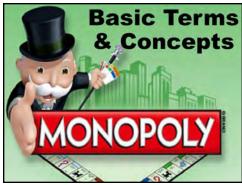
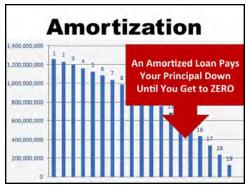
Chapter 11: Real Estate Financing

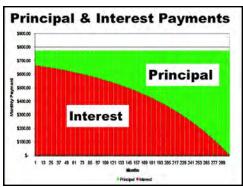


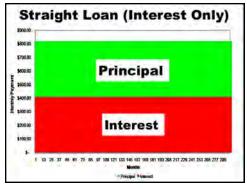




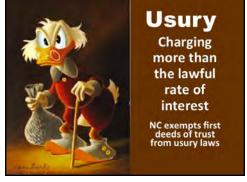












Lender Charges

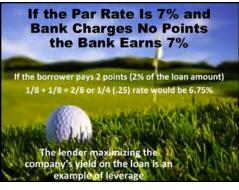
- Origination fee Lender charge for processing the loan (generally 1%)
- Discount point Lender charge to Increase the yield and lower the interest rate

Both ARE percentages of the loan amount Both are negotiable with the lender



• Each point reduces the interest rate 1/8

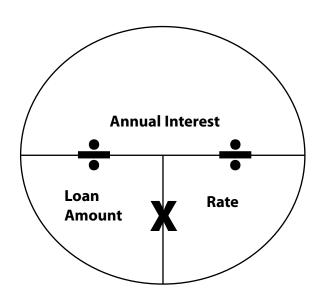






The SUPERIOR WAY Loan Interest Math

- 1. Loan Amount × Rate = Annual Interest
- 2. Annual Interest ÷ Loan Amount = Rate
- 3. Annual Interest ÷ Rate = Loan Amount



To Convert Annual Interest

Monthly Interest: Divide by 12

Daily Interest: Divide by 360

Home Loans Are SIMPLE INTEREST Paid IN ARREARS

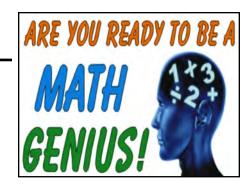
Example:

How much annual interest is paid on a \$180,000 loan if the interest rate is 7.5%?

\$180,000 × 7.5% = \$13,500 Annual Interest

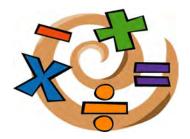
Loan Interest Math PROBLEMS

1. A buyer purchases a home for \$136,000 and obtains a 7.5% loan. How much will they pay in annual interest?



- 2. A borrower has an interest rate of 6.5%. Their loan amount is \$78,000. How much interest will they pay on this loan in 6 months?
- 3. The loan on a property is \$123,000 at an interest rate of 8%. What is the amount of daily interest that the borrower is paying?
- 4. If the borrower pays \$8,500 in annual interest on a 6% interest loan, how much was the loan amount?
- 5. If a borrower pays \$600 per month in interest and their loan amount is \$120,000, what interest rate are they paying on the loan?
- 6. If a homeowner pays \$4,800 every 6 months in interest and they have an interest rate of 7.5%, what was their loan amount?

Loan Interest Math SOLUTIONS



- 1. $$136,000 \times 7.50\% (.075) = $10,200$ annual interest
- 2. \$78,000 × 6.5% = \$5,070 annual interest \$5,070 ÷ 12 = \$422.50 monthly interest \$422.50 × 6 = \$2,535 interest paid over 6 months
- 3. \$123,000 × 8% (.08) = \$9,840 annual interest \$9,840 ÷ 360 = \$27.33 daily interest
- 4. $$8,500 \div 6\% (.06) = $141,666.67$
- 5. \$600 × 12 = \$7,200 annual interest \$7,200 ÷ \$120,000 = (.06) 6%
- 6. \$4,800 ÷ 6 = \$800 per month \$800 × 12 = \$9,600 annual interest \$9,600 ÷ 7.5% (.075) = \$128,000



The SUPERIOR WAY PITI Payment Math

- 1. Determine the \$1,000s in the Loan
- 2. Multiply by the amortization Factor
- 3. Divide the Annual Taxes by 12
- 4. Divide the Homeowner's Insurance by 12
- 5. Add the Components Together

You cannot calculate the P&I portion without a financial calculator to give you the amortization factor. Therefore on the test they will give you the factor.

Example:

You bought a home with a loan of \$21,500. The monthly P&I will be \$7.70 per \$1,000 of the loan amount. The annual property taxes are \$496.20, and the homeowner's insurance policy is \$240 per year.

What is the total PITI payment?

 $$21,500 \div 1,000 = 21.5$ $$21.5 \times 7.70 = 165.55 P&I $$496.20 \div 12 = 41.35 $$240.00 \div 12 = 20.00

\$165.55 + \$41.35 + \$20.00 = \$226.90



The SUPERIOR WAY Interest Over Life of Loan Math

- 1. P&I Payment × # of Payments = Total Paid
- 2. Total Paid Principal = Total Interest Paid Life of Loan

To Calculate Principal Reduction/Loan Balance

- 1. Caculate the Annual Interest
- 2. Annual Interest ÷ 12 = Interest for the Month
- 3. P&I Payment Monthly Interest = Principal Reduction
- 4. Loan Amount Principal Reduction = Loan Balance

Example:

The principal and interest payment is \$440.26 monthly for a 30-year loan at 8% interest. The original loan amount is \$60,000. What is the total amount of money paid to the lender?

What is the total interest paid?

How much of the borrower's first payment of \$440.26 goes to principal?

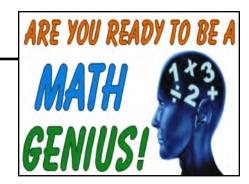
\$440.26 × 360 = \$158,493.60 = Total Paid to Lender \$158,493.60 - \$60,000 = 98,493.60 Total Interest Paid

> $$60,000 \times 8\% = $4,800 \text{ Annual Interest}$ \$4,800 ÷ 12 = \$400 Monthly Interest

\$440.26 - \$400.00 = \$40.26 Principal Reduction

Interest Over Life of Loan Math PROBLEMS

1. The original loan amount is \$80,000. The monthly principal and interest payment is \$890 for this 20-year loan at 9% interest. What is the total amount of interest paid over the life of the 20-year loan?



- 2. Bob wants to purchase a house for \$150,000 with 10% down payment. The house payment is \$1,800 (PITI). The taxes and insurance total \$300 monthly. Bob wants a 15-year loan at 6%. What is the total amount of interest paid over the life of the 15-year loan?
- 3. Robert wants to obtain a 25-year loan at 6% with an original loan amount of \$85,000. The monthly principal and interest payment is \$1,100. The taxes and insurance total \$350 monthly. What is the total amount of interest paid over the life of this loan?
- 4. Scott wants to borrow \$175,000 at 8% interest for a term of 30 years. The monthly PITI is \$2,100 and the TI equals \$400. How much of Scott's first payment goes toward principal?

Interest Over Life of Loan Math Solutions



- 1. \$890 × 240 payments = \$213,600 Total Payments \$213,600 - \$80,000 = \$133,600 Interest
- 2. \$150,000 × 10% = \$15,000 Down Payment \$150,000 - \$15,000 = \$135,000 Loan Amount \$1,800 - \$300 = \$1,500 P&I Payment \$1,500 × 180 months (15 years) = \$270,000 \$270,000 - \$135,000 = \$135,000 Interest
- 3. \$1,100 × 300 months (25 years) = \$330,000 \$330,000 - \$85,000 = \$245,000 Interest
- 4. \$175,000 × 8% = \$14,000 Annual Interest \$14,000 ÷ 12 = \$1,166.67 Monthly Interest

Payment \$2,100 - \$400 = \$1,700 P&I \$1700.00 - \$1,166.67 = \$533.33 To Principal



The SUPERIOR WAY Loan Balance After Payment Math

- 1. Determine the Loan Amount
- 2. Determine Annual Interest (Principal × Rate)
- 3. Determine Monthly Interest (Annual Interest ÷ 12)
- 4. Determine the P&I Monthly
- 5. Subtract the Monthly Interest from Payment
- 6. Subtract the Remaining Principal from Loan Balance

Example:

An individual wants to borrow \$60,000 at 12% interest for 30 years.

The principal and interest payment total \$663.72.

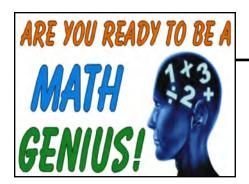
What is the principal balance of the loan after the first month's payment?

Solution:

- 1. \$60,000
- 2. $$60,000 \times 12\% = $7,200$ Annual Interest
- 3. $$7,200 \div 12 = 600 Interest for First Month
- 4. \$663.72 Principal & Interest Payment
- 5. \$663.72 \$600.00 = \$63.72 First Month's Principal
- 6. \$60,000 \$63.72 = \$59,936.28

\$59,936.28 Principal Balance after First Payment

*REPEAT THE PROCESS FOR SUBSEQUENT MONTHS



Loan Balance After Payment Math PROBLEMS

1. An individual wants to borrow \$74,000 at 10% for 20 years. The principal and interest payment is \$776.32. What is the principal balance of the loan after the first month's payment?

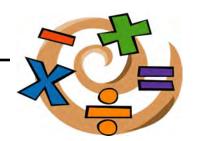
2. The interest rate on a fixed rate loan is 6%. The term of the loan is for 25 years. The present loan balance is \$86,898.72. The principal and interest total \$489. What is the loan balance after the next payment?

3. The present balance of a loan is \$45,565.88. The interest rate is 8%, and the term of the loan was 30 years. The PITI total is \$650. The taxes and insurance total \$250. What is the loan balance after the next payment?

Loan Balance After Payment Math SOLUTIONS

1. $$74,000 \times 10\% \div 12 = 616.67 interest

\$776.32	PΙ	\$74,000.00
<u>- \$616.67</u>	I	<u> </u>
\$159.65	P	\$73,840.35



2. $$86,898.72 \times 6\% \div 12 = 434.49 interest

3. $$45,565.85 \times 8\% \div 12 = 303.77 interest

\$650.00	PI	
<u>- \$250.00</u>	TI	
\$400.00	PI	\$45,565.88
<u>- \$303.77</u>	I	<u>- \$96.23</u>
\$96.23	P	\$45,469.65



The SUPERIOR WAY Origination Fees & Discount Points Math

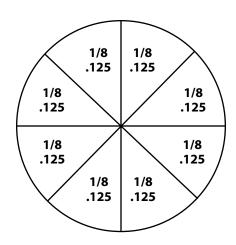
- 1. An Origination Fee is a % of the Loan Amount (Usually 1%) Admin Fee for Costs Involved in Obtaining the Loan
- 2. A Discount Point is a % of the Loan Amount (Buy Down the Rate)
- 3. Each Discount Point Decreases the Interest Rate by 1/8 of a Percent

A borrower pays 2 discount points on a par rate of 7%

1/8 + 1/8 = 2/8 = 1/4

Decreases the rate by .25%

Interest rate will be 6.75%



Example:

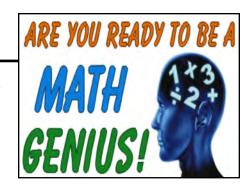
A borrower is purchasing a home for \$200,000 and obtaining a loan in the amount of \$150,000. The borrower will pay 3 discount points.

How much money will the borrower need for the discount points at closing?

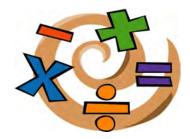
 $$150,000 \times 3\% = $4,500$ in Discount Points

Origination Fees & Discount Points Math PROBLEMS

1. An individual wants to borrow \$74,000 and will pay a 1% origination fee and 2 discount points. How much money will the borrower need at closing to cover these costs?



- 2. A loan was made at \$110,000 on a property that was purchased for \$150,000. If the borrower paid a 1% origination fee and 2 discount points, how much money did the borrower pay at closing for the lowering of their interest rate?
- 3. The par rate on the market is 6.5%. If the borrower was given an interest rate of 6%, what is the total number of points they paid at closing?
- 4. If the borrower wanted to reduce the interest rate from 7.25% to 7% on a loan in the amount of \$185,000, how much money would they need at closing to pay for the discount points?
- 5. A seller is selling her home for \$120,000. The borrower is getting a loan in the amount of \$100,000. The seller has agreed to pay \$3,000 in costs to pay for the borrower's discount points. How much will this reduce the interest rate at which the bank loans the money?



1. \$74,000 Loan Amount

$$$74,000 \times 1\% = $740$$

$$$74,000 \times 2\% = $1,480$$

2. \$110,000 Loan Amount

$$$110,000 \times 2\% = $2,200$$

(The origination fee is not used to reduce the interest rate)

3. 6.5% Par Rate

Each point reduces the rate 1/8 or .125%

$$.5 \div .125 = 4 \text{ points}$$

4. $7.25 - 7.00 = .25 \times 8 = 2$ points

$$$185,000 \times 2\% = $3,700$$

5. $\$3,000 \div \$100,000 = 3\%$

$$3\% = 3$$
 points

$$.125 \times 3 = .375\%$$

Chapter 11	
	Qualifying for Loans The Three Cs of Credit
	•Credit •Capacity •Collateral
	Credit Scores • FICO Scores (300–850) • Maintained in 3 national databases
	myFiCO common minima (a cabases) Tyo Ways to Learn: MyFiCO.com Fairlsaac.com
	Of Primary Importance to Lenders Would Be Bankruptcy & Foreclosures 3 Credit Scores 720 650 580 Get your Credit Scores based on your data at Experian TransUnion. Equipment (Scores developed by CreditXpert* Inc.)
	Debt Ratios (Qualifying Ratios) Based on gross monthly income Uses recurring expenses Standard ratios Housing ratio (28%) Total debt (36%)

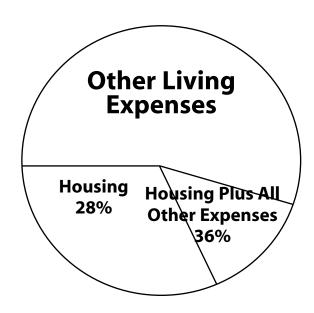
Total Gross Monthly Incom \$4,000	\$1,120
• x 28% = \$1,120	
Max House	
• x 36% = \$1,440 Max Total Debt	**************************************

-X 20% = \$1,120	
Max House Payment	
• x 36% = \$1,440	
Max Total Debt	
\$1,440	
]]
Monthly Debt Ratios	
+ DO count	
Car Credit cards	
Revolving monthly Debt	
Fixed payments DON'T count	
Groceries Utilities Clothing	
Ciottinig	



The SUPERIOR WAY Qualifying Ratio Math

- 1. Determine the Gross Monthly Income
- 2. Housing Ratio is 28%
- 3. Total Debt Ratio is 36%
- 4. Both Ratios Must Be Acceptable



Count

- Car payments
- Credit cards
- Loans/fixed payments

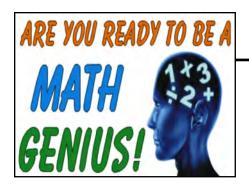
Do NOT Count

- Food
- Utilities
- Other household expenses

Example:

A borrower has gross income of \$4,000 per month. Their house payment (PITI) is \$900. They have a car payment of \$200 and a monthly credit card bill of \$100. What are their debt ratios?

\$900 ÷ \$4,000 = 23% Housing \$900 + \$200 + \$100 = \$1200 \$1,200 ÷ \$4,000 = 30% Total Debt



- 1. A husband and wife apply for a \$75,000 conventional loan on a house valued at the sales price of \$81,500. The lender estimates that the couple's "housing expenses" will be \$895 per month and that their "recurring obligations" will be \$420 per month. The couple's combined regular gross monthly income is \$3,400. Under which of the following standard expense-to-income ratios (28/36) will the lender find the couple to be qualified?
 - I. Housing expense to gross income ratio
 - II. Total monthly recurring obligations to gross income ratio
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
- 2. A husband and wife apply for a \$62,500 FHA loan to finance the purchase of a \$72,500 house. The couple's regular gross monthly income is \$2,900. The lender estimates that the couple's housing expenses will be \$750 per month and that their recurring obligations will be \$575 per month. Using the FHA expense-to-income ratios, the lender will find the couple to be qualified under which of the following?
 - I. Housing expenses to gross monthly income ratio (29%)
 - II. Recurring obligations to gross monthly income ratio (41%)
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II

Qualifying Ratio Math

PROBLEMS (CONTINUED)

- 3. Jack and Jill have a combined monthly gross income of \$4,200. The home they wish to purchase is \$135,000. They will make a \$13,000 down payment and are obtaining a 30-year conventional loan at 11.5%. The monthly principal and interest is \$1,209.02. Estimated annual real property taxes are \$1,450 and estimated annual homeowner's insurance policy premium is \$480. Homeowner association dues are \$50 per month. They have other recurring obligations of \$580 per month. Under which of the following ratios will a lender find them to be qualified?
 - I. Housing expense ratio of 28%
 - II. Recurring obligation ratio of 36%
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
- 4. Bill and Jane are buying a home for \$82,000 on a FHA203(b). Gross monthly income is \$3,500. They have recurring monthly obligations of \$650, excluding housing expenses. Under which of the following ratios will a lender find them to be qualified if the PITI is \$865?
 - I. Housing expense ratio of 29%
 - II. Recurring obligation ratio of 41%
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
- 5. The Bakers have a gross annual income of \$36,000 and have recurring obligations (excluding housing expenses) totaling \$400 per month. The conventional ratios are 28/36. In order to qualify for this conventional loan, the Baker's monthly housing expenses must not exceed which of the following amounts?
 - A. \$680
 - B. \$840
 - C. \$1,080
 - D. \$1,200

6. Using the 28/36 rule, how much annual income must one have to qualify for a \$120,000 loan at 7% for 25 years if the proposed PITI will be \$982 and the borrower has other monthly recurring debts of \$745?

