

INTRODUCTION

Definition of a Mortgage Banker

A mortgage banker is one who originates, sells and may or may not service mortgages secured by either residential or income producing real estate. The term *mortgage banker* is somewhat misleading in that *banker* implies one who works for a depository institution. This is not true of mortgage bankers who specialize in lending money for home mortgages. Traditionally, the money is borrowed, instead of originating from bank deposits.

In the past, mortgage bankers have become specialized. Today, most mortgage bankers represent full-scale, retail or wholesale mortgage operations. A *full-scale* mortgage banker originates, sells and possibly services residential mortgages. A *retail* mortgage banker traditionally specializes in origination activities, has several branch offices and may or may not retain servicing of the loans it sells. A *wholesale* mortgage banker purchases loans from a mortgage broker, retail mortgage banker or correspondent and may or may not retain servicing of the loans it sells. There is some flexibility built into these definitions; therefore, at times one type of mortgage lender may look very much like another!

The Residential Real Estate Financing Process

The residential real estate financing process begins with the mortgage banker using short-term borrowings to make mortgage loans to homebuyers. Instead of the mortgage banker holding the loans, they are grouped together for sale in packages to investors, either FNMA/FHLMC/GNMA or private investors. The proceeds of the sale are used to replenish lending capital and start the cycle over again. After the loans are sold, the mortgage banker may remain in the picture as the servicer of the loans. Servicing consists of collecting monthly payments, forwarding proceeds to investors, maintaining escrow accounts for the payment of taxes and insurance, and acting as the investors' representative if any problems arise with the loans.

Today, the mortgage banker acts as a facilitator, shopping national money markets for capital and providing it to all areas of the country. Residential lenders make their money through loan origination fees, servicing fees, marketing gains and positive warehouse spreads.

Mortgage Bankers vs. Mortgage Brokers

A mortgage broker is a loan provider who offers the loan products of different lenders. Mortgage brokers do not lend money. Most of them are small firms providing services rather than loans. The lender or Mortgage Banker is the one who provides the money to the borrower at the closing.

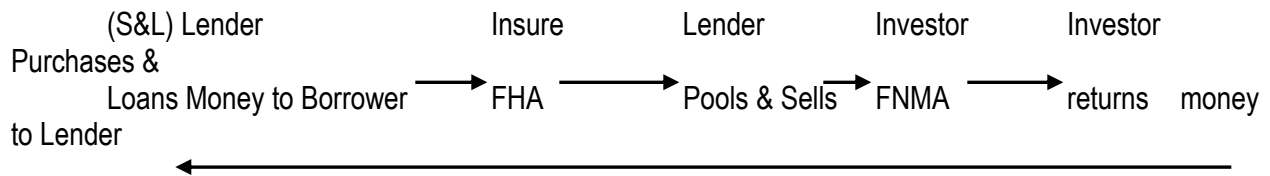
Mortgage brokers counsel borrowers on any problems involved in qualifying for a loan, including credit problems. Brokers also help borrowers select the loans that best meet their needs, and shop for the best deal among the lenders offering that type of loan. Brokers take applications from borrowers and lock the rate and other terms with lenders. They also provide borrowers with the many disclosures required by the



federal and state governments. In addition, brokers compile all the documents required for transactions including the credit report, property appraisal, verification of employment and assets and so on. Not until a file is complete is it handed off to the lender, who approves and funds the loan.

Brief Housing History

A housing boom occurred in the United States during the 1920s, but activity plummeted during the Great Depression in the 1930s. This downturn prompted dramatic federal housing programs. The Home Owners' Loan Corporation was formed in 1933 to refinance existing home loans. More durable were the activities of the Federal Housing Administration (FHA) authorized in 1934. The FHA insured residential loans and thus encouraged lenders to offer long-term (20- to 30-year), fixed-rate mortgages. FHA housing activity received further support when the Federal National Mortgage Association (FNMA) was created in 1938. The FNMA purchased FHA-insured loans, thus establishing an important secondary market and liquidity (ease of turning into cash) for local savings and loan associations.



