Section 5
The Uniform Residential Loan Application (1003)

The first thing that you should have complete, before you seriously start working on a loan (or spend a lot of time on it) is a Uniform Residential Loan Application. What we affectionately call the **1003**. This number is the Fannie Mae form number you see in the lower left-hand corner of this form. It should also be noted here that in late 2005 HUD came out with a newly revised 1003 and this should be the one you use after January 1, 2006. To be certain of this, the lower left-hand corner of this newly revised 1003 should read as “Fannie Mae Form 1003 07/05” and the right-hand corner of this form should read as “Freddie Mac Form 65 07/05.” This newly revised 1003 provides you, and your targeted Lenders, with the following form changes and additions:

• Increased the 1003 from (previously) 4 legal size pages to about 5 standard size pages;

• The total of pages on this new 1003 could be increased from 5 pages to 8 pages, depending upon the information obtained from a borrower. These additional pages could be the result of additionally needed space to write the borrower’s:

1. Employment Information
2. Assets and Liabilities, and
3. Additionally listed Real Estate Owned

• Has within it additional statements of information and clarification.

When completing a loan application on your customers make sure you have the most recent and revised 1003. If a 1003 is not completely done or completed incorrectly then it was a sure sign a Loan Officer had most likely received little, if any, training. This course material will give you the training that you need to completely and accurately fill out a 1003. There are reasons beyond just the mortgage for the information that you will obtain, such as other financial planning opportunities.

And that is one of the main reasons the MMB™ course was created. To provide a manual and reference for those Loan Officers/MMBs™, that would like to have that information available - to help them to do their job professionally and completely. When this is done it is easy to see the productivity increase and in turn the earning potential increase.

The 1003

At this point it would be wise if you would print off the 1003 from the attached Exhibits (IV) and have it in front of you as you go through this material. If you have a copy of all 5 pages of the 1003 then please get a hold of it now.

As you can see, from this Exhibit, there are not only 5 pages but 8 pages. And, if you look at the last four pages of the 1003 within this Exhibit, you can see that each page number (at the bottom) states 5 of 5. How can that be? Well, your use of which (or all of these pages) will be based on whether or not you actually need those additional pages when completing the loan application on a particular loan inquiring customer. Don't worry about that for now. This will be discussed as we go along here - so you will be very clear on this. Now, when someone refers to the 1003 they are referring to this entire form, which could contain from 5 - 8 pages. As you can see, when you look this form over, it is made up of different sections: Ten sections to be exact. For our purposes of discussion here we will cover each section in the order that you would normally complete it when meeting with your customers. Also, as we discuss each section, you will learn why that section is important and what you, as an MMB™, need to be looking for and what questions to ask.

As mentioned before, when we are completing the 1003, we should have our Mortgage Detective hat on: Asking questions, getting answers, and always asking ourselves:

- Do the answers you are getting regarding this area of inquiry make sense?

- Are you missing anything here or need to explore further (in asking questions) to gain more information that might be helpful in doing this loan?

The 1003 is the most important form you will initially complete and once completed it should tell you most of what you need to know regarding your prospective customers.

PARAGRAPH AT TOP OF THE PAGE:

While this isn't actually a section of the 1003 it does begin this form by making a statement that asks whether other income, in addition to the Primary Borrower, will be used in qualifying for this loan. You can see, within that statement, that there are two separate boxes to be checked. If there is a Co-Borrower on this loan (it could be the Spouse or someone else) and the Co-borrower's income will be used, in qualifying for that loan, then check that box.

If the Borrower is married but does not wish to include the income of the other Spouse, in qualifying for this loan, then this second box would be checked. However, in Community Property States, even though the Spouse's (Co-borrower's) income is not used that Spouse's Liabilities would still need to be included in qualifying that Borrower. This is because in Community Property states those (the liabilities) are essentially in both their names.

Once you have checked off one of those boxes, within that paragraph,, then look below. It states there that if that loan application is for joint credit (filing Jointly) then the Borrower and Co-Borrower both need to sign their names indicating that they do indeed intend to jointly apply for that loan. Immediately below that is our first actual section of this 1003:

SECTION I: TYPE OF MORTGAGE AND TERMS OF LOAN

Here is where you indicate what type of loan you will be submitting your loan on. It also asks here for the **Loan Amount**, **Interest Rate**, **Number of Months** (term), and whether the Amortization Type will be: **Fixed**, **GRP** (for a Graduated Payment Mortgage - you rarely see these anymore), **Other,** or **ARM**.

When you are first meeting with your customers it is sometimes difficult to assess, with any certainty, what the amount of their loan will be, its interest rate, or its term. However, you should know that - that is exactly what HUD is expecting of you. The thinking here is that after you have completed the 1003 then the customers will sign it. Once your customers have signed it, then there should be no changes on this form after that. So, to satisfy HUD's requirement here, enter in the closest figures you believe you could offer your customers.