- A. \$24,833
- B. \$42,085
- C. \$57,566
- D. \$74,014

7. If a borrower has an annual gross income of \$42,000 and will have monthly recurring debts of \$500, not including housing expenses, what will be the maximum monthly housing expenses using the 28/36 rule?

- A. \$760
- B. \$920
- C. \$980
- D. \$1,260

8. If a lender agrees to make a loan based on an 80% LTV, what is the amount of the loan if the property appraises for \$114,500 and the sales price is \$116,900?

- A. \$83,200
- B. \$91,300
- C. \$91,600
- D. \$93,520

9. In determining LTV, the value is determined by:

- A. 80%
- B. 90%
- C. The purchase price or the appraised value, whichever is less
- D. The purchase price or the appraised value, whichever is more

Qualifying Ratio Math

SOLUTIONS

1. $$895 \div $3,400 = 26.3\%$

Housing Expense ÷ Monthly Income = Ratio

$$$895 + $420 = $1,315 \div $3,400 = 38.7\%$$

Housing Expense + Recurring Obligations ÷ Monthly Income = Ratio

Answer: A

2. $\$750 \div \$2,900 = 25.7\%$

Housing Expense ÷ Monthly Income = Ratio

 $$750 + $575 = $1,325 \div $2,900 = 45.7\%$

Housing Expense + Recurring Obligations ÷ Monthly Income = Ratio

Answer: A

3. $\$1,450 \div 12 = \120.83 (Annual Tax $\div 12 = Monthly Tax Obligation)$

 $$480 \div 12 = 40 (Annual Homeowner's Insurance $\div 12 =$ Monthly Payment)

 $$1,209.02 + $120.83 + $40 + $50 = $1,419.85 \div $4,200 = 33.8\%$

PI + Taxes + Insurance + HO Dues = Housing Expenses ÷ Monthly Income = Ratio

 $$1,419.85 + $580 = $1,999.85 \div $4,200 = 47.6\%$

Housing Expenses + Recurring Obligations ÷ Monthly Income = Ratio

Answer: D

4. $\$865 \div \$3,500 = 24.7\%$

Housing Expense ÷ Monthly Income = Ratio

 $\$865 + \$650 = \$1,515 \div \$3,500 = 43.3\%$

Housing Expense + Recurring Obligations ÷ Monthly Income = Ratio

Answer: A

Answer: A

Answer: C

7.
$$$42,000$$
 Annual Gross Income \div 12 months = $$3,500 \times 0.36 = $1,260$
 $$3,500 \times 0.36 = $1,260 - $500 = 760

Answer: A

8. \$114,500 Appraised Value × 0.80 = \$91,600 Loan Amount

Answer: C

9. Answer: C

Finance Math LEARNING TO GO AT HOME PROJECT

n of a onthly



- 1. How much interest is paid over the entire term of a \$60,000, 30-year loan at 13% if it has fixed monthly principal and interest payments of \$663.72?
 - A. \$238,940
 - B. \$60,000
 - C. \$234,000
 - D. \$178,939
- 2. If Horace Jennings sold his house to Katherine Nexon for \$100,000, and Nexon assumed Jennings' \$24,838.98 mortgage and paid \$10,000 as a down payment, what amount does Nexon have to finance on the second mortgage?
- A. \$75,161.00
- B. \$65,161.02
- C. \$55,161.02
- D. \$85,61.02
- 3. A borrower signs a loan agreement of \$45,000. Out of this, the lender charges a \$500 loan origination fee and two discount points. How much net cash does the borrower receive?
- A. \$43,600
- B. \$45,000
- C. \$46,400
- D. \$43,610
- 4. A couple bought a home for \$90,000 with a 20% down payment. Ten years later, the house sold for \$150,000, with the loan balance being reduced to \$65,000. What is the percent of equity increase?
- A. 472%
- B. 166%
- C. 372%
- D. 268%

LEARNING TO GO AT HOME PROJECT (CONTINUED)

5.	What will be the first month's interest if the lender will loan 75% of the appraised value of
	\$65,000 at 6% for 20 years?

- A. \$188
- B. \$200
- C. \$213
- D. \$243.75
- 6. If a lender's FHA rate of interest is 13½%, and the conventional mortgage rate is 14¾%, how many discount points will be charged by the lender at closing?
 - A. ¾
 - B. 6
 - C. 10
 - D. 0
- 7. O'Boyle bought a house with a mortgage loan of \$21,500. The monthly principal and interest payment will be \$7.70 per \$1,000 of the loan amount. The annual property taxes are \$496.20. The homeowner's policy is \$240 per year. Calculate O'Boyle's monthly payment including principal, interest, taxes and insurance (PITI).
 - A. \$226.90
 - B. \$165.55
 - C. \$235.18
 - D. \$189.42
- 8. A buyer obtains a commitment for an FHA loan in the amount of \$27,000. If the lender's current FHA interest rate is 15.5% and the lender requires sufficient discount points to increase the effective interest rate of 16.25%, what dollar amount will the seller or buyer have to pay in discount points?
 - A. \$2,160
 - B. \$1,890
 - C. \$1,080
 - D. \$1,620

Finance Math

LEARNING TO GO AT HOME PROJECT (CONTINUED)

- 9. Bill and Betty received \$19,000 from the sale of their house to apply toward the purchase of a new home costing \$90,000. They assumed an existing mortgage of \$49,500 and borrowed \$24,000 at 12% to be secured by a second mortgage. The lender charged them a ½% assumption fee, a 2% origination fee on the second and 5½ points on the new loan. How much money will the buyer pay the lender?
 - A. \$2,226
 - B. \$3,092
 - C. \$2,047.50
 - D. \$2,470
- 10. Bob and Mary obtained a loan in the amount of \$80,000. The lender charged them a 1% origination fee and loaned the money at 4 discount points. Other closing costs included \$500 for attorney fees, \$35 survey fees and \$15 recording fee. How much cash did Bob and Mary have to bring to the closing?
 - A. \$4,550
 - B. \$3,750
 - C. \$1,350
 - D. \$4,050
- 11. A prospective homebuyer who has contracted to buy a house for \$75,000 applies to a lender for a \$70,000 conventional mortgage loan to finance the purchase. The buyer's gross annual income is \$30,000. The lender determines that the buyer's housing expenses would be \$720 per month and that the buyer's expenses for recurring obligations (excluding housing expenses) are \$300 per month. Under which of the following expense-to-income ratios would the lender find the buyer to be qualified?
 - I. Monthly housing expenses must not exceed 25% of gross monthly income
 - II. Monthly expenses for recurring obligations (including housing expenses) must not exceed 33% of gross monthly income
 - A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II

Based on the following scenario, answer questions 12 through 14.

Gary bought a house for \$180,000 with an 85% LTV ratio. The term of the loan is 30 years at a 7% rate of interest. It will take a loan factor of 6.65 to amortize the loan. The annual real property taxes are estimated to be \$996. The annual premium for the homeowner's policy is estimated at \$480.

- 12. What is the monthly PITI?
 - A. \$1,017.45
 - B. \$1,100.45
 - C. \$1,140.45
 - D. \$1,320.00
- 13. What will be the total amount of the interest paid over the life of the loan if payments are made for the full 30-year term?
 - A. \$153,000
 - B. \$213,282
 - C. \$321,300
 - D. \$366,282
- 14. What will be the principal amount owed after the first monthly payment has been made?
 - A. \$152,775.05
 - B. \$152,875.05
 - C. \$153,000.00
 - D. \$152,323.33

Finance Math LEARNING TO GO AT HOME PROJECT SOLUTIONS

Learning To Go At Home Project



30 years × 12 months = 360 payments x \$663.72 = \$238,939.20 P&I
 \$238,939.20 - \$60,000 Original Principal = \$178,939.20

Answer: D

2. \$100,000 sales price -\$24,838.98 loan assumption -\$10,000 in cash =\$65,161.02

Answer: B

3. \$45,000 loan × .02 = \$900 in discount points \$45,000 - \$900 - \$500 orig. fee = \$43,600 net amount

Answer: A

4. \$90,000 × .20 = \$18,000 original equity \$150,000 - \$65,000 = \$85,000 new equity \$85,000 - \$18,000 = \$67,000 increase in equity \$67,000 ÷ \$18,000 = 3.72 or 372% increase in equity

Answer: C

5. \$65,000 × .75 = \$48,750 loan amount \$48,750 × .06 = \$2,925 annual interest ÷ 12 months = \$243.75 \$243.75 monthly interest

Answer: D

6. Conv. Rate 14.75 FHA Rate -13.50 $1.25 \times 8 = 10$ discount points

Answer: C

7. \$21,500 ÷ 1,000 = 21.5 × \$7.70 = \$165.55 P&I \$496.20 ÷ 12 months = 41.35 Taxes \$240.00 ÷ 12 months = 20.00 Insurance \$226.90 PITI

Answer: A

8. $16.25 - 15.50 = .75 \times 8 = 6$ discount points = $.06 \times \$27,000 = \$1,620$

Answer: D

LEARNING TO GO AT HOME PROJECT SOLUTIONS (CONTINUED)

9. \$49,500 × .005 = \$247.50 Assumption Fee \$24,000 × .02 = \$480.00 Origination Fee \$24,000 × .055 = \$1,320.00 Discount Points \$2,047.50 Total Fees Paid to Lender

Answer: C

10. \$80,000 × .01 = \$800.00 Origination Fee \$500.00 Attorney Fee \$35.00 Survey Fee \$15.00 Recording Fee \$80,000 × .04 = \$3,200.00 Discount Points \$4,550.00 Total Cash From Buyers at Closing

Answer: A

11. \$30,000 ÷ 12 months = \$2,500 monthly gross income

Housing Expenses Recurring Obligations

Does Not Qualify Does Not Qualify

Answer: D

12. $\$180,000 \times 0.85 = \$153,000$ Loan Amount \div 1,000 = $153 \times 6.65 = \$1,017.45$ PI

Taxes: \$996 ÷ 12 months = \$83

Insurance: \$480 ÷ 12 months = \$40

\$1,017.45 PI + \$83 T + \$40 I = \$1,140.45 PITI

Answer: C

13. \$1,017.45 PI × 360 Payments = \$366,282 PI - \$153,000 P = \$213,282

Answer: B

14. \$153,000 × 0.07 = \$10,710 I ÷ 12 months = \$892.50 I \$1,017.45 PI - \$892.50 I - \$124.95 P \$153,000 P - \$124.95 P = \$152,875.05

Answer: B

EXAM nsight

Due on Sale Clause (Alienation Clause)



Bring ALL of Your Money NOW! Why? Sale or Transfer of **Property**



- ACCELERATION In the event of Default
- · ALIENATION At the time of Sale

Prepayment Clause



- Pay a penalty because you brought the money too early
- In NC, NOT ON LOANS IF:
 - \$150,000 or less
 - First lien
 - Primary residence
- NONE on FHA & VA loans

Subordination Clause

One lender voluntarily surrendering their position of priority to a subordinate lien holder



At Least Not **Without Permission**

Chapter 11	Collateral Agreement
	Securitizing Document
	Pledges collateral (THE HOME) if the debt is not repaid Mortgage document OR Trust seed document The trust deed or mortgage secures the promissory note
	Contents of the Mortgage/Deed of Trust In writing Signature of property owners Description of the property Obligations of borrower Obligations of the lender Default process THESE ARE FORMS OF CONTRACTS
	Note Superior EXAM Insight To Brain NOTE – Everything having to do with the money • Terms, amount, rate, payment MORTGAGE OR TRUST DEED - Everything having to do with the secured property • Property, obligations, insurance, foreclosure
	Possess and enjoy •Full legal rights upon payment
	Pay the debt Insure the property Major alterations may need lender approval Failure of any can result in foreclosure

Rights of the Lender



- Collect payments
- Sell or assign the loan
- No borrower permission needed
- Foreclose if note is not repaid

Defeasance Clause

- •From the word "defeated"
- Lender releases lien when note is repaid





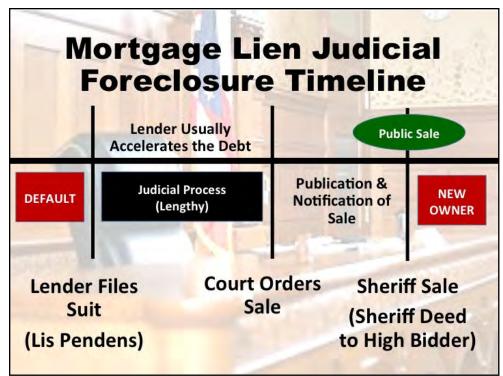


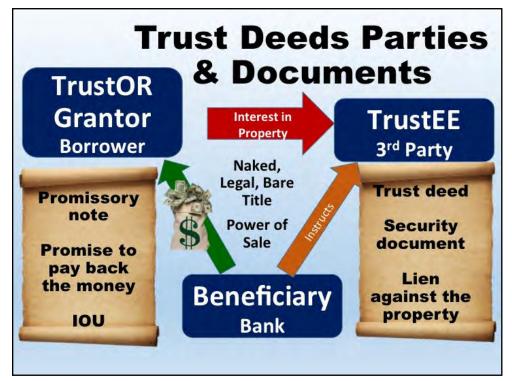


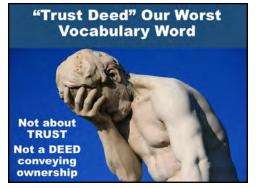






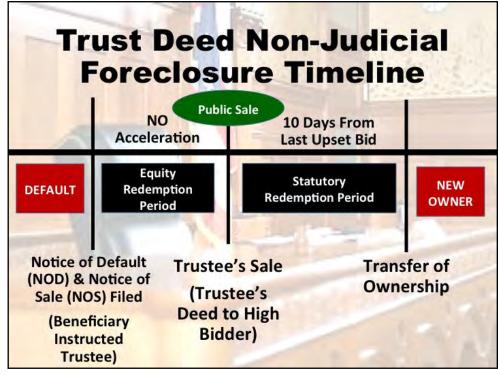












Either Process Results in a Public Sale of the Property

Deed in Lieu (Instead of)

 Borrower voluntarily surrenders home & keys INSTEAD of foreclosure



- AKA "friendly foreclosure"
- No foreclosure occurs

At the Sale Distribution of Proceeds

- 1. Costs of sale
- 2. Real estate taxes & assessments
- 3. Lenders in order of recordation
- 4. Additional liens
- 5. Surplus to homeowner



Excess Money Bid

 Bid at Sale
 \$500,000

 Costs of Sale
 - \$10,000

 Past Due Taxes
 - \$10,000

 1st Mortgage
 - \$300,000

 2nd Mortgage
 - \$80,000

Balance to Homeowner \$100,000

Deficiency Money Bid

Bid at Sale \$300,000

Costs of Sale -\$10,000

Past Due Taxes -\$10,000

1st Mortgage (Owed \$300,000) -\$280,000

2nd Mortgage (Owed \$80,000) - 0

Deficiency Judgment \$100,000



in NC







Major Types of Mortgage Loans

- · Conventional / conforming
- FHA insured loans
- VA guaranteed loans
- · Rural farm loans



Conventional Conforming

- Most secure
- LTV is 80% (can be higher with PMI)
- · 28%/36% debt ratios
- Sold from primary to secondary market
- Loan limits based on predominant market value
- FNMA /Freddie Mac only buy conforming loans



Private Mortgage Insurance (PMI)

- Required on conventional loans over 80% LTV
- Default protection for lender
- Charged as:
 Upfront premium
 Monthly amount
- Lenders have different rules for elimination Usually over 20% equity Good payment history



Chapter 11	FHA Insur	ed Loans
	FHA • Adr HU • INS • HU	ginated by local ks & lenders in primary market ministered by D URED by FHA D / FHA does not in the money
	Who Can FHA L	
	• Anyone • Not a subsidized loan • No income limits • Loan limits set by county	APPROVED 2
	What Propo	erties Are ble?
	Owner occupied 1-4 units FHA sets minimum standards for home condition FHA appraisal conditional commitment	
	FHA Loans • Most popular loan is 203(b) • Low down payment • Down payment may be from borrower or gift • High LTV (higher with MIP costs financed) • Borrower pays MIP (mortgage insurance premium)	HIIII hud

Assumption of FHA Loans



· Prior to 1989 -**Assume without** qualifying

· After 1989 - Still assumable but must qualify

Other FHA **Programs**

- Home improvement loans
- 203(K) purchase with modifications & repairs
- Condominium projects
- Loans for dependent full-time students (Kiddie Condos)
- · Adjustable rate (ARM) programs



Interest Rates, Points & **Fees**

- · Rate set by lender, **NOT FHA**
- · Lender fees negotiable
- · No prepayment penalty on conforming, FHA or VA loans
- Can charge 30 days of interest



FHA & VA Amendatory Clause "Escape Clause"

- If the property does not appraise for at least the purchase price:
- The FHA/VA borrower can cancel
- Even outside of the due diligence period
- They get their earnest money back
- · No financial penalty
- It's one of the reason we use the FHA/VA Financing Addendum





