo financing, which we'll cover in more detail later in the course. The portfolio banks also tend to care about the relationship with the customer as it relates to mortgage financing.

Big Box banks offer convenience:

If you already bank there, you have the convenience of knowing where to make payments and attaching the mortgage to a checking account.

That said, big banks do a variety of things besides your mortgage, like credit cards, auto loans, personal loans and business bank loans. For some, this can be a detriment.

> "One piece of feedback I often get from clients that originally shopped at a big bank is the difficulty with communication, availability, and then the overall timeline in their process."

PRIVATE FINANCING

This typically comes from an investor, an LLC, or a family member and is generally used when you do not meet the qualifications for traditional financing. All investors will have their own due diligence process, guidelines, set of rates & terms, and "buy box," or criteria for lending.

PRO

You may be able to get financing when traditional financing is not available.

CON

Typically, these have higher interest rates, higher fees and require larger down payments.

Take Note: Private Financing is not regulated or licensed the way banks or brokers are, so there is some risk.

What We've Learned

Now that you have read through this section of the course, you should understand:

- The five different types of mortgage financing providers
- The difference between a banker and a broker
- The difference between a portfolio bank and a big box bank
- The examples and pros and cons of private financing

POP QUIZ!

It is up to you to do your own research to find the right type of financing for you. Our goal is to make sure you understand who the providers are, as well as the pros and cons of each.

Here's an illustration that may help. Try to match each scenario in Column A to the type of financing that may be appropriate for them in Column B.

Column A	Column B
1. Cares more about low cost than quickness	A. Private Financing
2. Prefers to have checking & mortgage in one place	B. Mortgage Broker
3. Wants an easy, smooth path to financing	C. Big Box Bank
4. Does not qualify for traditional financing	D. Portfolio Bank
5. Needs flexibility for additional loan products	E. Mortgage Banker

Answer Key: 1B, 2C, 3E, 4A, 5D

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