Often, at the time of application initial numbers are used as best estimates and may change as the loan is processed and the information is verified. For this reason, most files will contain an initial (sometimes called a handwritten) 1003 and a final 1003. The customer would sign the initial 1003 at time of application and the final 1003 at or before the closing.

SECTION II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Subject Property Address:

Enter here the Street Address of the Subject Property. No P.O. Boxes please. It should be noted here that this is a HMDA related question. Now, you might ask why is that? This question relates to the location of the subject property. Many years ago there were some lenders who chose to lend in only certain parts of the city (for example) and avoided lending to other parts of that city (i.e. it could be a slum area or have a high rate of crime). This type of lending practice is referred to as "Red Lining" because some lenders would outline those areas on a map, of the city, that they would not do home loans on with a red marker. If a customer wanted to obtain a home loan and that home was within that area, outlined in red, then they would not help that customer with their home loan. **Today, this practice of Red Lining is unlawful and one of the reasons HMDA looks at this question on the 1003 (along with the other HMDA questions).** Having said that, lenders can choose to not lend in certain areas of the country for non-discriminatory reason (such as high fraud rates, etc).

Legal Description of the Subject Property:

Here it is asking for the Legal Address of the Subject Property. Few customers that you will meet with will know what their Legal Address is. Just leave that blank for now. Once you have obtained the preliminary title report you can attach the legal description to the final 1003. To the right of that are two boxes asking for:

No. of units and Year built:

If you are talking about purchasing or refinancing a SFR or home, then put a "1" there. If a duplex, write a "2" and so on. Below that, enter the year that the home was first built. If your customer doesn't know then leave it blank (we will come back to this later).

Purpose of Loan:

Check off which box indicates what the purpose of that loan is: The first two boxes on the left, to be checked, are for either a Purchase or Refinance type of loan. The next two boxes, on the right, are for home Construction type of loans. In home Construction financing there are sometimes two loans involved. The first one is called the Construction or Interim Loan. This is the loan that pays for the actual construction of that home. Once that home is completely finished then the owners can refinance their home with an End Loan or, as some refer to it as, the Take Out Loan. The need for having two loans is due in part to the fact that construction loans are structured much differently then the end loan. A construction loan is usually disbursed in several draws and the payments are predicated on the amount drawn so the accounting is different then the end loan where the entire proceeds are disbursed at once and a normal payment amount is predetermined. Also the construction loan may be amortized over 20-30 years but will have a balloon-like feature that requires the building be completed in a certain time period and the loan paid off when the work is done.

After the home has been built then the Take-Out loan is a normal refinance loan. You will also hear the term "All-In-One loan" or, as shown within this area, the "Construction-Permanent" loan. This just means that the lender provides financing for both the Construction (Interim) and Permanent financing (End Loan)- All-In-One. In doing two separate loans the customer normally has to pay for the loan costs for both. There are benefits to both types of loans. For example, with a const-perm loan the customer does not have to worry about the end-loan financing when the house is done. However if the interest rate is predetermined, they may end up with a higher rate if current market conditions have driven rates down during construction.

It should also be noted that the Interim (first) and End (take out) loans work hand-in-hand. Some lenders who only provide financing for home Construction (Interim Loans only) will not do that loan without a firm commitment from another lender who will provide the End or Take Out Loan. And finally, the last boxed called “Other” is for any other home financing besides what we have discussed. If your home financing is not indicated by one of the previous four boxes then check this box and write a short description of what it is. If you need more space for your description then use page 5 of 5.

Property will be:

Here it is asking for the type of occupancy for the purposed subject property: Primary Residence (borrowers live or will live there), Secondary Residence (the home will be their Second Home - still O/O), and Investment (e.g. borrowers do not live there and plan to rent out that property. If it is a second home, be aware that many lenders require it be a **minimum distance away from the borrower’s primary home**. For example, the requirement may be 70 miles, and if your subject property is only 20 miles from the borrower’s main house, you may have to document how and why it is a second home.

Complete this line if construction or construction-permanent loan:

Due to the complexity of originating a construction loan, we will not cover it in this material. If the opportunity to do a construction loan presents itself, you can contact the WPI who will refer you to a construction loan specialist that can help you.

Complete this line if a Refinance Loan:

If you are doing a refinance loan then you will need to fully complete this line. First, enter the year your customer first purchased their home or property. Next, what was the amount that they originally purchase it for? Under “Amount of Existing Liens” = what’s the outstanding balance on their mortgage loan. If your customers have a 1st and 2nd mortgage on their home then enter the total amount of those two loans. For Purpose of Refinance => what are the loan goals of your customers? To get a better interest rate? Payoff their outstanding debts? Make home improvements? Enter their loan purpose here.