Chapter 11	
	VA Guaranteed Loans
	FHA loans are insured VA loans are
	guaranteed VA Home Loans
	VA does not usually make the loan
	• Made by banks & lenders in the primary
	market A A A A A A A A A A A A A A A A A A A
	VA guarantees the loan in the event of default
	Who Can Get a VA
	Loan
	• Any qualified
	veteran and widows and
	widowers
	Owner occupied, 1-4 units
	· 100% LTV
	VA has minimum standards
	standards
	Certificate of
	Eligibility
	CENTER • Veteran uses DD-214
	Discharge Certificate
	Obtains certificate of eligibility
	• Effective in 2020, the VA
	will use the Blue Water Act No loan limits
	DD-214 Discharge Certificate — Veterans still must qualify
	Time in Service Criteria
	90 days of active service for veterans of World War II,
	the Korean War, the Vietnam conflict and the Persian Gulf War
	A minimum of 181 days of active service during
	interconflict periods between July 26, 1947 and September 6, 1980
	September 6, 1300
	 Two full years of service during any peacetime period since 1980 for enlisted and since 1981 for officers
	Six or more years of continuous duty as a reservist
	Certificate of
	Reasonable Value (CRV)
	•VA verification of
	property value
	*The maximum amount VA will
	loan
	• Vet can cancel
	or pay the difference

Veterans Are Charged a Funding Fee (No MIP or PMI)

- Can be:
 Financed (rolled into the loan)
 Paid by borrower
 Paid by seller
 Paid by lender
- Waived for disabled
- · Purple Heart recipients are exempt from funding fees
- Only upfront charge, no monthly amount



Restoration of Entitlement

- · Program can be used multiple times
- · Full benefit restored upon repayment or full loan assumption
- · Usually one 1 VA loan at a time



Rural Economic & Community Development Services

- · Department of Agriculture & **Farm Service** Agency (FSA)
- · High LTV loans
- Rural areas
- · Low to limited income programs



True Zero Down



Fixed Rate Level Payment Loan

- Most popular
- ·Rate & payment constant
- ·Usually 30- or 15-year term



Chapter 11	
	Adjustable Rate Mortgage
	Rate may fluctuate Increase or decrease Usually tied to an index Most common index used is the T-bill
	Graduated Payment Mortgage
	• Fixed rate interest • Initial payments not fully amortized • First payments lower • Used with new home buyers
	Buydown Programs
	Lower payments to start Lump sum payment to lender at closing Used by developers Certain government programs First-time buyers
	Interest-Only Term Loan (TERM LOAN) • Straight loan • Construction loan (RISKY) • No principal • Payoff will be loan amount • Not amortized

Balloon Payment

- Term of the loan is shorter than the amortized period
- Lump sum payoff required before the end of amortization
- Partially amortized loan
- Usually used in seller financing



There Are Lots of Other Types of Loans

Purchase Money Loans

- Loan used to acquire a property
- · Also seller financing
- Used for borrower with insufficient down payment
- Usually a subordinated loan
- No deficiency judgment in NC for seller financing



Construction Loans

- Interim loan for building
- Usually a straight or term loan (interest only)
- Paid out in installments or draws
- Requires lien releases



Construction Loans

- Most risky for lenders
- Takeout permanent loan at end of construction
- FINAL = Take out loan



Superior Prelicensing	Adventure	Guide © April 2020	superiorschoolnc.com

Sale LeaseBacks

- Involves a sale of building & land to investor
- Frees up capital
- Original owner usually has a business
- Original owner leases back the property
- Can contain an option for repurchase





- The Conner Act creates race recordation
- Recordation sets priority
- Superior lien One in a higher position
- Junior lien One in a lower position

Setting Priority







Chapter 11	
	*Regulates the flow of money *Buys & sells U.S. government securities *Sets asset & reserve requirements for banks *Controls the "discount rate"
	The FED Controls Important Rates • DISCOUNT RATE – Rate charged by the FED when it lends to banks • FEDERAL FUNDS RATE – The recommended rate for banks to charge each other
	The Mortgage Market Consists of Three Parts: Remember the Parts Secondary Mortgage Market Primary Mortgage Market
	Primary Mortgage Market • Where loans are originated • Work directly with consumers • Many different entities • Commercial banks • Mortgage brokers & bankers • Savings associations • Credit unions • Mortgage bankers • Pension plans, insurance companies & investment groups
	Secondary Mortgage Market Where loans are bought & sold (FNMA & Freddie Mac) Some primary lenders are also in the secondary market Secondary market entities: Fannie Mae Freddie Mac Ginnie Mae Framer Mac

Secondary Market Players Buy & Sell Loans FannieMae. Conventional, FHA & VA Conventional, FHA, VA & investor loans FHA, VA, student & low-income housing FARMERMAC Rural farm loans









Chapter 11			
	TRID		
	Consolidated		
	TILA/RESPA into		
	TILA/RESPA		
	Integrated Disclosures		
	Truth in Lending Act (TILA or Regulation Z)		
	• Regulates true cost		
	of credit • Enforced by the		
	· All financed		
	transactions		
	• \$5,000 civil penalty & criminal liability		
	Hu		
	Must Disclose APR		
	(Annual Percentage Rate)		
	Not the interest rate		
	Calculation that includes rate + all the costs		
	• Requires disclosure of: • APR		
	All finance charges Total number & amount of payments		
	Total amount financed		
	1/ St		
	Advertising "Trigger" Terms		
	• Any mention of finance terms requires		
	APR disclosure • Examples		
	• Payment		
	· Interest rate		
	Monthly payment No DOWN PAYMENT, NO EQUITY		
	LOW MONTHLY AMORTIZATION		
	Disclosure of Loan Costs Is		
	Required Under RESPA		
	• Two settlement cost disclosures required		
	under RESPA:		
	• Initial loan estimate		
	Use of a Closing		
	Disclosure as discussed in		
	CHAPTER 12		

The Loan Estimate Disclosure

- Must be given within 3 days of loan application
- Lender's responsibility
- Broker should just be familiar
- Broker's not liable for accuracy



The LE Is Triggered by a Loan Application

An Application Occurs When:

Borrower has provided:

- A Address
- L Loan Amount
- Income
- E Estimated Value
- N Name
- S Social Security Number



The Loan Estimate Comes With a Booklet



- Consumer
 Settlement Costs
 booklet
- "Your Home Loan Toolkit"
- Provided with the loan estimate

Cost to Get a Loan Estimate & Booklet



The ONLY charge a lender can make prior to the loan estimate is the actual cost of the borrower's credit report

Permissible Variations with Closing Disclosure

- The loan estimate must be accurate and match the final closing disclosure
- There are certain
- "permissible variations"

 Limited in percentage
- Things like insurance, legal fees can all change slightly
- Lender costs must remain the same



Superior Prelicensing	Adventure	Guide © April 2020	superiorschoolnc.com

Chapter 11	
	Fair Credit Reporting Act (FCRA)
	Right to inspect credit Right to know basis for loan denial Right to get FREE copy of credit report once a year (FACT Act) The official site is AnnualCreditReport.com
	Equal Credit Opportunity Act (ECOA) Lenders cannot
	discriminate in the extension of credit • Race, color, religion, national origin & sex • Adds three classes not covered in fair housing • Age • Marital status • Public assistance income
	NC Residential Mortgage Fraud Act Occurs when any person: Makes a misrepresentation or omission to lender Facilitates the use of such misinformation to a lender Files or records a false public record
	Enforcement & Penalties
	• Enforced by: • NC Attorney General • NC Commissioner of Banks • Penalties • Felony conviction • Forfeiture of property or gain
	Examples of Mortgage Fraud
	Misrepresenting occupancy Misrepresenting down payments (EM & DDF) False employment information Failing to report debts Providing lender with false documents Exchanging money outside of escrow Contracts and agreements outside of escrow

Chapter 11 Vocabulary Venture Get in Shape Review



Acceleration Clause:
Adjustable Rate Mortgage:
Alienation Clause:
Amortization:
Arrears:
Balloon Payment:
Beneficiary:
Buydown Loan:
Certificate of Reasonable Value (CRV):
Conforming Loans:
Consumer Financial Protection Bureau (CFPB):

Conventional Loan:
Deed in Lieu:
Deed of Trust:
Defaults:
Defeasance Clause:
Deficiency Judgment:
Due-on-Sale Clause:
Equal Credit Opportunity Act (ECOA):
Equity:
Equity of Redemption:
Escrow Account:
Federal Home Loan Corporation (FHLMC) or Freddie Mac:

Federal Housing Administration (FHA):
Federal National Mortgage Association (FNMA) or Fannie Mae:
FHA Insured Loan:
Foreclosure:
Government National Mortgage Association (GNMA) or Ginnie Mae:
Graduated Payment Mortgage:
Grantor:
Home Equity Mortgages:
Hypothecation:
Judicial Foreclosure:
Lien Theory:
Liquidity:

Loan Assumption:
Loan-to-Value Ratio:
Loan Underwriting:
Mortgage Guarantee Insurance Corporation (MGIC) or Maggie Mae:
Mortgage:
Mortgage Broker:
Mortgage Insurance Premium (MIP):
Mortgagor:
Mortgagee:
Negative Amortization:
Negotiable Note:
Non-conforming Loans:

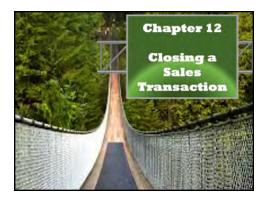
Nonrecourse Note:
Open-end Mortgage:
Periodic Cap:
Power of Sale Clause:
Prepaid Items:
Prepayment Penalty:
Principal:
Private Mortgage Insurance (PMI):
Promissory Note:
Purchase Money Mortgage:
Real Estate Investment Trusts (REITs):
Regulation Z:

Release of Liability:
Reverse Mortgage:
Right of Assignment:
Secondary Mortgage Market:
Statutory Redemption Period:
Strict Foreclosure:
"Subject to" Loan:
Substitution of Entitlement:
Takeout Loan:
Term Loan:
Title Theory:
Trustee:

Trustor:
Truth in Lending Act (TILA) Regulation Z:
Usury:
VA Guaranteed Loan:

Your Self-Assessment Survival Guide Checklist End of Chapter 11

Review Questions in Principles & Practices, Chapter 11 Superior Online Quiz for Chapter 11 Loan Interest Math Interest Over Life of Loan Math Loan Balance After Payment Math Origination Fees & Discount Points Math Qualifying Ratio Math Finance Math Finance Math Finance Math Learning To Go At Home Project Vocabulary Venture
Percentage on Principles & Practices Chapter 11 Review Percentage on Superior Online Chapter 11 Quiz
In the interests of my own success and survival, I certify that I have completed the above checklist.







• CLUE reports

Chapter 12	
	Septic / Sewer Concerns
	Septic tanks require a percolation test Percolation tests are for soil suitability Sewer connections require a certification of connection permit
	• Licensees must verify the permits prior to advertising # of
	Liability for over-representing the number on the permits
	The Role of the Closing Attorney
	Coordinates the process Issues validity of title opinions Prepares closing documents
	Conducts the closing Usually selected & paid for by the buyer
	The Seller's
	Document Preparations
	Deed Affidavit regarding mechanic's liens Bills of sale for personal property
	Leases & related documents Lender's payoff verification Proof of repairs
	The Buyer's Document Preparations
	• Financing documents • Title insurance policy
	Property insurance policy
	• Wood infestation termite report • Property survey

Title Procedures

- ·The attorney's opinion letter
- · Backed by title insurance policy





AMERICAN LAND TITLE ASSOCIATION

Title Insurance

- · Paid for the buyer
- · Lender's policy Owner's policy
- One-time charge at closing when the policy is

obtained

Conducting the Closing

- · Review the documents
- · Sign the documents
- · Record the transaction
- Fund the transaction
- Report distributions to IRS (1099)



Good Funds Settlement Act

- No distributions until recording
 - · Not the same as closing or settlement
- · Must verify all funds over \$5,000







Delay of Settlement





- · Not "time is of the essence"
- · Relies on multiple entities
- · 14-day delay permitted & contract is still enforceable

Chapter 12	
	Powers of Attorney
	Powers of Attorney
	Authority to sign name
	Person using is called "attorney in fact"
	· Usually need a SPECIAL power
	of attorney • Lender &
	attorney need to approve
	Remember the CFPB created in
	2010 by the Dodd-Frank Act
	100
	A ARL BOARD
	• To educate consumers
	• To enforce consumer
	Consumer Financial protection statutes Protection Bureau
	• Eliminate previous
	duplication and confusion
	• RESPA – Real Estate
	Settlement & Procedures Act TILA – Truth in Lending Act
	The Trust in certaing Act
	TRIR
	TRID
	A consumer must receive
	LE within 3 business days*
	of loan approval
	or loan approval
	*Business days include Saturday

TRID Timeline Overview Step 1 Step 3 Step 2 Step 4 Settlement Conference: Lender must 3 Business Days Borrower's Buyer/Borrower provide Loan before Settlement: Closing applies for Estimate (LE) Deadline for Disclosure (BCD) within 3 Borrower's RECEIPT Loan* and/or of Closing Disclosure **Business Days** Seller's Closing Disclosure (SCD)





Definition of	f "RECEIVED"
Delivered IN PERSON: The CD is "received" on the same day it is provided	If MAILED or delivered ELECTRONICALLY, the CD is "received" • 3 business days after delivery OR • When lender has EVIDENCE of receipt

	Loan Estimate	Final	Did this change?	
Total Closing Costs (J)				
Closing Costs Paid Before Closing				
Closing Costs Financed (Paid from your Loan Amount)		\bigcirc		
Down Payment/Funds from Borrower		\cup		
Deposit				
Funds for Borrower	FA	الم حدا	TOSTINIO DI IDDOOGEO	
Seller Credits	L(A)		ESTING PURPOSES	
Adjustments and Other Credits		100		
Cash to Close				
Summaries of Transactions BORROWER'S TRANSACTION	Use this tabl	e to see a su	mmary of your transaction. SELLER'S TRANSACTION	
K. Due from Borrower at Closing			M. Due to Seller at Closing	
01 Sale Price of Property 02 Sale Price of Any Personal Property I	ncluded in Sale		01 Sale Price of Property 02 Sale Price of Any Personal Property Included in Sale	
03 Closing Costs Paid at Closing (J)			03	
04			04	
Adjustments 05			05	
06			07	
07			08	
Adjustments for Items Paid by Seller i	n Advance		Adjustments for Items Paid by Seller in Advance	
08 City/Town Taxes to 09 County Taxes to			09 City/Town Taxes to 10 County Taxes to	
10 Assessments to			17 Assessments to	
11			12	
12			13	
13		15		
15		16		
L. Paid Already by or on Behalf of Borro	ower at Closing		N. Due from Seller at Closing	
01 Deposit			01 Excess Deposit	
02 Loan Amount		02 Closing Costs Paid at Closing (J) 03 Existing Loan(s) Assumed or Taken Subject to		
03 Existing Loan(s) Assumed or Taken Subject to 04		04 Payoff of First Mortgage Loan		
05 Seller Credit		05 Payoff of Second Mortgage Loan		
Other Credits			06	
06 Due Diligence Fee			07 Due Diligence Fee 08 Seller Credit	
Adjustments			09	
08			10	
09		11 12		
10		13		
Adjustments for Items Unpaid by Selle	er.		Adjustments for Items Unpaid by Seller	
12 City/Town Taxes to			14 City/Town Taxes to	
13 County Taxes to 14 Assessments to		15 County Taxes to 16 Assessments to		
15			17	
16			18	
17.			19	
CALCULATION			CALCULATION	
			Total Due to Seller at Closing (M) Total Due from Soller at Closing (M)	
Total Due from Borrower at Closing (K) Total Paid Already by or on Bobalf of Borr	Total Paid Already by or on Behalf of Borrower at Closing (L)		Total Due from Seller at Closing (N)	
			Cash 🗌 From 🔲 To Seller	

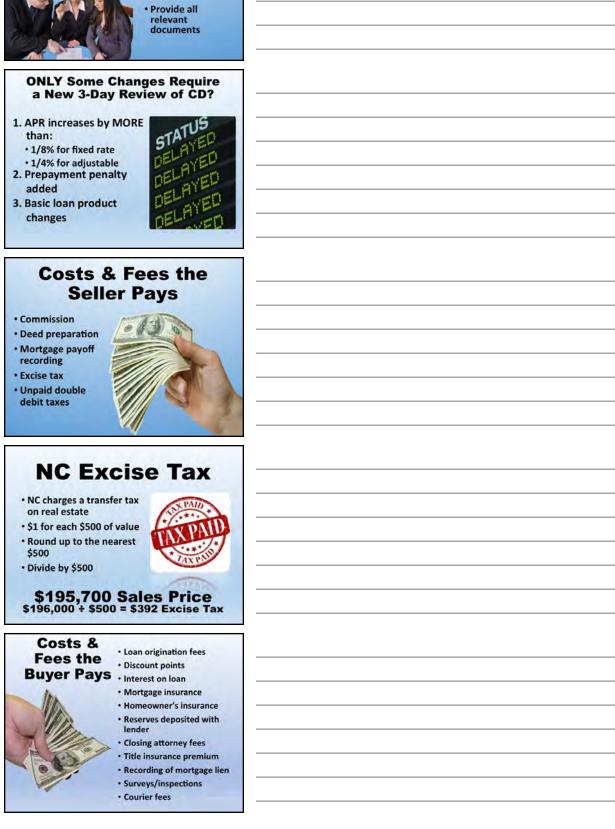
Origination Charges % of Loan Amount (Points) Loan Origination Fee Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo. Mortgage Insurance per month for mo. Mortgage Insurance per month for mo. Mortgage Insurance per month for mo.	Closing Before Closing	At Closing Before Closing	Others
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attornev's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attomey's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attomey's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attomev's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attornev's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Not Shop For Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attornev's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Appraisal Fee Credit Report Fee Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attornev's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attomey's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attornev's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Services Borrower Did Shop For Attorney's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Attornev's Closing Fee Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Deed Preparation Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Title Ins Premium (Lender's and/or Owner's policy) Pest Inspection Report Survev TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Pest Inspection Report Survey TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
TOTAL LOAN COSTS (Borrower-Paid) an Costs Subtotals (A + B + C) ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
ther Costs Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.		-	
Taxes and Other Government Fees Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Recording Fees Deed: Mortgage: Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.	1		
Excise Tax Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.		1	
Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Initial Escrow Payment at Closing Homeowner's Insurance per month for mo.			
Homeowner's Insurance per month for mo.			
Mortgage Insurance per month for mo.			
Property Taxes per month for mo.			
Aggregate Adjustment			
Other	1	* 1	
Brokerage Commission			
Home Inspection			
Home Warranty			
Courier Fee for Seller's Loan Payoff			
Courier Fee for docs to Buyer's Lender			
FOTAL OTHER COSTS (Borrower-Paid) her Costs Subtotals (E + F + G + H)			
TOTAL CLOSING COSTS (Borrower-Paid)/Seller-Paid			
osing Costs Subtotals (D + I)			
nder Credits			
DSING DISCLOSURE		LOANID	H

