**Unit 2**

**Lecture Outline**

**LEARNING OBJECTIVES**

When the student has completed this unit, they will be able to accomplish the following.

* Explain how the security interest of a mortgage lien has served to encourage lenders (i.e., thrifts, investment banks, mortgage bankers, and private investors), through direct (a.k.a. retail) or wholesale lending, to aggressively participate in the real property market of the United States.
* Explain sources of loan products and how mortgaged money is made available through different loan products, why it is stronger, weaker or steady at times, and how the money supply impacts demand for properties.
* Explain how the secondary market works, when and why it began, and when and why the primary market participation in the secondary market seriously began, and how the U.S. economic system functions in relation to the real estate market.
* Explain how to measure a financial analysis for commercial transactions, including risk management provisions as applied to both the borrower and the property appraised value process.

**KEY TERMS**

acceleration clause

adjustable-rate mortgages

alienation clause

amortization

amortized loans

balloon/balloon mortgages

blanket mortgages

bond

bridge loan

bullet loan

construction loans

conventional loans

convertible mortgage

Department of Veterans Affairs (VA)

depressions

discount points

disintermediation

due-on-sale clause

equity stripping

Federal Reserve

Federal Housing Administration (FHA)

federally related transaction

FHA loans

fixed-rate mortgage

gap financing

graduated payment mortgage

ground lease

home equity loan

hypothecation

imputed interest

index

inflation

interest

interest-only mortgages

joint venture

land contract/installment sale contract/contract for deed

lien

lien theory

margins

mini-perm loan

mortgage

mortgagee

mortgagor

mortgage-backed security

mortgage value

negative amortization

nonconventional loans

notes

predatory

primary mortgage market

prime

principal

private mortgage insurance (PMI)

purchase money mortgage (PMM)

recessions

release clause/partial release clause

sale-leasebacks

secondary mortgage market

stagflation

State of New York Mortgage Agency (SONYMA)

subordinate

subprime

takeout loan

title theory

trust deed/deed of trust

underwriting

usury

variable-rate loan

wraparound mortgage

**LECUTRE OUTLINE**

**I. MORTGAGE DOCUMENT AS A LEGAL DOCUMENT**

**II. TITLE THEORY VS. LIEN THEORY**

1. Origin of the mortgage
2. Title theory
   1. Foreclosure process
3. Lien theory
   1. Notes/bonds

**III. THE MORTGAGE**

1. The note vs. the mortgage
2. Advantages and disadvantages of various mortgage loans
   1. Methods of payments
      1. Interest-only payment loans
      2. Partially amortized payment loans
      3. Fully amortized payment loans
3. Home mortgages—nonconventional and conventional loans
4. Types of mortgages
   1. Short-term/temporary loans
   2. Fixed-rate loan
   3. Adjustable-rate mortgage (ARM)
      1. Index
      2. Margin
   4. Variable-rate loan
   5. Prime
   6. Subprime
   7. Predatory
   8. Graduated payment loan
   9. Nonconventional loans
      1. FHA-insured loans
         1. FHA 203(b)
         2. Owner-occupants
         3. Mortgage insurance premium
         4. Estimate of value
         5. Loan limits
         6. Repairs
         7. Assumability
         8. Refinancing
         9. Other FHA programs
      2. VA loans
         1. Eligibility
         2. Assumability
         3. Refinancing
   10. Purchase money mortgage (PMM)
   11. Commercial loans
       1. Gap loans/mortgages
       2. Bullet loans
       3. Miniperm loan
       4. Wraparound loan
       5. Blanket mortgage
       6. Subordinate loan/subordination
       7. Sale-leasebacks

**IV. GROUND LEASES/LONG-TERM LEASHOLD ESTATE**

1. Subordinate lease
2. Sale-leaseback agreements
3. Essential clauses
   1. Acceleration clause
   2. Alienation/due-on-sale clause
   3. Prepayment clause
4. Mortgage brokers and mortgage bankers
   1. Mortgage brokers
   2. Mortgage bankers

**V. FINANCIAL ANALYSIS FOR COMMERCIAL TRANSACTIONS**

1. Introduction
2. Three phases of financial analysis and property ownership
3. Cash world vs. tax world
4. Reconstructed income and expense statement: purpose, to derive the property net operating income
   1. Deriving the net operating income
   2. Property value/process of capitalization
   3. Deriving cash flow and income tax
5. Vacancy rate
6. Percentage of operating expenses

**VI. RISK MANAGEMENT PROVISIONS**

1. Business risk
2. Capital risk
3. Financial risk
4. Liquidity
5. Debt-to-income ratios
6. Loan-to-value ratios
7. Full, low, and no documentation loans
8. Residential and commercial loans
9. Foreclosures
10. Mortgage value
11. Equity stripping

**VII. BROKERS’ ISSUES IN REAL ESTATE FINANCE**

1. Sources of loan products for investment properties
2. Government agencies
3. Regulations of lending sources/guarantees for these invested monies
   1. The Federal Deposit Insurance Corporation (FDIC)
   2. Private mortgage insurance (PMI)
   3. FNMA/GNMA/FHLMC
4. Mortgage funds and different loan products
   1. Package loans
   2. Open-end mortgages
   3. Reverse annuity mortgages
   4. Interest-only and optional payment mortgages
   5. Land contracts
   6. Sale-and-leaseback arrangements
   7. Construction loans
      1. Application for a construction loan
      2. Loan amount
      3. Disbursement of funds
5. Influences affecting capital markets and the availability
6. Influence of the federal government
   1. Federal Reserve System
   2. Influence of lending policies
   3. Foreign demand for U.S. Treasury bills
   4. Employment rates, wages, and debt obligations of the American consumers
   5. Investment vehicles
   6. The Federal Reserve and its monetary interventions
   7. Secondary market operations and the economic system functions
      1. 1934
      2. 1938
      3. 1954
      4. Late 1960s
      5. 1970
      6. 1989
      7. 1997
7. Economy and real estate cycles
   1. Economic influences
   2. Influence of individuals
   3. Employment rates and wages
   4. Stock market
   5. Valuation
   6. Affordability

**VIII. SUMMARY**