

GROUP PROJECTS

CASE 12: FINANCING

Creating a Conventional Mortgage Worksheet

The Foothills Savings Bank (FSB) is a federally insured stock savings bank that was organized in 1982 as a privately insured savings and loan association in Denver, Colorado. It received federal insurance in 1985 and a federal savings bank charter in 1986. FSB is a member of the Federal Home Loan Bank (FHLB) system, and its deposits are insured by the Federal Deposit Insurance Corporation (FDIC) to the maximum amount provided by law.

The Foothills Savings Bank offers loans for owner-occupied properties, second homes, and investment homes. FSB offers first trust residential conventional fixed rate and ARM (adjustable-rate mortgage) loans. Conventional financing is any mortgage that is not insured or guaranteed by federal, state, or local governments. FSB is now offering an online prequalification worksheet for its customers or prospective customers to use. FSB requires a minimum of 10 percent down, which is generally required for conventional financing.

It is your responsibility to complete a mortgage qualification worksheet and then create a mortgage amortization analysis worksheet from the data in the mortgage qualification worksheet.

Some Particulars You Should Know

1. A template for the mortgage qualification worksheet has been created; however, you need to complete the formulas.
2. The Qualifying Section
 - The first qualifying number needs to calculate the maximum monthly payment, assuming there are no long-term debts. It is computed by multiplying the total income by the housing cost ratio and dividing the result by 12.
 - The second qualifying number takes into account the monthly debt payments, applying the total debt service ratio. It is calculated by multiplying the total debt by the debt service ratio and dividing the result by 12.
 - Mortgage companies usually qualify people for monthly payments that are no higher than the lesser of the two results.
 - By default, your worksheet should assume a housing cost ratio of 0.28 and a total debt service ratio of 0.36, which are standards often used for conventional mortgages.

3. The Loan Amount Section

The table created below the qualifying section calculates the amount of a loan you might qualify for with the monthly payment. Depending on the circumstances, some or all of the following will be true:

- In all cases, the monthly payment will include principal and interest payments.
- In most cases, it will include a monthly escrow deposit to cover taxes and mortgage insurance, if any. In some cases, homeowner's insurance is also included in this calculation. Use your best-guess estimates for these figures.
- If the customer is buying a condominium or co-op unit, the monthly payment figure may also include the homeowner's dues and/or maintenance fees. You will need to estimate these monthly costs and type them into the appropriate cells.

4. Creating an amortization analysis worksheet:

- Use the data from the mortgage qualification worksheet to create an amortization table. You will need to calculate beginning balance, principal paid, interest paid, total principal, total interest, and ending balance per payment period for the life of the loan.

5. File: Mortgage.xls (Excel file).