Broker's Responsibility

While the attorney or lender will prepare the closing disclosures, broker



- ·Review for accuracy
- · Provide all relevant information



Chapter 12	
	Some Fees May Be
	POC
	•"Paid outside of
	Paid outside of
	closing" paiDuFULL #
	 May be noted on
	HUD
	•But NEVER
	collected/debited
	conected/debited
	Mortgage Interest
	Doid in Arreage
	Paid in Arrears
	\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \
	Loan Interest Collected at Due
	CLOSING Use of Money
	OSE OF MOREY
	10/15 10/30 12/1
	Items Paid in Advance &
	Reserves Deposited With
	Lender
	Homeowners Insurance 1 Year + X Months
	Mortgage Annual Insurance Bill
	Insurance Upfront + X Months
	Annual Mortgage Insurance Premium
	Real Estate Taxes
	Current at Closing + X Months Annual Real Estate Tax Bill



A seller has agreed to sell his home for \$249,650 and to pay a brokerage fee of 6%, which will be equally divided between the agents. The seller will pay the attorney \$85 for preparing the deed and \$30 for the courier to return their loan payoff to their lender after closing. The seller

is required to pay the appropriate excise taxes. Settlement date is scheduled for November 23.

At closing, how much money will the seller pay in costs?

- A. \$8,104
- B. \$15,594
- C. \$15,094
- D. \$16,382

ITEM	DEBIT	CREDIT
Commission		
Deed Preparation		
Courier Fees		
Excise Taxes		
SELLER COSTS		

Mini-Close #1 Seller's Costs Solution

- The commission paid by the seller is \$14,979
 - o Sales price of \$249,650 \times 6% = \$14,979
 - o Even though shared among agents, seller pays all
- Seller's deed prep is \$85
- Seller's courier fees are \$30
- Excise taxes are \$500
 - o Round up sales price to the nearest \$500
 - o $$250,000 \div 500 = 500

Correct answer is B: \$15,594



ITEM	DEBIT	CREDIT
Commission	\$14,979.00	
Deed Preparation	\$85.00	
Courier Fees	\$30.00	
Excise Taxes	\$500.00	
SELLER COSTS	\$15,594.00	



The buyer purchasing a home for \$249,650 is obtaining a \$212,000 conventional 30-year loan with a fixed interest rate of 6.5%. They are paying their lender a .75% origination fee, \$280 application fee and 1 loan discount point. They have already paid a credit report fee of \$55,

an appraisal fee of \$450, a pest inspection fee of \$65 and a home inspection fee of \$325. There is a closing attorney fee of \$650. The title insurance for the lender's policy is \$505.40 and the owner's title insurance is \$64.60. There is a \$400 survey fee, \$26 for recording the warranty deed and \$56 fee for the deed of trust. The borrower has to pay a \$30 courier fee to return their loan docs to their lender. What will be the buyer's costs at closing?

- A. \$5,422
- B. \$5,722
- C. \$6,617
- D. \$7,180

ITEM	DEBIT	CREDIT
Application Fee		
Credit Report		
Appraisal		
Origination		
Discount Points		
Closing Attorney		
Title Ins. (Lender's Policy)		
Title Ins. (Owner's Policy)		
Survey		
Home Inspection		
Pest Inspection		
Recording – Warranty Deed		
Recording – Deed of Trust		
Courier Fees		
BUYER COSTS		

Mini-Close #2 Buyer's Costs Solution

- The application fee is \$280
- Both the credit report and appraisal are POC, so they go in the right column
- The loan amount is \$212,000
 - o $$212,000 \times .75\% = $1,590$ origination fee
 - o $$212,000 \times 1\% = $2,120$ discount points
- Closing attorney fee is \$650
- Title insurance is \$505.40 for lender's policy and \$64.60 for owner's policy
- Survey is \$400
- Home inspection \$325 and pest inspection \$65; both are POC
- Recording fees are \$26 for warranty deed and \$56 for deed of trust
- Courier fees to the lender are \$30

Correct Answer is B: \$5,722







The loan the buyer is using to purchase a \$249,650 home is for \$212,000. It is a 50-year fixed loan at 6.5%. Closing is on November 23. The borrower must pay the interim interest on their loan. At closing, the lender is requiring the borrower to purchase homeowner's insurance for \$684

and private mortgage insurance for \$840. Both are annual amounts. The annual taxes are \$2,471 and have been paid by the seller before closing.

The lender is requiring initial escrow reserves equivalent to 4 months of taxes and 2 months each of homeowner's insurance and mortgage insurance premiums.

How much money will the borrower need at closing to cover their items required by the lender to be paid in advance and the reserves they deposit with the lender?

- A. \$2,304
- B. \$2,405
- C. \$2,908
- D. \$3,100

ITEM	DEBIT	CREDIT
Interim Interest		
1 year Mortgage Insurance		
1 year Homeowner's Insurance		
Homeowner's Insurance Reserves/Escrow Account		
Mortgage Insurance Reserves/Escrow Account		
Property Taxes Reserves/Escrow Account		
BUYER ESCROW		

Mini-Close #3 Buyer's Escrows Solution

- The interim interest is \$306.22
 - o Loan amount \$212,000 × 6.5% = \$13,780 annual interest
 - o \$13,780 ÷ 360 = \$38.2778 daily interest
 - o \$38.2778 × 8 (November 23 to November 30) = \$306.22
- One year of mortgage insurance is \$840
- One year of homeowner's insurance is \$684
- 2 months of homeowner's insurance is \$114
 - o Annual premium $$684 \div 12 = $57 \times 2 \text{ months} = 114
- 2 months of mortgage insurance is \$140
 - o Annual premium of \$840 \div 12 = \$70 \times 2 months = \$140
- 4 months of taxes are \$823.66
 - o Annual taxes $2471 \div 12 = 205.9167 \times 4 = 823.66$

Correct Answer is C: \$2,908

ITEM	DEBIT	CREDIT
Interim Interest	\$306.22	
1 Year Mortgage Insurance	\$840.00	
1 Year Homeowner's		
Insurance	\$684.00	
Homeowner's Insurance		
Reserves/Escrow Account	\$114.00	
Mortgage Insurance		
Reserves/Escrow Account	\$140.00	
Property Taxes		
Reserves/Escrow Account	\$823.66	
BUYER ESCROW	\$2,907.88	





The seller is selling their home for \$249,650. They will pay a total of \$15,594 in real estate commissions and closing costs. Their loan on the property is for \$138,425 and has an interest rate of 5.75%. At closing, they must pay off their loan and the accrued interest. Their taxes are

\$2,471 for the year and they have been paid. Settlement is on November 23.

How much cash will the seller receive at closing?

- A. \$92,683
- B. \$94,857
- C. \$95,376
- D. \$99,685

ITEM	DEBIT	CREDIT
Sales Price		
Total Closing Costs		
Payoff of Seller's Mortgage Loan		
Accrued Interest on Seller's Loan		
Property Taxes		
Totals		
CASH TO SELLER		

Mini-Close #4 Cash to Seller Solution

- The sales price is \$249,650. It is not a debit, it is a credit to the seller
- Their total closing costs are \$15,594 and those are a debit
- They must be debited for the payoff of their loan \$138,425
- Their accrued interest to complete loan payoff is \$508.52
 - o Loan is $$138,425 \times 5.75\% = $7,959.4375$ annual interest
 - o \$7,959.4375 ÷ 360 = \$22.1095 daily interest
 - o $$22.1095 \times 23$ days (beginning on the month to closing) = \$508.52
- Property taxes are a credit in the amount of \$253.96
 - o Annual taxes are $$2,471 \div 360 = 6.8639 per day
 - o Seller was in the property 323 days (Jan-Oct = 300 + 23 November)
 - o Seller receives a credit for \$253.96
- Seller owed $$6.8639 \times 323 \text{ days} = $2,217.04$
- Seller paid \$2,471
- \$2,471 paid = \$2,217.04 owed = \$253.96
- Seller gets a check in the amount of \$95,376.44
 - o Total credits \$249,903.96 total debits \$154,527.52 = \$95,376.44

Correct Answer is C: \$95,376

ITEM	DEBIT	CREDIT
Sales Price		\$249,650.00
Total Closing Costs	\$15,594.00	
Payoff of Seller's Mortgage Loan	\$138,425.00	
Accrued Interest on Seller's Loan	\$508.52	
Property Taxes		\$253.96
Totals	\$154,527.52	\$249,903.96
CASH TO SELLER		\$95,376.44





The buyer is purchasing a home for \$249,650. The buyer's total closing costs are \$8,629.88. The closing cost number includes transaction costs and their impounds and reserves with the lender. Their new loan is for \$212,000. They have no due diligence fee, but have an

earnest money check in the amount of \$3,500. The seller has paid the annual property taxes of \$2,471. The closing date is November 23.

How much money will the borrower need at closing?

- A. \$43,034
- B. \$47,200
- C. \$49,434
- D. \$52,178

ITEM	DEBIT	CREDIT
Sales Price		
Total Closing Costs		
Principal Amount of New Mortgage		
Earnest Money Deposit		
Due Diligence Fee		
Property Taxes		
Totals		
CASH FROM BUYER		

Mini-Close #5 Cash From Buyer Solution

- The sales price of \$249,650 is a debit to the buyer
- The closing costs of \$8,629.88 are a debit to the buyer
- The loan amount of \$212,000 is a buyer credit
- The earnest money of \$3,500 are a buyer credit
- The buyer has a debit for the taxes in the amount of \$253.96
 - o Seller owed \$6.8639 × 323 days = \$2,217.04
 - o Seller paid \$2,471
 - o \$2,471 paid = \$2,217.04 owed = \$253.96
 - o \$253.96 credit to seller, debit to the buyer
- Buyer's total debits are \$258,533.84
- Buyers total credits are \$215,500.00
- Buyer needs \$43,033.84 to close (\$258,533.84 \$215,500)

Correct Answer is A: \$43,034

CASH FROM BUYER

ITEM	DEBIT	CREDIT
Sales Price	\$249,650.00	
Total Closing Costs	\$8,629.88	
Principal Amount of New Mortgage		\$212,000.00
Earnest Money Deposit		\$3,500.00
Due Diligence Fee		
Property Taxes	\$253.96	
Totals	\$258,533.84	\$215,500.00

\$43,033.84



Closing Putting It Disclosure All Example Together A Superior Example

Closing Disclosure Practice

Use the following information to complete the Closing Disclosure worksheet. When performing proration calculations, use the 360-day year and treat each month as if it has 30 days. For items prorated between the seller and the buyer, you should consider the SELLER responsible for the day of closing. When performing interim calculations, you should NOT round off your figures until the final number. However, entries on any line of the Closing Disclosure worksheet should be rounded to the nearest cent. NO INCORRECT ANSWER CAN BE OBTAINED SOLELY AS A RESULT OF AN ERROR IN ROUNDING OFF.

- Sales price \$249,650 (no personal property)
- Closing date: November 23
- Real property taxes for the current year of \$2,471 have already been paid by the seller. They will need to be prorated at closing.
- Earnest money deposit: \$3,500
- Due diligence fee: \$500
- Seller's brokerage commission is 6% of the sales price to be divided equally between the agents.
- The seller's loan payoff is \$183,600 and already includes accrued interest.
- Financing: The buyer is obtaining a new \$212,000 conventional 30-year loan with a fixed interest rate of 6.5%, .75% origination fee, and 1 loan discount point to be paid by borrower.
- Lender requires initial escrow reserves at closing equivalent to 4 months of taxes and 2 months each of homeowner's insurance and mortgage insurance premiums. The homeowner's insurance premium is \$684. The mortgage insurance premium is \$840.
- Collect interim interest on the borrower's new loan.

Closing Disclosure Practice (CONTINUED)

- Collect the statutory excise tax.
- Additional fees and costs
 - o \$85 Deed preparation fee
 - o \$400 Survey
 - o \$450 Home warranty to be paid by the seller at closing
 - o \$30 Courier fees overnight to buyer's lender
 - o \$30 Courier fees payoff of seller's lender
 - o \$650 Attorney's fee
 - o \$505.40 Title insurance Lender policy
 - o \$64.60 Title insurance Buyer's policy
 - o \$82 Recording fees: Warranty deed \$26; Deed of trust \$56.00
 - o Borrower has paid the following expenses before closing:
 - Appraisal \$450
 - Credit report \$55
 - Pest inspection \$65
 - Home inspection \$325

Using the information given, answer the following questions:

- 1. What is the total amount of the borrower's closing costs?
- 2. What is the total amount of the seller's closing costs?
- 3. What is the amount of cash at closing required from the borrower?
- 4. What is the amount of cash at closing due to the seller?

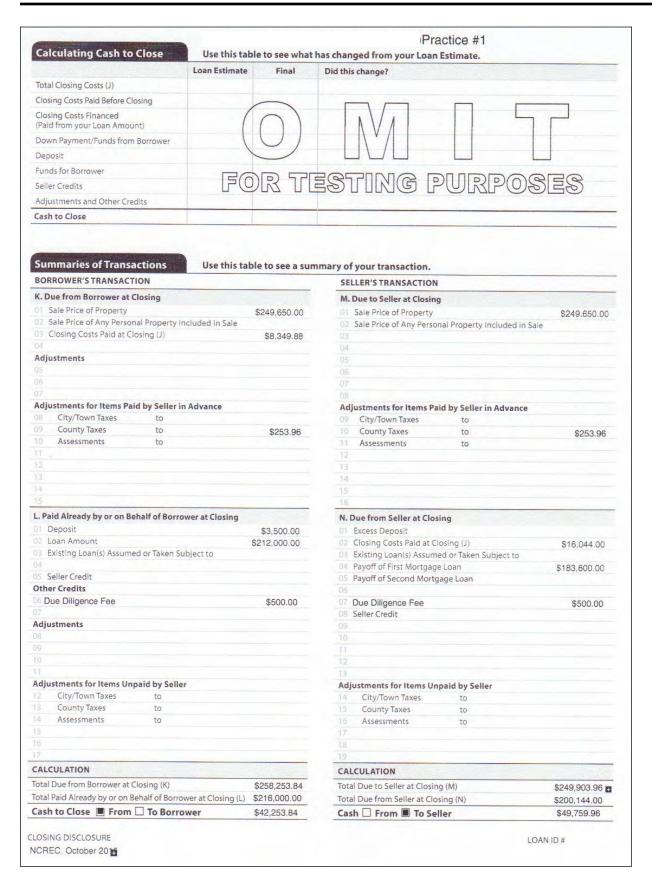
Closing Disclosure Practice (CONTINUED)

Calculating Cash to Close			t has changed from your Loan Estimate.
	Loan Estimate	Final	Did this change?
Total Closing Costs (J)	1		
Closing Costs Paid Before Closing			
Closing Costs Financed (Paid from your Loan Amount)		\bigcirc	
Down Payment/Funds from Borrower		\cup	
Deposit			
Funds for Borrower	E	D 52	EGETIVIC DITIDIDAGE
Seller Credits	60		ESTING PURPOSES
Adjustments and Other Credits			
Cash to Close			
Summaries of Transactions	Use this table	to see a su	mmary of your transaction.
BORROWER'S TRANSACTION	ose tills table	. to see a su	SELLER'S TRANSACTION
And the second s			M. Due to Seller at Closing
K. Due from Borrower at Closing US Sale Price of Property			M. Due to Seller at Closing (i) Sale Price of Property
D2 Sale Price of Any Personal Property	Included in Sale		112 Sale Price of Property 112 Sale Price of Any Personal Property Included in Sale
Closing Costs Paid at Closing (1)			08
6A			(M)
Adjustments 05			06
06			OF
07			(18)
Adjustments for Items Paid by Seller	in Advance		Adjustments for Items Paid by Seller in Advance
08 City/Town Taxes to			09 City/Iown laxes to
County Taxes to Assessments to			County Jaxes to Assessments to
I.I.			17
1.5			UB
13			116
14			15
L. Paid Already by or on Behalf of Bor 11 Deposit	rower at Closing		N. Due from Seller at Closing Excess Deposit
02 Loan Amount			Closing Costs Paid at Closing (I)
03 Existing Loan(s) Assumed or Taken	Subject to		113 Existing Loan(s) Assumed or Taken Subject to
04			04. Payoff of First Mortgage Loan
(is Seller Credit			65 Payoff of Second Mortgage Loan
Other Credits Ob Due Diligence Fee			07 Due Diligence Fee
07			08 Seller Credit
Adjustments			11,3
08			Yn.
09.			11
11			13
Adjustments for Items Unpaid by Sel	ler		Adjustments for Items Unpaid by Seller
T_ City/Town Taxes to			City/fown Taxes to
13 County Taxes to			15 County Taxes to
14 Assessments to			8 Assessments to
15 16			18
			19
1/2			CALCULATION
			Total Due to Seller at Closing (M)
CALCULATION Total Due from Borrower at Closing (K) Total Paid Already by or on Behalf of Bor	rower at Closing (L)		Total Due to Seller at Closing (M) Total Due from Seller at Closing (N)

