A Look Inside Rockwell's Instructor Materials

Financing Residential Real Estate

Rockwell's instructor materials provide innovative tools to complement the high-quality content of our textbooks and online courses. Our instructor materials for *Financing Residential Real Estate* contain helpful resources for teachers and students alike.

For the instructor:

- Clearly written learning objectives and lesson plans for each chapter
- Comprehensive outlines to help instructors focus on key topics
- Exercises to assess student learning throughout each lesson
- Cumulative quizzes with detailed answer keys
- PowerPoint presentations to enhance classroom lectures

For the student:

- Active exercises that help students apply new concepts, including:
  - Hands-on exercises that improve their professional skills
  - Role playing exercises that deal with "real world" situations and transactions
  - Critical thinking exercises and discussions that involve legal, regulatory, and ethical issues (and relevant "do's and don'ts")

The following excerpts will give you an idea of the quality you can expect.

Learning Objectives

After completing this lesson, students should be able to…

Identify the parties to and the basic provisions of a promissory note

Distinguish between a straight note and an installment note

Explain the purpose of having a security instrument accompany a loan

Define hypothecation and its relationship to the possession of property used as collateral

Compare the parties involved in a mortgage with those involved in a deed of trust

Identify the redemption periods and the rights available to a defaulting mortgagor during judicial foreclosure

Contrast the advantages of judicial foreclosure and nonjudicial foreclosure

List typical clauses found in real estate finance instruments and describe their effects

Discuss how an alienation clause affects the assumption of a loan

Name the major types of mortgage loans and identify their characteristics

(For Chapter 5, "Finance Instruments")

Suggested Lesson Plan

1. Give students Exercise 9.1 to review the previous chapter, "Qualifying the Buyer."
2. Provide a brief overview of Chapter 9, "Qualifying the Property," and review the learning objectives for the chapter.
3. Present lesson content:
    - Lender's Perception of Value
        - Appraisals and loan-to-value ratios
        - LTVs and risk
        - Loan based on sales price or appraised price
    - Appraisal Standards
    - Appraisal Process

    EXERCISE 9.2 Appraisal process

    - Appraisal Methods
        - Sales comparison method

    EXERCISE 9.3 Sales comparison method

        - Replacement cost method
        - Income method
        - Final value estimate

    EXERCISE 9.4 Types of depreciation

    - Dealing with Low Appraisals
        - Preventing low appraisals
        - Request for reconsideration of value

    EXERCISE 9.5 Dealing with low appraisals

4. End lesson with Chapter 9 Quiz.

(For Chapter 9, "Qualifying the Property")

Chapter 6 Outline: Basic Features of a Residential Loan

I. Amortization
   A. An amortized loan involves regular payments of both principal and interest
      1. Most home purchase loans are fully amortized
      2. Alternatives to fully amortized loans are partially amortized loans and interest-only loans

EXERCISE 6.2 Amortization

II. Repayment Period
   A. The repayment period or loan term is how long the borrower has to pay off the loan
      1. A 30-year loan term is regarded as standard, but other terms such as 15 years and 20 years are available
      2. A 30-year loan has a lower monthly payment than a 15-year loan, but a 15-year loan will require paying much less interest over the life of the loan
      3. A 15-year loan is likely to have a lower interest rate than a 30-year loan

III. Loan-to-Value Ratio
   A. The loan-to-value ratio (LTV) reflects the relationship between the loan amount and the value of the home being purchased
   B. A loan with a lower LTV is less risky than one with a higher LTV

IV. Mortgage Insurance or Loan Guaranty
   A. Mortgage insurance or a loan guaranty may be used to protect the lender from loss in the event of default
   B. Mortgage insurance
      1. In exchange for mortgage insurance premiums, an insurer will indemnify a lender for any shortfall resulting from a foreclosure sale
      2. Mortgage insurance is used in conventional and FHA loans
   C. Loan guaranty
      1. In a loan guaranty (used in VA loans), a guarantor takes on secondary responsibility for a borrower's obligation
      2. If the borrower defaults, the guarantor will reimburse the lender for any resulting losses

V. Secondary Financing
   A. A buyer may obtain, in addition to a primary loan, a secondary loan to cover part of the downpayment and closing costs
   B. Restrictions are placed on secondary financing, such as making sure that the borrower can afford payments on both loans

(Excerpt of outline for Chapter 6, "Basic Features of a Residential Loan")

EXERCISE 13.3 Seller seconds

Discussion Prompts:

- Why does the primary lender care about the terms of a seller second?
- What are some of the key considerations for a buyer who's considering a financing arrangement involving a seller second?
- What are some of the key considerations for a seller who's considering offering a buyer a seller second?
- When would an assumption plus a seller second be allowed?

Analysis:

- A seller second (like any secondary financing) might have terms that could make default or a loss on the primary loan more likely. For example, if the seller second required a large balloon payment after only two years, it might be very difficult for the buyer to make that payment. The buyer could end up defaulting on the seller second, the primary loan, or both. Even though the primary loan has higher lien priority, foreclosure on secondary financing can significantly impair the primary lender's security interest and/or result in a loss on the primary loan.
- A buyer should consider: 1) how much cash he has available for the downpayment; 2) whether he'll be able to qualify for (and comfortably pay) the combined payment on the two loans; and 3) how he will make the balloon payment (if one is required for the seller second) when the time comes.
- A seller should consider: 1) whether the cash flow from the seller second will be adequate; 2) how the return on the seller second will compare to the return on alternative investment possibilities; 3) the tax consequences of the transaction; and 4) how she may be affected by lien priority.
- An assumption plus a seller second will work only if there's no due-on-sale clause in the loan the buyer would assume, or if the lender agrees to the assumption. The lender's consent will always be needed if the seller wants to be released from liability.

(For Chapter 13, "Seller Financing")

Chapter 11 Quiz

1. Which of the following is NOT a characteristic of FHA loans?
   A. Maximum loan amount which varies from area to area
   B. Minimum cash investment requirement
   C. Mortgage insurance is required
   D. No downpayment is required

2. The primary function of the Federal Housing Administration is to:
   A. build homes
   B. insure loans
   C. originate loans
   D. purchase loans

3. An FHA loan would be appropriate for a/an:
   A. commercial space
   B. vacation home
   C. investment property
   D. owner-occupied primary residence

4. The maximum LTV ratio for an FHA loan depends on the:
   A. number of units, and the local median housing costs
   B. number of units, and whether it is a low closing cost or high closing cost state
   C. property's value, and the local median housing costs
   D. property's value, and whether it is a low closing cost or high closing cost state

Answer Key

1. D. FHA loans require at least a small downpayment.

2. B. The Federal Housing Administration's role is to insure mortgage loans and compensate lenders for losses resulting from borrowers' default.

3. D. FHA loans are for residential properties; FHA borrowers must intend to occupy the property they're buying.

4. D. To determine which LTV ratio to apply, a lender will consider the property's value or sales price, and whether it is in a low closing cost or high closing cost state.

(Excerpt of quiz for Chapter 11, "FHA-Insured Loans")