Describe Improvement:

Most of the homeowners that you will meet have done some sort of improvement to their property, most likely general updating and maintenance. This section is intended for larger projects that may have a greater impact on the present value of the house. For example, if you have estimated the value of the house at $200,000 and they purchased only 2 years ago for $130,000, the underwriter will look for types of improvements to help substantiate the large increase in value.

Title Will Be Held in What Name(s):

It is asking for the Legal Names of the borrowers. If the borrower's name is Jim but his legal name is James then that's what we want here. And, don't forget the middle initial if they have one. We could get technical here but Underwriters and Title people like a husband and wife's name written, for example, like: James R. Adams and Joann E. Adams.

Manner in which Title will be Held:

If you are talking to a married couple (and both will be on Title) enter Husband and Wife. If you are talking to a Borrower who is single and unmarried - enter Single Person. This brings up a very important topic of how to protect the marital home from creditors. That issue will be discussed in detail in the Asset Protection Section of the MMB™ course.

Estate Will Be Held In:

Fee Simple is always checked here. Why? Because Fee Simple means that the owner has unrestricted powers to dispose of their property as they see fit. Some lending folks say Fee Simple means that the land is included with the home. While that may be the case, its true meaning is in the owner's ability to dispose of their property as they wish.

Source of Down Payment Settlement Charges and/or Subordinate Financing: If the transaction will require the customer to bring money in to complete the transaction, this section will identify the source of those funds. Most common would be "Checking / Savings". These accounts will then be named in the asset section. If the borrower will be receiving a gift then "gift funds" would work. There are countless types of accounts they could have their money in that you could use. If the borrower is financing the costs into the loan, the most common term would be "equity from subject property". As you go through these sections you will learn to start to watch for red flags. For example, it is not usually acceptable for a client to borrow money to pay for the loan. If the borrower states that they would need to borrow money for the costs, you would need to help them find an acceptable alternative, such as a gift or seller concessions.

SECTION III. BORROWER INFORMATION

In the Borrower Information section we are entering information here that relates to who the borrowers' **Names** are, their **Social Security Numbers, Home Telephone Number, DOB (date of birth)**, **Years of Schooling,** and their **Marital Status**. When you get to **DOB and Yrs. Schooling** ask for these and tell them that these are "government related" questions and most of these are also HMDA related. That way you can avoid the question about identity theft. If they ask why you need that information you can say you need it because sometimes a government related agency (probably HUD or their agencies) might examine a statistical percentage of your company's loan files to determine whether those loan files fulfill and satisfy RESPA's requirements (more on this later) - but also to answer any questions regarding discrimination (e.g. age in this instance). They also may be compiling statistical data regarding mortgages (e.g. ages 35-45 bought X number of houses ranging in price from 100,000 to 150,000 during the year of 2004). You normally won't need to go into this with your customers but it's good to know why we ask these questions.

It should be noted here that when entering the customer's **DOB** on the 1003 that it is expected you that will write their exact date of birth in **MM/DD/YYYY** format (i.e. as 01/02/1960). Please do not enter here just their age. Enter their date of birth in the format that is requested. This was one of the requirements of the previously revised 1003 that came out in January 2004. Prior to that version of the 1003 it asked for just the Age of the borrower. This has changed, so please enter the borrower's exact date of birth.

Dependents:

Enter here the **Number of Children** actually living in that household and their ages. It should be mentioned here that in asking for the number of Dependents – this is not necessarily focusing only on the borrower's children (if any). By Dependents, it is asking for any Dependent(s) that are currently living in their home. So, when you get to this area then ask your customers, "Do you have any Dependents that are currently living in your home?" If they answer "yes," then complete this area. If they say "no" then move on to the next area of inquiry.
Several years ago, some lenders would have a residual income guideline per person in the household, so if a married couple had two children, the guideline would require a residual or left over monthly income of $2000 after all the bills were paid. Now as a result of score driven models, this guideline would be very rare. But, knowing the dependants and their ages will give you more information when it comes to potential additional financial planning (college, weddings)

Present Address:

Enter here their current (full) **Street Address**. No P.O. Box addresses Also, check the box that relates to whether they own or rent and how many years they have lived at that address. Now, recall what was previously said about 2, 2, 2, & 2? **You need to obtain 2 years of residency**. If they have lived in their current address for less than 2 years then we will need to know the (full) address of every one of those places they have lived at - within the last 2 years. If your borrowers have been renting for the past 2 years then what is it you want to ask your customers? That's Right! We need to ask them the name, address, and telephone number of their landlord or apartment manager. And, we need this information for every different address they have lived at for the last 2 years. This information is vital as it will be used to acquire verification that rent has been paid on time.