Closing Disclosure Practice (CONTINUED)

Visit Table	The state of the s	ver-Paid	Selle	r-Paid	Paid by
Loan Costs	At Closing	Before Closing	At Closing	Before Closing	Others
A. Origination Charges					
% of Loan Amount (Points)					
02 Loan Origination Fee		1		-	
03		1		-	
04		-		-	
05					
97		1			
08					
B. Services Borrower Did Not Shop For					
Appraisal Fee					
03					
04					
05					
06					
17					
18					
09					
0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	_	-		1	
C. Services Borrower Did Shop For		9			
Attorney's Closing Fee					
D/ Deed Preparation 03 Title Ins Premium (Lender's and/or Owner's policy)					
DI Pest Inspection Report	-				
05 Survey					
06					
07					
18					
D. TOTAL LOAN COSTS (Borrower-Paid)				100	
Loan Costs Subtotals (A + B + C)					
71 Recording Fees Deed: Mortgage: 072 Excise Tax					
F. Prepalds					
Homeowner's Insurance Premium (mo.)					
☑ Mortgage Insurance Premium (mo.)					
03 Prepaid Interest (per day from to)					
04 Property Taxes (mo.)	_	-		-	
05	_	_		-	
G. Initial Escrow Payment at Closing					
Homeowner's Insurance per month for mo.		-		-	
02 Mortgage Insurance per month for mo. 03 Property Taxes per month for mo.				-	
pa Property taxes per monurior inc.					
05					
06					
17					
98 Aggregate Adjustment					
H. Other					
01 Brokerage Commission					
02 Home Inspection					
103 Home Warranty	_			-	
04 Courier Fee for Seller's Loan Payoff 05 Courier Fee for docs to Buyer's Lender				-	
05				1	
07					
08	i				
I. TOTAL OTHER COSTS (Borrower-Paid)					
Other Costs Subtotals (E + F + G + H)	1			1	
I TOTAL CLOSING COSTS (Royrows, Paid) Saller Beld					
J. TOTAL CLOSING COSTS (Borrower-Paid)/Seller-Paid					
J. TOTAL CLOSING COSTS (Borrower-Paid)/Seller-Paid Closing Costs Subtotals (D + I) Lender Credits					

Closing Disclosure Example



Closing Disclosure Example (CONTINUED)

Closing Cost Details	Practice #1				
	Borrow	er-Paid	Seller-Paid		Paid by
Loan Costs	At Closing	Before Closing	At Closing	Before Closing	Others
A. Origination Charges					
01 % of Loan Amount (Points)	\$2,120.00 \$1,590.00				
02 Loan Origination Fee	\$1,590.00	-			
04					
07					
08 B. Services Borrower Did Not Shop For					
1) Appraisal Fee	100	\$450.00			
02 Credit Report Fee		\$55.00			
03					
04					
06 07					
10					
C. Services Borrower Did Shop For					
1 Attorney's Closing Fee	\$650.00		222		
02 Deed Preparation	\$570.00		\$85.00		
03 Title Ins Premium (Lender's and/or Owner's policy) 04 Pest Inspection Report	\$570.00	\$65.00			
05 Survey	\$400.00	Q00.00			
06					
07					
D. TOTAL LOAN COSTS (Borrower-Paid)					
E. Taxes and Other Government Fees					
01 Recording Fees Deed: Mortgage:	\$82.00				
	\$82.00		\$500.00		
02 Excise Tax	\$82.00		\$500.00		
02 Excise Tax F. Prepaids 11 Homeowner's Insurance Premium (mo.)	\$684.00		\$500.00		
Excise Tax F. Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.)	\$684.00 \$840.00		\$500.00		
Prepaids Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Prepaid Interest (per day from to)	\$684.00		\$500.00		
02 Excise Tax F. Prepaids 01 Homeowner's Insurance Premium (mo.) 02 Mortgage Insurance Premium (mo.) 03 Prepaid Interest (per day from to) 04 Property Taxes (mo.)	\$684.00 \$840.00		\$500.00		
7. Excise Tax F. Prepaids 1. Homeowner's Insurance Premium (mo.) 2. Mortgage Insurance Premium (mo.) 3. Prepaid Interest (per day from to) 4. Property Taxes (mo.)	\$684.00 \$840.00		\$500.00		
Excise Tax F. Prepaids 11 Homeowner's Insurance Premium (mo.) 22 Mortgage Insurance Premium (mo.) 23 Prepaid Interest (per day from to) 24 Property Taxes (mo.) 25 G. Initial Escrow Payment at Closing 26 Homeowner's Insurance per month for mo.	\$684.00 \$840.00 \$306.22		\$500.00		
22 Excise Tax F. Prepaids 23 Homeowner's Insurance Premium (mo.) 24 Mortgage Insurance Premium (mo.) 25 Prepaid Interest (per day from to) 26 Property Taxes (mo.) 27 G. Initial Escrow Payment at Closing 28 Homeowner's Insurance per month for mo. 29 Mortgage Insurance per month for mo.	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00		\$500.00		
Prepaids 1 Homeowner's Insurance Premium (mo.) 2 Mortgage Insurance Premium (mo.) 3 Prepaid Interest (per day from to) 4 Property Taxes (mo.) 5 G. Initial Escrow Payment at Closing 1 Homeowner's Insurance per month for mo. 2 Mortgage Insurance per month for mo. 3 Property Taxes per month for mo.	\$684.00 \$840.00 \$306.22		\$500.00		
Excise Tax F. Prepaids On Homeowner's Insurance Premium (mo.) On Mortgage Insurance Premium (mo.) On Prepaid Interest (per day from to) On Property Taxes (mo.) On Mortgage Insurance per month for mo. On Property Taxes per month for mo.	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00		\$500.00		
Excise Tax F. Prepaids 11 Homeowner's Insurance Premium (mo.) 22 Mortgage Insurance Premium (mo.) 23 Prepaid Interest (per day from to) 24 Property Taxes (mo.) 25 G. Initial Escrow Payment at Closing 26 Homeowner's Insurance per month for mo. 27 Mortgage Insurance per month for mo. 28 Property Taxes per month for mo. 29 Property Taxes per month for mo. 20 Mortgage Insurance per month for mo. 20 Mortgage Insurance per month for mo.	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00		\$500.00		
Excise Tax F. Prepaids 1 Homeowner's Insurance Premium (mo.) 2 Mortgage Insurance Premium (mo.) 3 Prepaid Interest (per day from to) 4 Property Taxes (mo.) 5 G. Initial Escrow Payment at Closing 1 Homeowner's Insurance per month for mo. 2 Mortgage Insurance per month for mo. 3 Property Taxes per month for mo.	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00		\$500.00		
Excise Tax F. Prepaids 1 Homeowner's Insurance Premium (mo.) 20 Mortgage Insurance Premium (mo.) 30 Prepaid Interest (per day from to) 4 Property Taxes (mo.) 55 G. Initial Escrow Payment at Closing 10 Homeowner's Insurance per month for mo. 20 Mortgage Insurance per month for mo. 30 Property Taxes per month for mo. 40 Mortgage Insurance per month for mo.	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00		\$500.00		
Excise Tax F. Prepaids On Homeowner's Insurance Premium (mo.) Prepaid Interest (per day from to) From Ital Escrow Payment at Closing Initial Escrow Payment at Closing Mortgage Insurance per month for mo. Property Taxes per month for mo. Property Taxes per month for mo. And Property Taxes per month for mo. Mortgage Insurance per month for mo.	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00				
Excise Tax F. Prepaids On Homeowner's Insurance Premium (mo.) On Mortgage Insurance Premium (mo.) On Property Taxes (mo.) On Mortgage Insurance Premium (mo.) On Property Taxes (mo.) On Mortgage Insurance per month for mo. On Mort	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00	\$325.00	\$500.00 \$14,979.00		
Excise Tax F. Prepaids 11 Homeowner's Insurance Premium (mo.) 22 Mortgage Insurance Premium (mo.) 23 Prepaid Interest (per day from to) 24 Property Taxes (mo.) 25 G. Initial Escrow Payment at Closing 26 Individual Escrow Payment at Closing 27 Mortgage Insurance per month for mo. 28 Mortgage Insurance per month for mo. 29 Property Taxes per month for mo. 20 Mortgage Insurance per month for mo. 20 Mortgage Insurance per month for mo. 20 Mortgage Insurance per month for mo. 27 Mortgage Insurance per month for mo. 28 Property Taxes per month for mo. 29 Property Taxes per month for mo. 20 Mortgage Commission 30 Home Inspection	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00	\$325.00			
Excise Tax F. Prepaids 11 Homeowner's Insurance Premium (mo.) 22 Mortgage Insurance Premium (mo.) 23 Prepaid Interest (per day from to) 24 Property Taxes (mo.) 25 G. Initial Escrow Payment at Closing 26 Homeowner's Insurance per month for mo. 27 Mortgage Insurance per month for mo. 28 Property Taxes per month for mo. 29 Property Taxes per month for mo. 20 Mortgage Insurance per month for mo. 20 Mortgage Insurance per month for mo. 26 Property Taxes per month for mo. 27 Mortgage Insurance per month for mo. 28 Property Taxes per month for mo. 29 Property Taxes per month for mo. 20 Mortgage Commission 20 Home Inspection 31 Home Warranty	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00	\$325.00	\$14,979.00		
Excise Tax F. Prepaids 11 Homeowner's Insurance Premium (mo.) 22 Mortgage Insurance Premium (mo.) 23 Prepaid Interest (per day from to) 24 Property Taxes (mo.) 25 36. Initial Escrow Payment at Closing 26 Homeowner's Insurance per month for mo. 27 Mortgage Insurance per month for mo. 28 Property Taxes per month for mo. 29 Mortgage Insurance per month for mo. 30 Property Taxes per month for mo. 40 Mortgage Insurance per month f	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00	\$325.00	\$14,979.00 \$450.00		
Prepaids I Homeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Propard Interest (per day from to) Property Taxes (mo.) G. Initial Escrow Payment at Closing Homeowner's Insurance per month for mo. Mortgage Insurance per month for mo. Property Taxes per month for mo. Mortgage Insurance per month for mo. Property Taxes per month for mo. Mortgage Insurance per month for mo. Property Taxes per month for mo. Mortgage Insurance per month for mo. Mortgage	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00 \$823.66	\$325.00	\$14,979.00 \$450.00		
Excise Tax F. Prepaids 11 Homeowner's Insurance Premium (mo.) 22 Mortgage Insurance Premium (mo.) 23 Prepaid Interest (per day from to) 24 Property Taxes (mo.) 25 36. Initial Escrow Payment at Closing 26. Initial Escrow Payment at Closing 27 Mortgage Insurance per month for mo. 28 Mortgage Insurance per month for mo. 29 Property Taxes per month for mo. 20 Mortgage Insurance per month for mo. 29 Property Taxes per month for mo. 20 Mortgage Insurance per month for mo. 21 Mortgage Insurance per month for mo. 22 Mortgage Insurance per month for mo. 23 Property Taxes per month for mo. 24 Mortgage Insurance per month for mo. 25 Property Taxes per month for mo. 26 Mortgage Insurance per month for mo. 27 Mortgage Insurance per month for mo. 28 Mortgage Insurance per month for mo. 29 Mortgage Insurance per month for mo. 20 Mortgage Insurance per month for mo. 21 Mortgage Insurance per month for mo. 22 Mortgage Insurance per month for mo. 23 Property Insurance per month for mo. 24 Mortgage Insurance per month for mo. 25 Mortgage Insurance per month for mo. 26 Mortgage Insurance per month for mo. 27 Mortgage Insurance per month for mo. 28 Mortgage Insurance per month for mo. 29 Mortgage Insurance per month for mo. 20 Mo	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00 \$823.66	\$325.00	\$14,979.00 \$450.00		
Prepaids 1 Homeowner's Insurance Premium (mo.) 2 Mortgage Insurance Premium (mo.) 3 Prepaid Interest (per day from to) 4 Property Taxes (mo.) 5 G. Initial Escrow Payment at Closing 1 Homeowner's Insurance per month for mo. 2 Mortgage Insurance per month for mo. 3 Property Taxes per month for mo. 4 per month for mo. 5 per month for mo. 6 per month for mo. 7 per month for mo. 8 Aggregate Adjustment 9 H. Other 1 Brokerage Commission 9 Home Inspection 10 Home Warranty 10 Courier Fee for Seller's Loan Payoff 10 Courier Fee for docs to Buyer's Lender 10 Touch the courier Fee for docs to Buyer's Lender 10 Touch the courier Fee for docs to Buyer's Lender 10 Touch the courier Fee for docs to Buyer's Lender 10 Touch the courier Fee for docs to Buyer's Lender	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00 \$823.66	\$325.00	\$14,979.00 \$450.00		
F. Prepaids 1 Homeowner's Insurance Premium (mo.) 2 Mortgage Insurance Premium (mo.) 3 Prepaid Interest (per day from to) 4 Property Taxes (mo.) 5 G. Initial Escrow Payment at Closing 6 Homeowner's Insurance per month for mo. 7 Mortgage Insurance per month for mo. 8 Property Taxes per month for mo. 9 Mortgage Insurance per month for mo. 9 Property Taxes per month for mo. 10 Brokerage Commission 1 Hother 1 Brokerage Commission 2 Home Inspection 3 Home Warranty 4 Courier Fee for Seller's Loan Payoff 5 Courier Fee for docs to Buyer's Lender 1 TOTAL OTHER COSTS (Borrower-Paid)	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00 \$823.66	\$325.00	\$14,979.00 \$450.00		
F. Prepaids 1 Homeowner's Insurance Premium (mo.) 2 Mortgage Insurance Premium (mo.) 3 Prepaid Interest (per day from to) 4 Property Taxes (mo.) 5 G. Initial Escrow Payment at Closing 6 Homeowner's Insurance per month for mo. 2 Mortgage Insurance per month for mo. 3 Property Taxes per month for mo. 4 Mortgage Insurance per month for mo. 5 Property Taxes per month for mo. 6 Property Taxes per month for mo. 7 Mortgage Insurance per month for mo. 8 Property Taxes per month for mo. 9 Property Taxes per month for m	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00 \$823.66	\$325.00	\$14,979.00 \$450.00		
Prepaids The Momeowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Initial Escrow Payment at Closing Inough Mortgage Insurance per month for mo. Mortgage Insurance Insurance per month for mo. Mortgage Insurance per month for mo. Mortgage Insurance Insura	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00 \$823.66	\$325.00	\$14,979.00 \$450.00 \$30.00		
02 Excise Tax F. Prepaids 01 Homeowner's Insurance Premium (mo.) 02 Mortgage Insurance Premium (mo.) 03 Prepaid Interest (per day from to) 04 Property Taxes (mo.) 05 G. Initial Escrow Payment at Closing 01 Homeowner's Insurance per month for mo. 02 Mortgage Insurance per month for mo.	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00 \$823.66	\$325.00	\$14,979.00 \$450.00		
Prepaids The Moneowner's Insurance Premium (mo.) Mortgage Insurance Premium (mo.) Property Taxes (mo.) Initial Escrow Payment at Closing Homeowner's Insurance per month for mo. Mortgage Insurance per month for mo. Property Taxes per month for mo. Property Taxes per month for mo. Mortgage Insurance per month for mo. Property Taxes per month for mo. Mortgage Insurance per month for mo. Property Taxes per month for mo. Mortgage Insurance per month for mo. Mortgage Insur	\$684.00 \$840.00 \$306.22 \$114.00 \$140.00 \$823.66	\$325.00	\$14,979.00 \$450.00 \$30.00	LOANID	

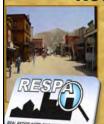


The Overall Intention

...designed to prohibit kickbacks and other referral fees in residential real estate transactions that tend to unnecessarily increase the cost to consumers...