During the 1930s a public housing program was created to provide slum clearance and low-cost housing for the poor. These activities were implemented by local housing authorities, which received federal financial assistance. Such public support systems stimulated housing activity in the late 1930s; the advent of World War II (1939-1945), however, brought all but essential housing construction to a halt.

In the late 1940s and '50s, the federal government continued the FHA, the FNMA, public housing supports and also added new programs. The Veterans Administration, for example, guaranteed home loans obtained by veterans through a program authorized in 1944; together with FHA insurance, this encouraged development of the postwar suburban land subdivisions.

The most significant programs and strategies in the postwar period were provided by milestone legislation. Numerous housing acts provided subsidies for slum demolition, rental housing rehabilitation, and low-income home ownership. The Housing Act of 1949 authorized "urban renewal" of slum areas. Under this act, local redevelopment authorities purchased and demolished deteriorated properties and then sold the cleared tracts to private developers for a nominal sum. The goal of urban renewal was to replace slum areas with new residential and nonresidential units. The program came under criticism, however, as a strategy that overemphasized demolition, often to the detriment of viable neighborhoods and poor or minority residents.

In the 1960s the federal government increased and changed its housing involvement. Instead of demolition, housing rehabilitation was encouraged. In addition, new and expanded housing subsidies were provided for poor and minority households. The Housing Act of 1965 created the program that made subsidies available for low- and moderate-income rental units, and it also authorized the subsidy that fostered home ownership by the poor. The housing needs of inner-city areas were to be met by specially targeted subsidies. The best-known subsidy plan was the Model Cities Program (authorized by



the 1966 Demonstration Cities Act), which focused on upgrading the physical (housing, public facilities) as well as the social (education, job training) aspects of inner-city areas.

The many federal housing efforts were administered by the Department of Housing and Urban Development (HUD), which was created as a cabinet-level agency in 1965. In addition to urban programs, HUD also was in charge of aiding *new towns*—self-contained communities incorporating integrated residential and nonresidential uses.

Problems in the existing housing programs began to emerge in the 1970s. Subsidized rental projects were foreclosed. Single-family units bought by the poor increasingly were abandoned by their new owners. Several of the privately developed, publicly assisted new towns experienced near or actual bankruptcy. These conditions evoked a moratorium on further subsidies and caused a redirection of approaches to housing problems. Assistance began to take the form of block grants; the Community Development Block Grant (CDBG) program, authorized by the Housing Act of 1976, was the most significant example. The CDBG program, in an effort to allow flexibility in local housing problems, was a more broad-based and encompassing housing subsidy. It provided "blocks" of money for coordinated urban revitalization. The allocation of block grants was a primary redevelopment approach in the 1980s, although the funding for CDBG and similar programs had been significantly reduced.

The 1980s were characterized by a change of emphasis in national housing policy. Because of federal budget constraints, the emphasis shifted from rebuilding the most dire neighborhoods to improving "gray" areas that were just beginning to decline. HUD ordered a stop to the construction of new subsidized low-income housing. The government realized it would be more cost effective to rehabilitate and preserve existing structures than to build new ones. In many cities, private ventures were encouraged, such as the renovation of brownstones and row houses. None of these actions helped poor people, and the housing shortage worsened. See *also* Building Acts.

HOUSING POLICY IN OTHER COUNTRIES

Housing programs in the United States and in Western European nations share many similarities. All of these countries have initiated public housing, urban renewal, and new town programs. However, public intervention in Europe began sooner and has been more extensive than in the United States.

Britain, for example, embarked on public housing development in the late 19th century. Laborers' dwelling acts, authorizing local governments to construct public housing, were enacted as early as the mid-19th century, more than 75 years before comparable U.S. housing legislation was passed. Urban-renewal demolition activities were empowered during the same period, almost a century before equivalent American activity. Massive public housing programs were started after each of the world wars. By the 1970s, approximately one-third of Britain's housing was publicly subsidized, compared with only 1 to 2 percent in the United States. Britain has also constructed several new community developments that are in contrast to the fledgling and largely unsuccessful new town ventures in the United States.