As you can see, after 3 residences - you will run out of space on the 1003's first page. If that happens, then turn to the page 5 of 5 titled: **Continuation Sheet/Residential Loan Application** containing the large blank space. This page exists for just that purpose. At the top of this page, within the blank space, enter the 4th or more places your customers have lived, as well as whether or not they rented (most likely) and the time period that they lived there. Altogether, all current and previous residence addresses shown and the time spent in each should add up to 2 years or more.

Now, within this section, and after you entered your borrower's current residence address(s), just below their **Present Address,** there is a space for their **Mailing Address if different from Present Address**. If your customers receive their mail at a different address than where they live (e.g. P.O. Box) then enter that address here. Otherwise, leave it blank. Okay, once you are done there, then turn the page to:

SECTION IV. EMPLOYMENT INFORMATION

Here you enter the employment history of your Borrower and Co-borrower (if there is one). Just as we need to obtain at least 2 years of residency on our customers we also need to obtain at least 2 years of employment history as well. If you are using both the Borrower and Co-borrower's income, in qualifying your customers, then you will need this information for both of them - for the past 2 years. At the top of this section you first enter your Borrower's current place of employment. **Name and Address of Employer**. Enter that company's name and address there. If your customer is **Self-Employed** then check the box in the upper right-hand corner within this space. Below that enter what his **Position/Title** is at work or what he does.

If he is Self-Employed then you would usually enter here: Owner/President. Within that same space also enter what **Type of Business** he is in. Does he repair computers for a living? Enter Repairs Computers. To the right of that enter the **Business (company's) Telephone** number. What we are looking for here is the telephone number (of the person) that can be used to verify your customer's employment information. Now, to the right of where you entered the name and address of the company, where your customer works, enter the **Total Number of Years** they have worked there. Below that enter the **Total Number of Years they have been in that type of (same) Profession**.

For example, your customer said he has worked for his current employer for only 6 months, but he has been in this type of profession for over 10 years. Years ago Lenders wanted to see 2 years of continuous employment with the same employer or company. That has changed over the years and now Lenders are really looking at the total number of years experience (in the same profession or line of work) of whatever they are currently employed as. This alludes to Capacity and stability of employment in qualifying a borrower.

If your customer has worked for any other employers, within the past two years (besides their current employer) then below what you just wrote, regarding their current employer, you would then write their additional employment history. As you can see, you have enough space there for 4 additional employers within this 2-year period. Also, It should be noted, that if your customer was unemployed or out of work, during this 2-year period for 30 days or more, then that (time period) will need to be entered here as well. Try to put that (unemployment period) in the proper sequence - between whatever jobs it occurred. If this is a Conforming loan you are working on here and the customer was out of work for 30 days or more during the last 2 years then it is not uncommon for a Lender to request the borrower to provide a letter of explanation regarding this (we talked about this in Qualifying Documentation).

You will see here that when you get to the second employer (if that is necessary), that your customer has worked for within the last two years, it also asks you for the Dates (from-to) and the monthly income they were making at that job. At **Dates (from-to)** enter the month and year they started with that employer and when they left (e.g. Feb 2000 - Sept 2000). Within the **Monthly Income** space enter the Gross Monthly Income they received there. Lenders do like to see a borrower's (monthly) income increasing over time. Sometimes a borrower may leave a company to come on board with another firm because it has greater opportunities for advancement and/or to learn new and additional skills within that profession, a nicer office, or whatever. However, the income that borrower now earns, with this subsequent job, may be less than the previous job. A Lender in that case may ask for a letter of explanation regarding this. Explaining why they took another job with less income. You will get few requests for this - but expect this when their current income is less than what they were earning in their previous job. As with the previous residences, if you need additional space, use the continuation sheets provided.

SECTION V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

This section is split into two halves: On the left side you enter the total current monthly gross income of your borrower(s) and on the right you will enter their total monthly housing expense(s). Let's discuss their monthly income first.

Gross Monthly Income:

As you can see, the working income for the Borrower and Co-Borrower is broken down (separated) into **Base salary, Overtime, Bonuses, and Commissions**. Based upon what your borrowers do for a living, that will determine what you enter here. If they are in a job where they get paid a straight salary (e.g. $30,000 per year) then you would enter here their gross annual salary divided by 12 (e.g. $2,500). Remember, you want the **Gross Monthly Income figure** (before the Tax Man gets his share and all the other payroll deductions). And, as you may recall, this is a HMDA related question.

Sometimes base salary folks have overtime. Unless that overtime is significant - don't worry about it. If your borrower is in Sales then he or she is most likely on straight commission or a base and commission. In that case you will need to separate the two (please refer to Qualifying Documents for a discussion on this). If they also receive a monthly or annual **Bonus** then you will need to separate it and enter that here as well. As mentioned previously, Conforming Lenders generally want to see two years of Commissioned Income received and/or two years of Bonuses received. Conforming Lenders will generally take the average of these incomes received, over the past two years, and use that figure in qualifying your borrowers.