RESPA Ain't Nothin' New Folks



- Enacted in 1974
- 800+ pages
- Two purposes in mind
 - Disclosure
- Eliminate kickbacks
- 1-4 family residential property
- "Federally related" loans

Federally Related Mortgage Loan



- Any loan the federal government has a right to regulate
- •1-4 family residential
- •Not vacant land, commercial or special use properties

Initial Application Disclosures

- Within 3 days of loan application, borrower gets:
 - · Loan estimate (LE)
 - Loan costs
 - Required APR info (TILA)
 - Consumer settlement Costs booklet
 - "Your Home Loan Toolkit"

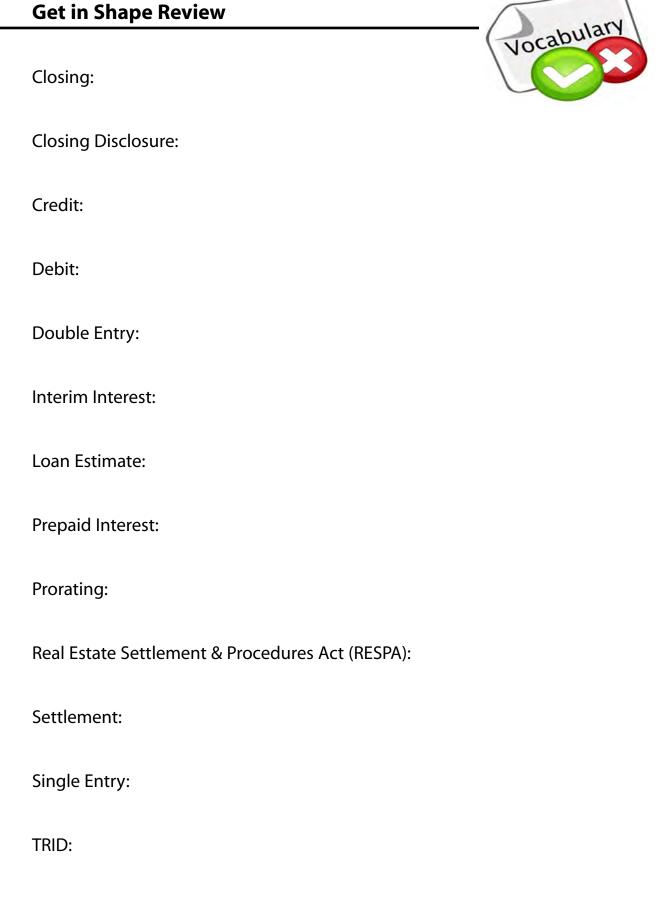








Chapter 12 Vocabulary Venture Get in Shape Review



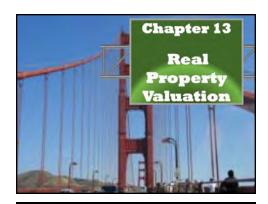


Your Self-Assessment Survival Guide Checklist End of Chapter 12

	End of Chapter 12
t u -	Review Questions in <i>Principles & Practices,</i> Chapter 12
	Superior Online Quiz for Chapter 12
	Complete & Review All 5 Mini-Close Practices
	☐ Vocabulary Venture
Percent	tage on <i>Principles & Practices</i> Chapter 12 Review
I	Percentage on Superior Online Chapter 12 Quiz
	In the interests of my own success and survival, I certify that I have completed the above checklist.

Student Notes

Chapter 13: Real Property Valuation



What Is an Appraisal



An opinion of value by a licensed appraiser on a specific date

Appraisers Can Be Paid

- · A flat fee
- •An hourly rate
- Can't be paid based on a percentage of value



Financial Institutions Reform, Recovery & Enforcement Act of 1989 (FIRREA)

- Appraisal Qualification Board
- Appraisal Standards Board
- Need an Appraisal License, NOT a Real Estate License

_	-
V CH	ECK LIST
ш· 200 г	class hours
- Asso	ciate degree

- Associate degree or higher 2,500 hours of experience
- Additional requirements for specialty certification



BPOs & CMAs

- Broker Price Opinion & Comparative Market Analysis are identical under NC Law
- · Performed by all licensees in conjunction with transactions
- Performed in anticipation of a transaction
- Estimates of:

 "Probable Sales Price"

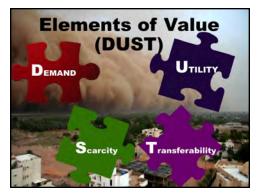
 "Probable List Price"

 "Probable Leasing Price"
- Do NOT call them:
- "Estimates of Value"
 "Estimates of Worth"
- "Appraisals"
- Do NOT use URAR form

When Outside the Transaction for a Fee



- Only a non-provisional broker may perform a BPO/CMA outside of a transaction for a fee
- Must follow the requirements of Rule 58A.2202
 - Proper knowledge of the area
 - Personal inspection of property
 - May express probable selling price as a range
 - Can't be for purposes of a loan
 - · Must be in writing



Important Terminology Differences

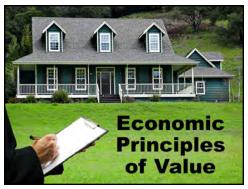
- · Value = Worth
- Price = Actual Sale
- •Cost = Money to Produce











Highest & Best Use • Most profitable use • Only 1 highest & best use • Homes in commercially zoned areas are not worth more

Chapter 13	
	Principal of Substitution
	• Items of similar quality are determined by
	lowest price Given two similar
	properties, a buyer will purchase the least
	expensive of the two
	• Cornerstone of the comparison sales Used in All 3
	approach Appraisal Approaches
	Supply & Demand
	•Value
	changes with supply & fox & sons
	demand OCR NOTE WITH
	• Creates seller
	& buyer markets
	markets .
	Principal of Conformity
	Principal of Conformity
	• Maximum
	value is maintained
	with similarity
	• Basis for
	CCRs
	Principals of
	Progression & Regression
	Progression – The presence of greater
	valued properties will increase the price of
	lesser valued ones • Regression – The
	presence of lesser valued properties will
	decrease the price of greater valued ones
	Principal of Anticipation
	• Future benefits &
	WALKINAN
	will affect
	property values

Contribution · The value of component parts add or subtract to value The basis of comparable adjustments Every year Remodeling magazine compares cost of improvements vs. value they add COST vs. VALU

Principal of Competition Profits attract competition, which lowers the



Principal of Plottage



An increase in the value of land caused by bringing multiple parcels together or merging them into one larger parcel

(Usually Residential)

An increase in the value of land caused by dividing larger parcels into multiple smaller ones

Chapter 13	
	The Appraisal Process
	• Gather general data
	Neighborhood, trends, etc.
	Gather specific data Property research
	Property visit Apply valuation models
	Create a report
	Deliver the findings
	3 Approaches
	3 Approaches to Value
	1.Comparable Sales
	2.Cost
	3.Income
	Sales Comparison
	Approach
	Most often used in residential
	Based on sale of similar
	properties
	• Typically 3 comps are used
	comps are used
	SALES COMPARISON APPROACH
	Characteristic Comparable #1 Comparable #2
	Because the BEST definition of a property's \$167,000
	value is what would a a months ago
	willing seller in an arm's length transaction Always adjust the
	Bedrooms over comps, NEVER Baths 2½ baths (- adjust the subject
	Adjusted price \$168,000 property
	Taglates parts
	Remember
	Heterogeneity?
	No two properties are identical
	Adjustments need
	made • Date of sale
	Location Physical features
	• Terms & conditions of sale

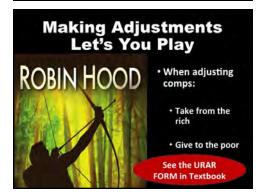
Adjusting the Comparable Sales

If the comp is superior, then

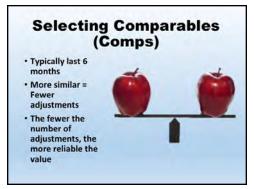


If the comp is inferior, then





Uniform Residential Appraisal Report Uniform Res



The Cost Approach

- Used when comps are not available
- Unique properties
- New construction
- Sets highest limit of value
- Only approach using depreciation



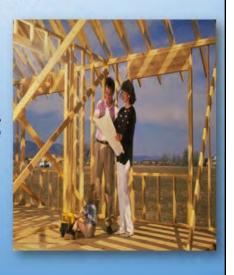
The Cost Approach Formula

Value of the Land + Appreciation

Cost of the Building

- Depreciation

= Value of the Property



Value of the Land Determined by comparable sales · Even in the cost approach **Methods of** Calculating Square foot method Costs · Most common Cost per square foot · Unit In place method · Add up the components Quantity survey method · Total materials + labor Replacement vs. Reproduction Replacement cost · Most often used Similar materials Reproduction cost Exact duplicate

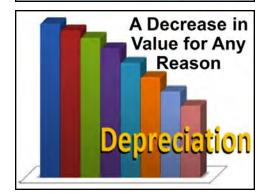
Seldom used



Types of Appreciation

- An increase in value for any reason
- Two types
 - Earned increment due to efforts of homeowner
 - Unearned increment due to external factors





Types of Depreciation

- Physical deterioration
 - Wear & tear
- Deferred maintenance
- Functional obsolescence
 - Poor or outdated design
 - Always "IN" the property
- Economic obsolescence
- External factors
- Always "OUTSIDE" the property



Curable vs. Incurable Depreciation

- Curable –
 Easily remedied
- Incurable –
 Not capable of being remedied













The Income Approach

 Used for incomeproducing properties



- •Rental properties
- Commercial properties

Economic Life vs. Physical Life

- Physical life
 - How long the structure is sound
- Economic life
 - How long the building produces an acceptable rate of return



Economic Life is Always Shorter Than Physical Life

The Depreciation of a Property Can Be Calculated Using Economic Life

Effective Age ÷ Economic Life

% of Depreciation



Real-World Example

A property has an economic life of 40 years. The appraiser has determined that it has an effective age of 18 years. What is the percentage of depreciation?

Effective Age (18)

÷ Economic Life (40)

= 45% of Depreciation

What will the

investor pay for the property?

\$600,000

10%

Value X CAP Rate

Intro to Cash Flow Analysis



Potential Gross Income

- Vacancy
- Collection losses

= Effective Gross Income

- Operating Expenses

= Net Operating Income

- Debt Service
- Capital Expenditures
- Reserves
- = Cash Flow Before Taxes

\$100,000 (Gross)

- 10,000 Vacancy
- 10,000 Collection Losses

= \$80,000 (Effective)

- 20,000 - Operating

= \$60,000 (NOI)

- 30,000 Debt Service
- 5,000 Capital Exp.
- = \$25,000 (Cash Flow)

Gross Rent Multipliers (GRM)

- A shorthand method for the income approach
- Used for small income-producing properties (1-4 units)
- Insufficient records to calculate NOI



GRM Formula

Sales Price ÷ \$90,000 Sales Price ÷ 750 in Monthly Rent = 120 GRM

Monthly Rental Income

- Not a rate of return
- Not the months to get you money back
- Just a number to compare similar properties
- GRM
- · Could be monthly or annual

SO.	_
2000	
all Born	—
BEAT STATE	
	_
THE RESERVE AND ADDRESS OF THE PERSON NAMED IN	
	_
	_
1,000	
A. Control of the Con	
a	
7	
ce	
ent	
5.00	
10	
2.17.1	
our	_
re	
1.5	—
nual	
	_
	—
	_
	_
	_

Chapter 13		
		Superior
		Superior Key Insight For Test
	 Gross rent multipliers can be stated in monthly or annual amounts 	
	•The exams use monthly gross rent multipliers	NOTES TO BRAIN
	Reconciliat	ion
	Comparable	
	Approach Method Cost OPINION Approach	The process of bringing together different approaches to
	Income Approach Method	arrive at ONE final opinion of value



The SUPERIOR WAY Comparison & Comparables (CMA) Math

- 1. Determine the Features of the Subject Property
- 2. Locate Substantially Similar Properties
- 3. Adjust the Comparables
- 4. Add for Inferior Components & Features
- 5. Subtract for Superior Components & Features

Inferior Components ADD Value

Superior
Components
SUBTRACT Value

Remember:

The property with the lowest NUMBER of adjustments is most similar

Example:

The subject property has 1,500 square feet, 2 bedrooms and two baths.

A similar property of 1,600 square feet sold with 3 bedrooms and 1½ bath.

If square feet are worth \$60 each, a bedroom is worth \$10,000 and a bath is worth \$5,000, what will be the adjustment to the comparable property?

100 sq. feet × \$60 = \$6,000 -\$6,000 (SF) - \$10,000 (Bedroom) + \$2,500 (1/2 Bath) Net Adjustment -\$13,500

Working With Comparables (CMA) Math PROBLEMS

 $\frac{1}{2}$ bath = \$900 and 1 acre = \$45,000.

1. Using the following cost data, estimate the value of the seller's property. The seller's house has 2,500 square feet, 3 bedrooms, a 2-car garage, a pool, a patio, 2 baths and sits on 1 acre. A comparable sold recently for \$150,000 and has 2,300 square feet, 4 bedrooms, a 1-car garage, no pool, no patio, 2.5 baths and sits on 1.5 acres. Square foot = \$80, 1 bedroom = \$2,500, 1-car garage = \$1,200, patio = \$1,800, pool = \$16,000,

ARE YOU READY TO BE A

Of

Id

ARE YOU READY TO BE A

MATH

GENIUS!

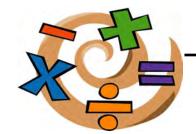
aths

m = \$2,500,

- 2. While estimating the value of a possible listing, you examine two comparable houses. Both houses are 2,700 square feet; both were built in 2000 and both have highly similar characteristics. One comparable sold for \$90,000 eight months ago, and the other comparable sold for \$98,000 two weeks ago. You would make which of the following adjustments to the sales prices of the comparable houses?
 - I. Add \$8,000 to first comparable sales price
 - II. Deduct \$8,000 from second comparable sales price
 - A. I only
 - B. II Only
 - C. Both I and II
 - D. Neither I nor II
- 3. When a real estate agent is asked to estimate the value of a property, she finds four recently sold comparables. The first comp has positive features worth \$3,000, the second \$4,000 and the third \$5,000. All features are NOT common to the subject property. The fourth comp has negative features worth \$3,500, which are NOT common to the subject property.

Comp one sold for \$75,000, comp two sold for \$78,000, comp three sold for \$65,000 and comp four sold for \$73,000. What is the indicated range of probable values for the subject property?

- A. \$60,000 \$76,500
- B. \$72,000 \$76,500
- C. \$60,000 \$74,000
- D. \$72,000 \$74,000



Subject Comparable **Adjustment** Difference 2,500 2,300 $+200 \times 80$ = \$16,000 3 BDR 4 BDR – BDR = -\$2,5002 G 1 G + G = + \$1,200 Pool No + Pool = + \$16,000 Patio No + Patio = +\$1,800 - \$900 2 BT 2.5 BT – .5 BT = - \$22,500 1 Acre 1.5 Acre - .5 Acre Adjusted Value = \$159,100

2. Answer: A

3. Answer: A

1st	2nd	3rd	4th
75,000	78,000	65,000	73,000
<u>- 3,000</u>	<u>- 4,000</u>	<u> </u>	<u>+ 3,500</u>
72,000	74,000	60,000	76,500

Working With Comparables (CMA) Math Learning To Go At Home Project

1. You are asked to do a comparative market analysis for a potential seller. The subject property has 1,500 square feet, 3 bedrooms and 1 bath. You find three comps with the following features:



The first comp has 1,400 square feet, 3 bedrooms, 2 baths and sold for \$150,000. The second comp sold for \$160,000, has 1,700 square feet, 3 bedrooms and 2 baths. The third comp has 1,700 square feet, 3 bedrooms and 2.5 baths and sold for \$162,000.

The value of one full bath is \$4,000. The value of a half bath is \$2,000. The price per square foot is \$33.34.

What would be a reasonable selling price for the subject property?

- 2. As a broker, you are asked to estimate the value of a property. Using the following information, complete a CMA and state a reasonable sales price for the property.
 - Comparable #1 sold for \$240,000, with 2,700 square feet, 2 baths, 2-car garage and 3 bedrooms.
 - Comparable #2 sold for \$260,000, with 2,900 square feet, 2-car garage, 2 baths and 3 bedrooms.
 - Comparable #3 sold for \$266,000, with 2,900 square feet, 3 baths, 3 bedrooms and 2-car garage.
 - The subject property had 2,500 square feet, 2.5 baths, 3 bedrooms and 2-car garage.
 - The value of one bath is \$6,000.
 - The price per square foot is \$100.

I would	recommend	a reasonable	sales price	to be	
---------	-----------	--------------	-------------	-------	--

3. Using the following cost data, estimate the value of the seller's property.

The seller's house has 2,500 square feet, 3 bedrooms, a 2-car garage, a pool, a patio, 2 baths and sits on 1 acre. A comparable sold 3 months ago for \$150,000 and has 2,300 square feet, 4 bedrooms, a 1-car garage, no pool, no patio, 2.5 baths and sits on 1.5 acres. Square foot = \$80, 1 bedroom = \$2,500, 1-car garage = \$1,200, patio = \$1,800, pool = \$16,000, ½ bath = \$900 and 1 acre = \$45,000. The average annual rate of appreciation in the neighborhood is 12%.

