1. Summarize the differences between conventional loans and government loans.

A conventional mortgage is a mortgage that is NOT insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), or the Rural Housing Service (RHS) of the U.S. Department of Agriculture (USDA).

Non-Conventional/Government Loans (FHA, VA, USDA/RHS) - Non-conventional mortgages are mortgages guaranteed or insured by government agencies such as the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA) and the Rural Housing Service (RHS) of the U.S. Department of Agriculture.

2. Summarize the four types of caps that affect adjustable-rate mortgages.

   Initial rate cap: a limit on the amount that the interest rate can increase or decrease at the first adjustment date for an ARM.

   Periodic rate cap: a limit on the amount that the interest rate can change up or down on any adjustment date.

   Lifetime rate cap: a limit on the amount that an interest rate can change over the life of an ARM, functioning as a Rate Ceiling.

   Payment cap: a limit on the amount that the payment can change on any adjustment date from the current or previous payment amount on an ARM. Payment caps do not limit the amount the interest rate may adjust, but rather place a limitation on the amount the required minimum payment may change per adjustment period. If payment caps result in a monthly payment that is not sufficient to pay all of the interest due, the unpaid interest is added to the principal balance, causing it to grow. A payment program that leads to a growing loan balance is known as negative amortization. Current lending laws and regulations prohibit payment programs that can lead to negative amortization for high cost mortgages regulated by HOEPA and for qualified mortgages, including qualified ARMs.

3. A borrower is unsure whether to go with a fixed rate or adjustable rate loan. What kind of questions would you ask to help them decide?

   Ask homebuyers how long they expect to remain in a home. The largest portion of payments made in the early years of a loan term are applied to the interest. Therefore, a homeowner with a short-term interest in a home will have no opportunity to build equity with a fixed-rate mortgage, but may benefit from the lower payments that come with an ARM that has a low introductory interest rate.

   Another question would be to understand if they can meet the larger payments that will be due in the future.

Also you need to ask questions to understand which ARM is best – Hybrid, FHA, etc.

4. Select two different loan programs/types and summarize the important points you would need to communicate to a potential borrower. (some examples: interest-only loans, home equity loans, loans with a balloon feature, reverse mortgages)

Reverse mortgage:

Loans are only available to borrowers that are 62 or older
The borrower must live in his/her home
The mortgage is payable in full when the home is sold or the last surviving homeowner dies
Interest is charged on the outstanding balance and added to the debt
Debt increases with each advancement of credit and with accrued interest

Fixed rate conventional:

Typically require strong credit scores and down payments of 20% of the purchase price of a home. However, in November 2014, Fannie Mae and Freddie Mac announced that they would purchase conventional loans made to a borrower who makes a down payment as low as 3%, if the loan meets the following requirements: ▪ The interest rate is fixed ▪ The loan term does not exceed 30 years ▪ The loan is made: o To a first-time homebuyer o To finance the purchase of a principal residence.

FHA

Advantages: Low down payment requirements, Fee limits on closing costs (e.g., the administrative cost of processing the mortgage cannot exceed 1% of the loan amount) and More lenient underwriting requirements

Disadvantages: FHA loans cost more than conventional mortgages because borrowers must pay for mortgage insurance. Also there are loan limits for FHA loans.