And, if your customer is Self-Employed then we would also use the Base Employment Income line to enter your customer's gross monthly income – from their business. If your customer receives monthly income from an investment (e.g. mutual funds, stocks, and bonds) and/or family trust, for instance, then enter that monthly figure on the **Dividend/Interest** line. Beneath that you enter the **Net Rental Income** your borrowers may receive each month (if applicable). If your customers own property that they rent out and receive income on this, then you enter that monthly income (rent) figure here. Remember how we calculate the Net Rental Income figure? That's right. We take the Gross Rental Income figure and multiply that by 75%. Now, just below this income section, we have been talking about, there are two statements written there for the benefit of the Borrowers and perhaps as a reminder for you. Those statements are:

1. * Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements (see section on Self-Employed Borrowers).

2. Notice: Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan. And, just below these two statements there is an area that enables you to list other sources of income of your borrowers:

Describe Other Income. If your customers do have additional sources of income (other than that listed above) here is where you would enter it. First, at the far left-hand side, under **B/C** (this represents **B**orrower/**C**o-Borrower) you would write a B or C depending on which one primarily receives that income you are referring to. If both receive it then just enter a B. To the right of that enter a description of their Income: Social Security, Child Support, Retirement from IBM, etc.

To the right of that enter the total **Monthly (Gross) Amount** received. If you can Gross-Up their income then enter that Gross-Up income figure here. If you are Grossing Up an income source, then write that on the description line with the percentage you are Grossing-Up that income source.

For example, your borrower receives Social Security each month for $1,000. You call the Lender and ask them if you can Gross-Up this income source and by how much. They say, "Yes" and that you can Gross-Up that income source by 25%. You would then enter $1,250 under income and next to its description (Social Security) you would write - Grossed-Up by 25%. The Lender (and your Loan Processor) will know what you are talking about. As you can see here, there are lines for only 3 additional income sources. So, what do you do if your customers have more than 3 additional sources of income? You would, again, go to page 5 of 5 titled: **Continuation Sheet/Residential Loan Application**, and within that large blank space there enter those additional income sources, noting whether each income source is the Borrower's or Co-Borrower's, its description, and its monthly (gross) amount.

After you have completed this "**Other Income**" section then total all the income in this section (don't forget to include that additional page if you needed it) and write that totaled figure above in the line called "**Other**." Now, if some of the income sources listed below are received by the Borrower and others by the Co-Borrower then don't add them all together. Instead, total the sources for the Borrower and Co-Borrower separately and enter those income figures in the respective column (Borrower or Co-Borrower) on the line "**Other**." And finally here, total all the income for your Borrower and Co-Borrower and enter the total figures for each in the **Total** line. Now, to the right of the columns for the Borrower and Co-borrower there is a column titled **Total**. Here you enter the total of each of the respective income sources from the Borrower and Co-Borrower for each lined income source. After you have done that then add up all the figures in this column and enter that figure on the bottom line **Total** - and that represents what the total **Gross Monthly Income** is for your borrowers.

Combined Monthly Housing Expenses:

Here, in the right-hand half of Section V - we are dealing with the borrower's monthly Housing Expense. This would include their total monthly **Rent** payment (if renters) or mortgage payment if they own a home (that they live in - O/O), then under the **Present** column you would enter their current monthly P&I payment on the line stating **First Mortgage (P&I)**. If your borrowers know what their monthly payments are for their **Hazard Insurance and Real Estate Property Taxes** then enter it here on the proper line. Most homeowners, I have met with, usually tell me that they don't recall what that is. But they do know what their total monthly mortgage payment is (which usually includes these) - their PITI. If they give you their PITI payment then enter that in the first line for P&I - and then at the lines for Hazard Insurance & Real Estate Taxes write "inc." As you probably already have figured out - that means "included." Loan Processors and Underwriters will know what you are inferring to here. It is acceptable to bundle the PITI together on the first line in the present payments section, however you will need to later go back and complete the tax and insurance section in the proposed payment spaces. This is required as taxes and insurance (even if not escrowed) will be included in the payment ratios.

Now look up at the line just under First Mortgage (P&I) - to **Other Financing (P&I)**. If your borrowers have a Second Mortgage on their property then this is where you would enter that mortgage's monthly payment. Because the subject property's hazard insurance and property taxes are already taken care of in the 1st Mortgage you will only see second mortgages having a P&I payment. So, if your customers have a second mortgage, then enter it here. Otherwise, skip on down to the next line. It should be noted that this section IS NOT for a mortgage payment that is being paid on another property. For example, if your customers own a NOO property they rent out and pay a monthly mortgage payment on, say for $600, that amount Would Not be entered here or on the line "Other." We are looking solely at the housing expenses on the residence in which your customers currently reside and live.