The value of the seller's property is:	<u> </u>
--	----------

Working With Comparables (CMA) Math Learning To Go At Home Project Solutions

1.
$$\frac{1}{2}$$
 BT = \$2,000 1 BT = \$4,000 Sq. Ft. = \$33.34

	\$150,000	\$160,000	\$162,000	
Subject	Comp #1	Comp #2	Comp #3	
1,500 sq.ft.	100 × \$33.34 = + \$3,334	200 × \$33.34 = - \$6,668	200 × \$33.34 = - \$6,668	
3 BR	N/A	N/A	N/A	
1 BT	1 BT = - \$4,000	1 BT = - \$4,000	1.5 BT = 4,000 + 2000 - \$6,000	
	\$149,334	\$149,332	\$149,332	

	\$240,000	\$260,000	\$266,000
Subject	Comp #1	Comp #2	Comp #3
2,500 sq. ft.	200 × \$100 = - \$20,000	400 × \$100 = - \$40,000	400 × \$100 = - \$40,000
2.5 BT	1/2 + \$3,000	1/2 + \$3,000	– 1/2 – \$3,000
3 BR	N/A	N/A	N/A
2 G	N/A	N/A	N/A
	\$223,000	\$223,000	\$223,000

3. Subject Comparable Difference **Adjustment** 2,500 2,300 $+200 \times 80$ \$16,000 3 BDR 4 BDR – BDR = -\$2,500G 1 G + G = +\$1,200 Pool No + Pool = + \$16,000Patio No + Patio = + \$1,8002 BT 2.5 BT – .5 BT - \$900 - .5 Acre 1 Acre 1.5 Acre = - \$22,500Appreciation 3 months ago $1\% \times 3$ months = + \$4,500 Adjusted Value = \$163,600



The SUPERIOR WAY Appreciation & Depreciation Cost Formula Math

- 1. Value of Land + Cost of Building Depreciation
- 2. Determine the Land Value
- 3. Add Land Appreciation
- 4. Determine Cost of the Building
- 5. Subtract Depreciation

Value of Land

- + Appreciation
- + Cost of Building
- Depreciation
- = Cost Value

Remember:

Land Appreciates

Buildings Depreciate

Example:

A piece of land was purchased for \$28,000. It has appreciated 10%. The home cost \$78,000 to build, and it has depreciated 20%.

What is the value of the property?

\$28,000 × 10% = \$2,800 (\$28,000 + \$2,800) = \$30,800 \$78,000 × 20% = \$15,600 (\$78,000 - \$15,600) = \$62,400 \$30,800 + \$62,400 = \$93,200

ARE YOU READY TO BE A MATH GENIUS!

Appreciation & Depreciation Cost Formula Math PROBLEMS

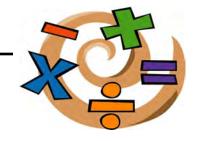
- 1. A building has depreciated for the past 7 years at a rate of 3% per year. It is valued today at \$74,000. Find the original value of the building.
 - A. \$93,670
 - B. \$15,540
 - C. \$58,460
 - D. \$103,220
- 2. A new home and lot cost \$17,000 five years ago. Of this total price, it was estimated that the lot had a value of \$4,500. Assuming an annual depreciation of 2.5% on the house and an annual increase in value of 6% on the lot, what is the total value of the property today?
 - A. \$10,937
 - B. \$58,500
 - C. \$16,787
 - D. \$18,920
- 3. An individual bought a home for \$100,000. The appreciation rate per year is 4%. The owner has owned the property for 5 years. What's the present value of the property?
 - A. \$20,000
 - B. \$120,000
 - C. \$500,000
 - D. \$80,000

Appreciation & Depreciation Cost Formula Math SOLUTIONS



$$100\% - 21\% = 79\%$$

\$74,000 \ddot .79 = \$93,670.89



Answer: A

2. House Depreciation
5 years × 2.5% = 12.5%
\$12,500 × .125% = \$1,562.50
\$12,500 - \$1,562.50 = \$10,937.50

Lot Appreciation 5 years × 6% = 30% \$4,500 × .30 = \$1,350 \$4,500 + \$1,350 = \$5,850

Total Value of Home \$10,937.50 + \$5,850.00 = \$16,787.50

Answer: C

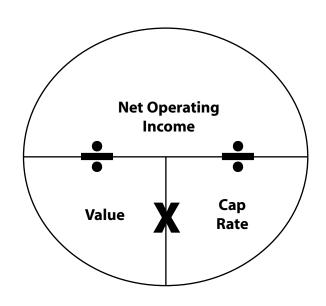
3. 5 years × 4% = 20% \$100,000 × .20 = \$20,000 \$100,000 + \$20,000 = \$120,000

Answer: B



The SUPERIOR WAY Income Approach Valuation Math

- 1. Value × Rate = Net Operating Income
- 2. Net Operating Income ÷ Value = Rate
- 3. Net Operating Income ÷ Rate = Value



Gross Rent Multiplier =

Value of the Property ÷

Monthly Rent

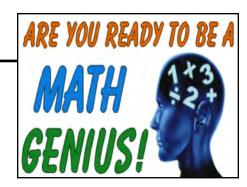
Example:

The NOI for a property is \$90,000. The appraiser has determined market cap rates to be 6%. What is the value of the property?

\$90,000 ÷ 6% (.06) = \$1,500,000 Value

Income Approach Valuation Math PROBLEMS

1. A property is listed for \$750,000. The property produces \$90,000 in income and has expenses of \$30,000. What is the cap rate?



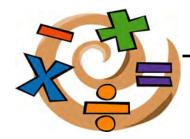
2. An investor wants to achieve a 7% cap rate. He has found a property that produces a net operating income of \$80,000. What is the most that the investor will pay for the property?

3. If the gross rent multiplier in a particular area for similar properties is 125, and the owner is collecting \$1,500 a month in rental income, what is the value of the property?

4. A property has expenses of \$40,000 and income of \$90,000. If the owner lists the property for \$1,250,000, what will be the cap rate on the property?

5. A property has NOI of \$75,000 and the cap rate is 8%. If the market cap rate increases to 9%, what will be the change in the property value?

Income Approach Valuation Math SOLUTIONS



2.
$$\$80,000 \div 7\% (.07) = \$1,142,857$$

3.
$$$1,500 \times 125 = $187,500$$

The property value would decrease by \$104,167

Chapter 13 Vocabulary Venture Get in Shape Review



Chapter 13 Vocabulary Venture Get in Shape Review (CONTINUED)

Cost:
Cost Approach:
Curable:
Debt Service:
Demand:
Appreciation:
Depreciation:
Economic Obsolescence:
Effective Age:
Effective Demand:
Functional Obsolescence:
Gross Effective Income:

Chapter 13 Vocabulary Venture Get in Shape Review (CONTINUED)

Income (Capitalization) Approach:
Incurable:
Market Value:
Net Operating Income (NOI):
Operating Expenses:
Physical Deterioration:
Potential Gross Income:
Price:
Probable Sales Price:
Quantity Survey Method:
Replacement Cost:
Replacement Reserve:

Chapter 13 Vocabulary Venture Get in Shape Review (CONTINUED)

Reproduction Cost:
Scarcity:
Square-Foot Method:
Substitution:
Supply and Demand:
Transferability:
Unit-in-Place Method:
Utility:
Value:

Your Self-Assessment Survival Guide Checklist End of Chapter 13

Review Questions in <i>Principles & Practices</i> , Chapter 13
Superior Online Quiz for Chapter 13
Appreciation & Depreciation Cost Formula Math
☐ Income Approach Valuation Math
☐ Working With Comparables (CMA) Math
☐ Working With Comparables (CMA) Learning To Go At Home Project
☐ Vocabulary Venture
Percentage on <i>Principles & Practices</i> Chapter 13 Review Percentage on Superior Online Chapter 13 Quiz
In the interests of my own success and survival, I certify that I have completed the above checklist.

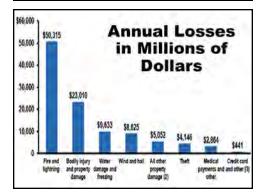
Chapter 14: Property Insurance



What Could Possibly Happen?

- Damage from wind and hail is most frequent
- Damage from fire and lightning most costly
- Each year 1 in 15 homes has a claim







Common Types of Policies

- HO-1 Basic Form Not Recommended
- HO-2 Covers More than Basic Not Recommended
- HO-3 All RISK Form MOST POPULAR
- HO-4 Renter's Policy Excludes Structure
- HO-6 Condo Policy "Walls In" Coverage











NOTES TO BRAIN

Fire & Named Peril Coverage Personal Property Coverage Liability Coverage for Third Parties

Wind and Other Perils Often Require Separate Endorsement or Rider

Consumers Should CHECK Policy Language and Discuss Unique Issues with Insurance Agent

- Condition Limits coverage in some way
- Exclusion Omits something from coverage
- Endorsement / Rider –
 Adds coverage for a
 particular peril or type of
 property



Chapter 14	
	and the state of t
	金属 無人
	HE REPRESENTED TO SERVICE STATE OF THE SERVICE STAT
	Flood Insurance Is a
	Separate Policy NOT Covered
	by Homeowner's Insurance
	National Flood
	Insurance
	NATIONAL FLOOD Program (NFIP)
	Administered by Federal Emergency Management Agency (FEMA)
	Minimize flooding disasters through 3 basic requirements The bloom part of flood plains.
	Establishment of flood plains Requirement of Flood Certifications Mandatory Flood Insurance for certain areas
	Insurance issued by private companies & insurers
	- insurance issued by private companies & insurers
	The Establishment of
	The Establishment of Federal Flood Plains
	Maps from the Army Corps of Engineers
	Maintained by FEMA Constantly evolving
	maps
	Location Type of improvements FUCCOWAY 2009 AB
	• Elevation • Contour
	• Grading, pavement
	Flood Contification
	Flood Certification
	• All lenders of "federally
	related" loans must obtain a flood
	certification from FEMA
	Ordered online as part of lending process
	• If property is in a flood plain, flood insurance will be mandatory
	Will be manualory
	SECTION OF THE PROPERTY OF THE

When in a FEMA Map Flood Insurance Is Mandatory



- 1% chance of flooding requires flood insurance
- · All types of properties
- Location of property in any of the zone is a material fact and must be disclosed
- If entire building is above the 100-year flood plain, the requirement may be waived

Insurability Concerns & Issues

Licensees should urge the buyer to check all potential insurance issues during the due diligence period as required by the Offer to Purchase and Contract

- Credit scores
- · Claims history
- CLUE reports
 - Comprehensive Loss Underwriting Exchange
 - Database of past claims
 - · Property & person
 - · 7-year history
 - Accessed by insurance companies



The Unoccupied Building

- Most policies become VOID if:
 - The owner moves out possessions and furniture
 - Home remains vacant for an extended period of time
 - Times vary based on policies



Superior Prelicensing	Adventure	Guide © April 2020	•	superiorschoolnc.com

Chapter 14	
	The Early or Late
	Possession
	Most policies become VOID if:
	No longer owner occupied
	Pre & post possession create issues
	• Use the addenda
	Recommend Attorney Insurance agent
	Risk of Loss Changes with Closing
	Closing defined as recordation of the DEED
	Closing = Change of possession
	Keep the property insured until recordation
	The Concept of Co-Insurance
	Every policy requires homeowner to insure
	for at least 80% of the value of the property
	Policies usually only pay part of loss
	Deductibles vary greatly
	Assignability of Insurance Policies
	• Assignable with permission of
	55 Gill Mit Burger insurer
	• Rare in residential
	• Rare in residential • Common in commercial
	. rtente commercial



Your Self-Assessment Survival Guide Checklist

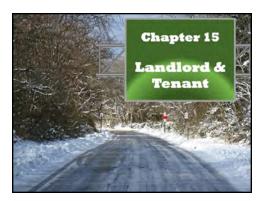
	End of Chapter 14
tH-	Review Questions in <i>Principles & Practices,</i> Chapter 14 Superior Online Quiz for Chapter 14
Perce	ntage on <i>Principles & Practices</i> Chapter 14 Review
	Percentage on Superior Online Chapter 14 Quiz
	In the interests of my own success and survival, I certify that I have completed the above checklist.

Student Notes

<u> </u>

PROPERTY MANAGEMENT: Chapters 15–16 BLANK – FOR TAB PLACEMENT ONLY PROPERTY MANAGEMENT: Chapters 15–16 BLANK – FOR TAB PLACEMENT ONLY

Chapter 15: Landlord & Tenant





Privity of Estate:

The mutual or successive relation to the same right in property.

Privity of Contract:

Governed by the lease.

Landlord & tenant have both under a lease.

If anything is missing from a lease, i.e. renewals, the lease is said to be silent.

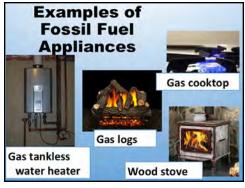


Smoke & Carbon Monoxide Detectors

- Smoke detectors mandatory
- · Carbon monoxide, if:

 - Attached garage
 Fossil fuel appliances
- Landlord must install 10-year lithium batteries or hard wire
- Tenant replaces batteries







"Imminently Dangerous" Conditions

- Unsafe wiring
- · Unsafe flooring or steps
- Unsafe ceilings
- Unsafe chimneys or flues
- · Lack of potable water • Broken windows or locks
- · Lack of heating
- · Lack of operable toilet
- Lack of operable tub or shower
- · Rat infestation



Landlord must remedy within a reasonable time and charge tenant for actual costs if fault of the tenant

Landlord Rights to Access

- · No specific time requirement in NC
- Immediate access
 - Emergencies
- Reasonable access
 - Repairs
 - Inspections



Chapter 15	
Chapter 13	No.
	No Guarantee of Tenant Safety
	Unless the
	Landlord Knew or
	Should Have
	Known of a
	Dangerous
	Condition
	Protected Tenants
	Victims of Domestic Violence or Assault
	Must possess: Court order of
	protection
	Restraining order
	• 30-day notice required
	• No further lease
	liability
	• Lease continues for
	other tenants
	Towards Basis Obligations
	Tenant's Basic Obligations
	Keep unit clean and safe Dispose of trash and
	garbage
	Keep plumbing fixtures clean
	• Not destroy alarms
	Replace batteries in alarms
	Comply with building and housing codes
	• Responsible for damages that are
	• Negligent • Intentional
	and the same of th
	Certain 1121
	people by
	statute may
	terminate a
	lease early

Military Personnel



Military may terminate with 30-day notice when:

- Station change order 50 miles away
- Involuntary or premature discharge
- Deployed for 90 days or more
- Death on active duty, family member notifies

All Remedies Are Civil Court Actions



They are resolved in the courts

Two Categories of Evictions



Constructive Eviction

- Failure to maintain
- · Health & safety



Actual Eviction

- · Breach of lease
- Usually failure to pay rent

If the Landlord Breaches the Lease by Failing to Maintain or Remedy "Imminently Dangerous" Conditions

- No right of the tenant
 - · To make repairs
 - To deduct repairs from rent
 - · Not to pay rent

POVE
Move Out and Stop Paying Rent as
Constructive

Eviction



Deposits From a Tenant

- · Applies to all owners & landlords (except single rooms rented)
- Not just licensees
- · All deposits to a trust account
 - With offices in NC
 - · Private owner can get bond
 - Must notify tenant within 30 days of lease where the money is held



Maximum Amount of Deposit

- ·How much can you collect
 - ·Weekly 2 weeks
 - ·Monthly 1 1/2 months
 - Longer 2 months



Permitted Uses of Security Deposits

- · Nonpayment of water, sewer and electric
- · Intentional or negligent damage to the unit
- · Unfulfilled lease term
- · Unpaid bills that create a lien on the property
- Costs of re-renting
- Costs of removal and storage of personal property
- · Costs associated with eviction



Cleaning Fees & Deposits

- Landlords can collect UPFRONT cleaning fees
- · Refundable or
- Non-refundable
- · Cannot deduct from
 - security deposit

 Normal wear and tear
 Carpet cleaning

 - Repainting
 Small nail holes and other non-intentional damage



Chapter 15	
	Accounting for Security Deposits
	Deposit within 3 business
	• Must itemize all deductions
	• Return or accounting postmarked within 30 days
	• Final accounting within 60
	days • Only if cannot determine
	within 30
	Pet Deposits
	• May allow or prohibit pets
	• May charge reasonable
	pet deposit • Refundable or
	• Non-refundable
	Service & Assistive
	Animals Are Not Pets
	· Cannot
	• Prohibit them • Charge a deposit
	NOTE TO SELF
	MORE DETAIL ON THIS
	ISSUE CONTAINED IN CHAPTER 17 FAIR HOUSING
	Assistive Animals
	Come in a
	Wide Array
	Sair Housing
	Fair Housing Disability Law Only equipes a Letter From a Medical
	Medical Professional

Transfer of Rental Property

- Leases continue and new owner must honor
- Within 30 days landlord must:
- Transfer to new owner deposits
- Notify tenant of the transfer



Remedy for Failure to Return Deposits

- Civil action by tenant
- Treble damages of amount wrongfully withheld
- Attorney fees and court costs





Who Is Subject to the

- Any person or entity who owns
- Any broker who is managing
- A vacation rental property

None of these laws are limited to just licensees



NC Vacation Rental Act

What's a Vacation Rental Property?