Regarding the line **Mortgage Insurance,** just ask your customers if they have Private Mortgage Insurance included in their current mortgage payment. If they say, "Yes" then enter that monthly amount here. Most homeowners you talk with will definitely remember whether or not they are paying for Private Mortgage Insurance but may have forgotten exactly how much that is. If that is the case then enter "inc." there. Below that is the line **Homeowner Assn. Dues**. This stands for Homeowner Association Dues and is primarily for folks living in Condominiums who, in addition to their monthly mortgage payments, also pay monthly Association Dues for the community grounds that are shared by all the Condo owners in that Planned Community (e.g. park and swimming pool).

Below that line is "**Other**." This is for any other ongoing monthly (housing) expenses that your borrowers pay for and that is not included on the lines above. To this day I have never used that line.

SECTION VI. ASSETS AND LIABILITIES

The purpose of this section is to assist the Lender in calculating the Net Worth of the borrowers. Quite simply, Net Worth is calculated by adding up all the Assets of the Borrowers and subtracting from that all their Liabilities. The result is their Net Worth. As you can see, from looking at this section, the Assets are listed on the left side and the Liabilities on the right. Let's begin with the Assets. But first, look just below the title of this section: There is a small paragraph, which discusses the subject of filing this loan application Jointly or Not Jointly. It states: This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise, separate Statements and Schedules are required. If the Co-Borrower section was completed about a non-applicant spouse or other person, (then) this Statement and supporting schedules must be completed by that spouse or other person as well..

At the lower right-hand corner, just below this small paragraph, you see two boxes with a description: **Completed O Jointly O Not Jointly**. If you are doing a loan for a married couple (or even an unmarried couple) and they are combining their income assets and liabilities together to qualify for this loan - then check Jointly. If you are working on a loan with a Single person then check "Not Jointly." If you are working on a loan with a married person who is not including his or her Spouse in qualifying for that loan then check "Not Jointly."

You should be getting the picture here. Let's now talk about the **Assets Side** now. The first line under Assets is **Cash Deposit Toward Purchase Held by**: With a space to its right for **Cash or Market Value**. This area refers to any Deposit made by a homebuyer, to a seller, for the purpose of purchasing property. This deposit, in home lending, is referred to as The Earnest Money Deposit. So, in completing this line enter the name of the person (or company) who received that deposit (e.g. the Seller) under who "held by" and enter the amount of that deposit by those Buyers (your customers) in the space Cash or Market Value. Market Value is here in case the buyers leave a deposit in the form of an asset with a Market Value. Whether it is cash or an asset (with an estimated market value) put that amount in this space.

List Checking and Savings Accounts Below:

Here we list all the borrower's checking and savings accounts that they currently have. If your customers have a checking and savings account with a single Bank or financial institution then list each in a separate space. Each space here asks for the **Name and Address** of the borrower's Bank, S&L, or Credit Union, **Account Number** and **Current Outstanding Balance** on that account (where you see **$).** You should do a thorough job here but it is rare that you will need to put the address of the customer's bank. . Thus, after you have entered the name of that financial institution, indicate whether it is a checking or savings account by writing the acronym "C/A" or "S/A" respectively. Following that, write the full **Account Number** for that account.

Now, when you get to the "**$"** part, phrase you question like, "For your checking account, about how much do you think you have in that account today?" And enter whatever they tell you. Do the same for their savings account and any other accounts where there is a checking and/or savings feature.

But what do you do if your customers have more that 3 checking and/or savings accounts? That's right, you would turn to page 5 of 5 titled: **Continuation Sheet/Residential Loan Application** and which contains the (continuing) section **VI. ASSETS AND LIABILITIES**.

Below those three spaces, for your customer's checking and savings accounts, is a space named: **Stocks & Bonds (Company Name/Number & Description).** When you get to this point then ask your customers, "Do you have any Stocks, Bonds, Mutual Funds, or any forms of Investment?" If they say, "Yes" then ask them what type it is (stocks, mutual funds, or whatever) and write it in there.

Next, ask them what do they think those investments are worth today? Write that figure in the "**$"** space. That's great if you can get the company's name, the account number, and its full description. But as you can see here - you don't have a whole lot of space to put it all there. Just keep it simple. For mutual funds, just write mutual funds and to the right of that - write whatever those customers believe it is worth that day. If your customer's Investments become a material and important aspect of their loan, in qualifying them, then the Lender on that loan may request a "Stock Certificate" or statement of their investment. This will generally tell them all the information they need on those.

Below that is the space: **Life Insurance Net Cash Value**. And, below that it asks for the **Face Amount: $** and to the right of that another **$**. Many Loan Officers don't know what this area is for or what it is asking for. Here's what it means: First, within the area of Life Insurance there is a type of policy called "Whole Life Insurance." A Whole Life Insurance policy has within it an investment feature and/or a potential loan feature. After the policyholder (your customers) have paid on that policy for a certain number of years, whereby they have built up a small investment, then they may (in some cases) be able take out a loan on that investment amount if they so choose. You would then enter the amount of what the customers tell you is the total “Cash Surrender Value” of their cash value policy (this could be whole life, universal life or variable life). Also write in there Life Insurance policy (Face Amount). If they do not have insurance, as an MMB™ this would be a great time to offer them the benefits of having such a policy (understanding that you have to have a life insurance license in order to discuss specifically the benefits of life insurance).

Now, up to this point, within the assets side of calculating the Net Worth of our borrowers, we have been primarily focusing on what are called Liquid Assets. These are assets of the borrowers that can be readily converted into cash. Cash, which the borrowers may need - to pay for the down payment and/or closing costs of their loan. Now, when you have gotten to this point, in completing the 1003, then here’s where you might have to put on your Mortgage Detective Hat again and see if this loan is making sense to you so far.

For example, let’s say you are doing a purchase loan here. You know your customers are going to need to have some money for the down payment and closing costs. You haven’t figured out exactly what that amount will be yet but you are pretty sure it’s going to be at least around $2,500. When you were on page one (at Source of Down Payment, Settlement Charges, and/or Subordinate Financing) your customers told you that they have saved up about $3,300 for this home purchase. Okay, you thought, that’s great. But now you are looking at what the customer’s Earnest Money Deposit is plus all the balances in their checking and savings accounts. Your customers here don’t have any stocks, bonds, or any investments and the Life Insurance area is blank. In your mind you total it all up and it comes to about $1,800. So . . . where’s the rest of it? Many a Loan Officer has been in just this position. Now, at that point you may feel like you want to stand up and ask, “Show me the money or where’s the money?” Just like that football player in one of Tom Cruise’s movies. But you don’t and you shouldn’t, because we still have a few more questions to ask on the Asset Side that might reveal where some more money might be coming from.

The line just below the Life Insurance question is: **Subtotal Liquid Assets**. Enter here the sum total of all the Assets you have listed above in the **$** spaces. Leave this blank until you get back to the office. Now, the next five areas of inquiry on the Assets side we are looking at are what are generally referred to as the Non-Liquid Assets of the borrower. These are Assets that generally take a while to sell or convert into cash. But it can be done. The first one here, just below Subtotal liquid Assets is:

Real Estate Owned:

Enter here what the borrowers believe is the current value of their property (if a refinance). If the borrowers own other properties then total the value of all the properties they own and enter that figure in there instead. For example, if your customers believe their home is worth about $100,000 - put that in there. However, if your customers tell you that they also own a second home, by the lake, worth about $80,000, then the total figure you would enter here would be $180,000. This figure represents the worth or value of all the property or properties that your customer owns. This total should match the total from the real estate owned section which is coming up shortly. If you had to complete that section first and come back to this one it would be easier to make sure they are the same.

Vested Interest in Retirement Fund:

Enter here what your customers believe is the current (total) value of their 401K, IRA, Keogh, or whatever retirement type of account they have - if they have any.

Net Worth of Business(s) Owned:

When you get to this section, you should ask your customers, "Do you own any businesses?" If they say, "No" then move on to the next line. Also, if a loan applicant owns 25% or more of a business then they are considered Self-Employed and, at least, part owners of that business. Now if your customers are self-employed and/or own a business (or part of a business), then ask them, "What do you think your business is worth or what you could get for it - if you sold it today?" Your customers may think about this for a minute and then tell you. Just enter here the amount they tell you. Although, if you think you may need to use any of these proceeds later for costs, make sure and get more detailed information.

Automobiles Owned (make and year):

It is rare that you will meet with someone who doesn't have a car. The first question you ask here is - how many cars do they own? Next, what is the year on that 1st car, its model, and what do they think it is worth? Or, what do they think they could get for it - if they sold it today. Do that for each and every car they own and enter what they tell you here.

Other Assets (Itemized):

This area would be for toys like boats, snowmobiles, ATV's etc. Some originators will also include personal property which would include all of their "stuff" (couches, clothes, dishes). Here we would recommend that unless they need to have a garage sale to raise money, you could eliminate that particular information.

When you have completed that space (**Other Assets**) then you add up all the figures in the **$** spaces, from the line **Subtotal Liquid Assets** to **Other Assets,** and that gives you the **Total Assets**. We are almost half done with this page. Let's move on now to the other side of calculating the borrower's Net Worth and that is their Liabilities. Go now to the upper right-half side of this section to where it says **Liabilities**.