- Rental of residential property for vacation, leisure, or recreation
- Period shorter than 90 days
- Tenant has permanent residence elsewhere



Chapter 15	
	The State of the S
	Exemptions to the VRA
	Hotels, motels, camps
	Renting for business or employment
	• Rentals that are the residence
	• Rentals with just
	nominal consideration
	Writton Agracment
	Written Agreement Required
	Normally only
	leases longer than 3 years
	must be in writing
	than 3 years must be in writing • Vacation rentals less than 90 days must also
	Vacation rentals less than 90
	be in writing
	Written Agreement Is
	Non-enforceable Unless One
	of the Following Occurs
	• Tenant signs
	• Or after receipt of the agreement, the tenant
	• Or after receipt of
	the agreement, the tenant
	• Paid monies
	Took possession
	1.1.1.1.11.11.11.11.11.11.11.11.11.11.1
	Vacation Rental
	Expedited Eviction
	There is an
	expedited
	eviction procedure for
	Vacation
	Rentals that requires a
	4-hour notice
	before eviction
	Advance Payments Go
	Into Trust Account
	Bank with offices in North
	Carolina No provision for private bonding
	Limitation on landlord/broker
	disbursement of advance funds • More than 50% of the funds prior
	to occupancy Additional funds can be dispersed
	Upon occupancy Tenant's material breach
	Refund to the tenant Transfer upon sale

Accounting & Handling of Funds

- Must disclose to tenant where money is held
- Must refund all if landlord/broker cannot deliver occupancy
- Tenant Security Deposit
 Act applies as to amounts
 and return, EXCEPT:
- Time for returning the deposit is 45 days







When a Vacation Rental Is **SOLD**

- ALL reservations must be disclosed to prospective buyers
- Copies of lease agreements must be provided to buyer within 10 days of closing
- Buyer must honor lease agreements within 180 days of closing

Travel Agent Referral Fees

- Exemption for payment of commissions
 - Travel agent referral fee allowed
 - Normally NO commissions or referrals to unlicensed entities or individuals



Chapter 15	Non-Freehold Estates
	Types of Non-Freehold Estates Less than Freehold Less than Ownership
	1.Estate for years 2. Periodic tenancy 3.Estate at will 4.Estate at sufferance
	1. "Years" means date certain, NOT "Years" 2. Automatic termination 3. No notice required 4. Tenant has exclusive rights of possession
	Estate From Period To Period AKA: Periodic Tenancy Initial agreement for specific period With payment auto renewal No notice required Termination requires notice and the law governs timeframe Week to week = 2 days Month to month = 7 days 1 year = 1 month This is termination not eviction
	• Usually guests on the property • Terminate anytime without notice Example: A grocery store allowing girl scouts to sell cookies

Estate at Sufferance

- Holding over against wishes of landlord
- Acceptance of rent may create a periodic tenancy





Fixed Rent Lease Gross Lease

- Gross lease
- Typical residential lease
- Flat rate per period
- Landlord pays all taxes, insurance, etc.





Percentage / Retail Lease



- Fixed amount plus percentage of gross income or sales
- Advantages / disadvantages

Full Service Lease



- Lease includes services
- Base Rent + Prorated Expenses + Services = Rent Paid
- Since expenses and services are paid by the lessor, rents are higher
- CAM Common area maintenance charges share by all tenants



Valid Lease Agreements Have:

- Mutual agreement
- Consideration
- Legal capacity
- Legal objective



Leases Have Pieces Common Major Provisions Use of Premises Repairs Default Environmental Term & Options & The Concerns Renewal Future **Improvements** Access & Quiet **Fixtures** (TIs) Enjoyment

Subleases & **Assignments**

- Tenant able to re-lease property
- Usually prohibited in residential agreements
- Assignment usually prohibited in residential agreements
- Assignors & assignees
 May maintain primary liability
 w/o release
 First lessee secondarily liable
- · Used a lot in commercial



Termination of Leases

- Full performance
- · End of lease term
- Mutual cancellation
- Condemnation of property
- · Fail to pay
- · Fail to maintain



Leases travel with the property when sold



Affidavit for Removal of Personal Property of a Tenant N*C





- When a tenant dies and is the sole occupant
- Owner or landlord can file affidavit of possession
- Landlord must retain personal property for 90 days

Application of Statute of Frauds & Recordation

- Only leases for longer than 3 years must be in writing
- Exception for Vacation Rental Act
- Only leases for longer than 3 years must be recorded (Conner Act)
- Good idea to get all leases in writing



Standard Forms

REALTORS® may use Vacation Rental Addendum with standard offer to purchase

Non-REALTORS® may use standard forms with NC BAR logo only (not REALTOR® logo)

REALTORS® and owners may use Vacation Rental Agreement



Review of the Residential Rental Contract



the party and the party of the alternation of the same

Forms

Residential Rental Contract NCAR Form 410-T

This form is the standard residential rental contract used in North Carolina. The actual form is located in *Modern Real Practice in North Carolina*. See Appendix D.

Parties to the Agreement

- Resident (tenant)
- Owner
- Real estate management firm

Fees & Rent

- Rent can be monthly, weekly, annually
- Provides for late payment after 5 days and penalty
- Security deposit (bank and location)
- Provides fees in the event of summary ejectment

Provides Names of Others

- Other occupants
- Emergency contact

Termination & Renewal

- Requires written notice to terminate at end of term
- No notice or tenant holdover converts to periodic tenancy

Landlord & Tenant Obligation

- The statutory duties of landlord and tenant are listed
- Specific notice of obligations regarding services (who pays what)
- Landlord obligation to replace alarms within 15 days of notice

Insurance Provision

• Tenant can be required to obtain insurance and provide renter's policy

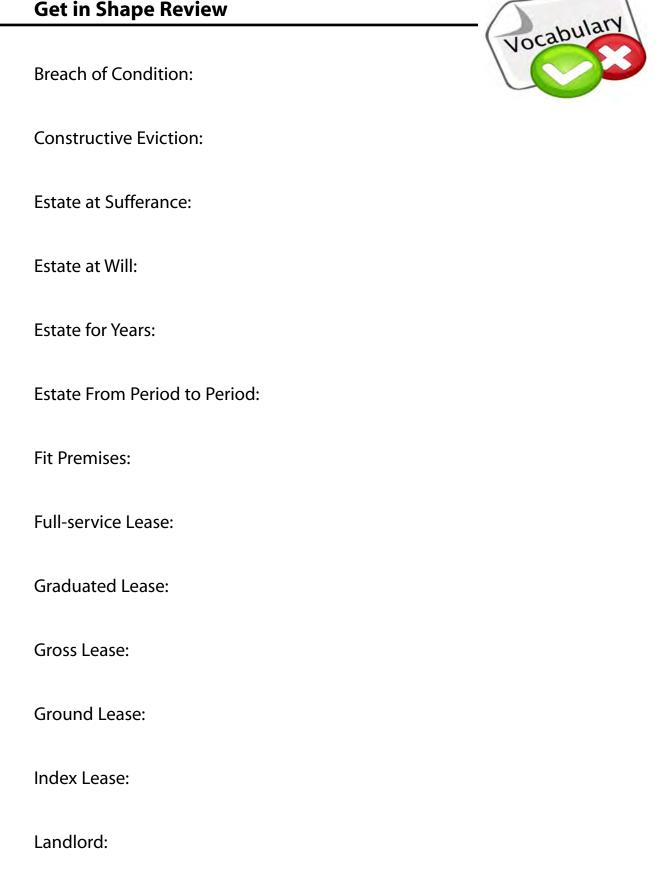
Lists Specific Addendum & Attachments

- Lead-Based Paint Disclosure
- Maintenance Addendum
- Early Termination by Military Personnel
- Pet Addendum (Form 442-T)

Provides for Inspection of Premises

- Tenant right to do move-in inspection and complete form
- Landlord's right to inspect upon reasonable notice

Chapter 15 Vocabulary Venture Get in Shape Review



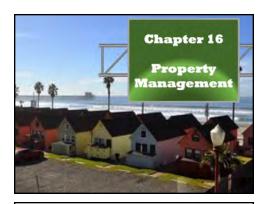
Chapter 15 Vocabulary Venture Get in Shape Review (CONTINUED)

Lease:
Lessee:
Lessor:
Net Lease:
North Carolina Residential Rental Agreements Act:
North Carolina Tenant Security Deposit Act:
Percentage Lease:
Periodic Tenancy:
Reappraisal Lease:
Residential Eviction Remedies:
Retaliatory Eviction Statutes:
Sale and Leaseback Tenant:

Your Self-Assessment Survival Guide Checklist End of Chapter 15

Review Questions in <i>Principles & Practices,</i> Chapter 15 Superior Online Quiz for Chapter 15	
☐ Vocabulary Venture	
Review the NC Residential Rental Contract	
Percentage on <i>Principles & Practices</i> Chapter 15 Review	
Percentage on Superior Online Chapter 15 Quiz	
In the interests of my own success and survival,	
I certify that I have completed the above checklist.	

Chapter 16: Property Management



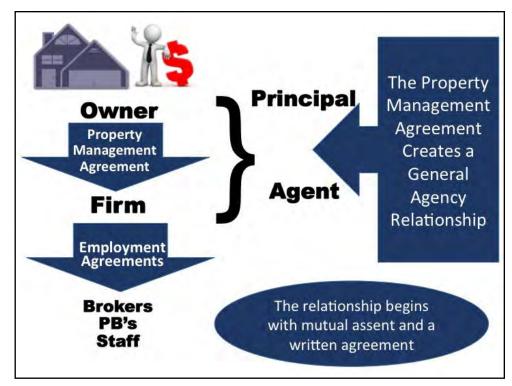
The Nature of Property Management

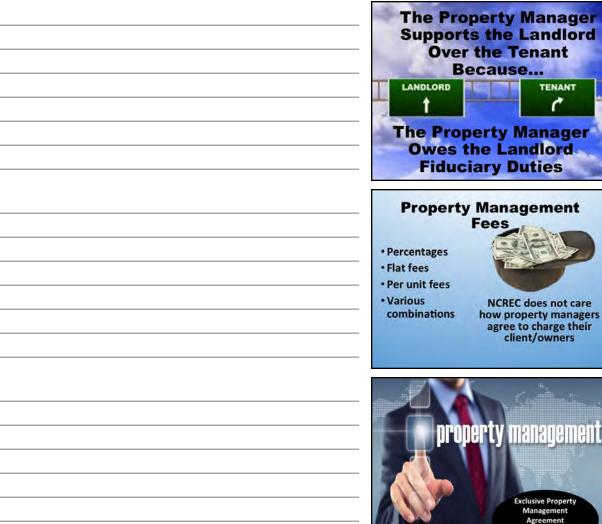
Managing the Property of Another for a Fee

- The "property manager" is the firm
- · The licensees work for the property manager



equirement	(2) (2)
Employees of an entity managing its own property	
Unlicensed salaried employees	
CAN collect rents, show properties, provide information, complete forms	1
CANNOT negotiate lease amounts or contract terms or amounts to be paid	4 1





See Textbook

The Property Management Agreement

- · Must be in writing
- Property description
- · Begin & end date
- · Management fee
- Firm responsibilities
- · Manager's authority
- · Reporting
- · Owner's responsibilities
- Termination duties



The Property Manager's Role



 Maximize the owner's net income

 Preserve the value while generating income

The Property
Management Agreement
Creates a Fiduciary Agent
Relationship



The Major Objectives of a Property Manager

- Most important responsibility – Realize profit as owner instructs
- Most important component –
 Management plan that meets owner's objectives
- Most important factor Operating expenses



Typical Property Manager Duties

- Creating a budget
- Planning capital expenditures
- · Calculating cash flow
- Creating reports
- Establishing rental schedules
- Marketing the property
- Screening tenants
- Maintaining property



Typical Property Manager Duties



- Engage in competitive bidding
- Create market analysis on trends and their effect on the property
- Create leasing concessions
 - Inducements to attract or retain tenants
 - · "Free month's rent"
 - "Washer and dryer included"

Chapter 16		Perform	Managers a Market lysis
		•Track economic trends •Impact on property •Advise on market rents	TO LET
		• Establish depreciation sche • Give legal advice, draft cont • Pay owner's personal/busin income taxes (can pay RE pro tax) • Reinvest profits • Decide on and make capital improvements (can oversee • They are not CPAs, financial advisors, attorneys	dules cracts bess operty DO IT DOIN!
			nlicensed ts & Staff
		Not Everyone Management	in a Property Office Needs a
		• Show properties • Collect rent • Fill in blanks	• Negotiate • Receive commissions • Give advice
	Intro to C Flow Ana	ash (M)	
	Potential Gross In - Vacancy	come \$100,000 (

- Collection losses
- = Effective Gross Income
 - Operating expenses
- = Net Operating Income
 - Debt service
- = Cash Flow Before Taxes

- 10,000 vacancy
- 10,000 Collection losses
- = \$80,000 (Effective)
 - 20,000 Operating
- = \$60,000 (NOI)
 - 35,000 Debt service
- = \$25,000 (Cash Flow)



Factors in Determining Rent Schedules

- Sufficient to cover expenses
- Investor rate of return
- Comparable rents
- Vacancy rates

Maintaining the Property

- Preventative
 - Before problem occurs
- Corrective
 - After problem occurs
- · Routine
 - Because there are always problems



Complying With Federal & State Laws

- Federal Lead-Based Paint Disclosure
- Environmental concerns
- Business licenses & permits
- Many others

These are all dealt with elsewhere in the course materials, but all have an impact on property managers

The Qualifying & Selection of Tenants

- Must comply with requirements of
 - Discrimination laws
 - Equal Credit
 Opportunity Act
 - Fair Housing laws
 - · Disability laws
 - ADA requirements



Covered More Fully in Fair Housing BUT

- Can't refuse to rent to families with children under the age 18
- Can't discriminate on basis of race, color, religion, national origin, sex, or disability
- Disabilities may require accommodation or modification



Chapter 16	
	Criminal Record Checks
	If you do it for one, do it for all Can't use arrest records, must be convictions Must review details to justify Length of record
	Mitigating factors Type of crime
	Sources of Income • Must count all provable sources of income
	Bound B Housing Section 8 Housing Cannot deny use of a voucher, Section 8 payment from any agency Disability income, Social Security, child support, etc. CANNOT deny use of a voucher, Section 8 payment from any agency
	The Americans With Disabilities Act
	Reasonable Accommodation in the workplace • Applies to hiring practices of companies with 15 or more employees • Non-discriminatory hiring • Reasonable accommodation for disabled employee
	Since 1990 All Public & Commercial Facilities Must Have: • Handicapped parking spaces • Proper restroom facilities • Zero-grade entry or ramp for access

Construction Prior to 1990

- Must remove barriers if "readily achievable":
 - Ramping & entryways
 - Marking elevator buttons
 - Installing auditory signals
 - Reversing door direction



Transfer & Sale in Non-Compliance

- NO restriction on selling
- NO restriction on buying

HOWEVER

- Most buyers will demand compliance
- Most lenders will demand compliance



Property Managers Have Numerous Duties to Manage & Advise on Insurance Risks in Property Management

- Fire & hazards
- Employees (Worker's Comp)
- Consequential loss (vacancies)
- Liability
- Surety bonds (criminal acts)



Insurance of Properties



- Prorations can occur when properties are transferred
- Low deductible transfer risk
- High deductible retains the risk

Licensing Law Trust Account Review

- Residential brokers can operate without a trust
 - Use escrow agent for earnest money (attorney)
- Property management brokers
 - Almost impossible to operate without a trust account



The following are not limited to property managers, they just have more impact there

Chapter 16	
	Provisional
	Broker Handling N*C A.0116
	of Money (b)(1)
	All monies received by a
	provisional broker
	must be delivered
	immediately to the
	BIC with whom
	they are affiliated
	Deposit of
	Earnest N*C A.0116
	(L)(2)
	• Must be deposited
	within 3 banking days of receipt
	• Checks in sales
	contracts may be held and deposited within 3
	banking days of acceptance of the
	contract
	Handling 3 rd
	Dorty Funds
	Party Funds A.0116
	for Delivery (b)(4)
	The only 3 rd party checks that a licensee can accept
	for delivery are: • Due diligence to the seller
	Earnest money to an
	escrow agent (attorney) • Cannot accept custody of:
	Inspection payments Repair payments
	Survey payments
	When Acting as a
	Courier
	Must safeguard the
	funds
	Must deliver within
	3 calendar days • Follow the
	directions of the
	buyer regarding funds up until they
	are delivered
	Interest on Trust
	Accounts
	• They can
	always earn interest
	• Who keeps it
	depends on the client's
	instructions
	and agreement

In the Event of Dispute **Once in Trust Account**

- Buyer/seller or landlord/tenant
- MUST hold money until:
 - · Written consent between parties
 - Deposit with clerk of courts
 - · Provide written notice
 - · Hold 90 days
 - County where property located



Transfer for Closing

- Broker may transfer out of trust account to closing attorney
- · No more than 10 days prior to settlement



Safeguard the Money

- No conversion
 - · Using other people's money
- No commingling
 - Mixing your money with others
 - · Example: Placing rent from your rentals into your trust account



Commingling \$100 Exception

- · In order to maintain minimum balances and cover bank charges
- Broker money allowed up to: •\$100 or

 - · Whatever the bank requires



N★C A.0117

(c)(4)(C)

Superior Prelicensing Adventure Guide © April 2020 •	superiorschoolnc.com

Chapter 16	
	Requirements for the Account
	Bank legally doing business in NC Legally be called a "Trust" or "Escrow" Account Demand account Remember, even non-licensees need a trust account for security deposits and for Vacation Rental deposits
	How Many Accounts Do You Need? One Multiple sales transactions and multiple rentals can all go in the same account Additional accounts A separate account is required for each HOA No license needed to manage an HOA
	Records Must Be Kept 3 Years Bank statements Cancelled checks Deposit tickets Ledgers Journals Check registers Payment records May Keep Electronically
	Balancing of Trust Account Bookkeeping it's all in the balance Bookkeeping it's all in the balanced or reconciled monthly





Americans with Disabilities Act (ADA):
Commingling:
Conversion:
Management Proposal:
Operating Budget:
Property Management:
Property Management Agreement:
Property Management Report:
Property Manager:
Stabilized Budget:
Trust Account:

Your Self-Assessment Survival Guide Checklist End of Chapter 16

Review Questions in <i>Principles & Practices,</i> Chapter 16 Superior Online Quiz for Chapter 16 Vocabulary Venture	S S
Percentage on <i>Principles & Practices</i> Chapter 16 Review	
Percentage on Superior Online Chapter 16 Quiz	
In the interests of my own success and survival,	
I certify that I have completed the above checklist.	