Liabilities:

Before getting to the Liabilities Section, a few other points regarding the listing of liabilities (in this section) that Loan Processors (and Lenders) like to see need to be covered. First, if you are doing a Refinance loan - always list the mortgage lender (or current mortgage servicer) of the subject property in the top box and/or first position. If your borrowers also have a 2nd mortgage, on that subject property, then write that in the second box just below the 1st mortgage. Secondly, in those boxed spaces that follow try to list (entering all the needed information) all outstanding creditor debts in descending order based on the Unpaid Balance of those accounts. And thirdly, for those accounts (mortgages included) that you plan on paying off with that loan write 2 or 3 stars (***) to the left of the box where you entered the monthly payment for that account. This lets the Loan Processor (and Lender) know that account will be paid off with that loan. By identifying which liabilities will be paid, the underwriter can eliminate them from the qualifying debt ratio calculations. And lastly, Underwriters of Lenders (Loan Processors too) like to see all outstanding debts that are shown on the Credit Report, to be listed on the 1003. They also like to see the monthly payments and outstanding balances shown on the Credit Report - to match what is shown on your 1003.

When you first meet with your customers this may not be possible. But when you return to your office and pull a Credit Report then you will need to ensure that this takes place. Usually, when you get back to the office you will also type out a new 1003 using your company's loan processing software. Most versions of the software today will allow you to directly import the liabilities from the credit report into this section of the 1003. This is offers time savings, however it is imperative that you review the data for accuracy.

As you can see here, within the Liabilities area, there are 6 sections or separate boxes for 6 creditor accounts to be listed. Each one of these asks for: **Name and Address of Company** and below that - **Acct. No**. And, to its immediate right **$ Pyt/Mos**. – for monthly payment that is being paid on that account and **Unpaid Balance** or outstanding balance on that account.

Name and Address of Company:

Although it is asking for the Name and Address of the Company it is rare that you will see a Loan Officer write in the actual address of the creditor's company. Most Loan Processors will be happy if you just write in the Name of that Company (Creditor). If you are going to pay the account off with the loan proceeds, an address will probably be needed at some point. In this case, during the initial application is as good a time as any. You can usually have the customers prepare this information before the appointment by gathering their monthly statements from the accounts. These statements will provide all of the information that you need.

Acct. No. = Account Number:

As mentioned above, the customer may have all of their monthly statements available at the time of the appointment. From these statements you can gather the account numbers and any other information you may need. If the statement is not available, the credit report will likely show the information that you need.

$ Pyt/Mos. This, of course, stands for the monthly payment on that account. Now, sometimes your customers may have forgotten to tell you about a particular creditor account that they have been paying on and you later see it now on their Credit Report.

However, although the Credit Report shows an outstanding balance on that account it may not show any amount for minimum monthly payments due. You may then call up your customers and ask them about this and they may say, "Oh yeah, sorry about that. We do have that and we just pay whatever we can on that." Now, from a Lender's (and Loan Processor's) standpoint - that's not good enough. Lenders like exact figures. In this case, most lenders may require you to take 5% of the outstanding balance on that account and use that figure as the minimum monthly payment amount (in Qualifying them). Thus, if they had a creditor account with an outstanding balance of $2,000 then their minimum monthly payment would be shown as $100.00 (calculated as $2,000 X 0.05).

Unpaid Balance:

Enter here the outstanding balance on that account. Often the customer's recent monthly statement will vary slightly from the credit report. If the balance or payment is less than what is reported on the bureaus, you could use the statement to document the lower payments to the underwriter. If you run out of spaces then you need to use the **Continuation Sheet/Residential Loan Application** and which contains the (continuing) section **VI. ASSETS AND LIABILITIES**. That's what it's there for.

Before leaving this area on the Liabilities of the customers, you need to be introduced to what is called **The 10-Month Rule**. This is a “rule” that many Lenders will allow you to use in Qualifying your customers. According to this rule, if an installment account (a liability with a specific term) will be paid off within the next 10 months then you could exclude that monthly payment in qualifying your customers (e.g. Total Debt Ratio). Although it is acceptable to eliminate this debt in calculating the ratios, it would be prudent to make sure your client understands that until that debt reaches its maturity (less than 10 months) – they will likely be living with a higher debt load than what is recommended by the lender. If this puts a financial strain on the client, possible alternatives should be researched. Never assume they will be comfortable with the payment you are eliminating.

Alimony/Child Support/Separate Maintenance Payments Owed to:

If your borrowers pay for Alimony, Separate Maintenance, and/or Child Support payments each month then we enter that information here. First, enter the name of the person receiving those payments and to the right of that enter the amount that they should be receiving. .Acceptable documentation used to verify the amount and the duration of the liability would be a divorce decree or separation statement issued by the courts, you could also use a letter from the Friend of the Courts if they receive the payments directly. **Job Related Expenses (Child Care, Union Dues, etc.):**

Here you list any monthly expenses (it usually needs to be substantial, totaling about $100 each month) that you have not yet listed on this form. As you can see, examples of this might be (monthly) Child Care and Union Dues (these, sometimes, can become quite expensive). Another example of this might be whereby your borrower is a traveling salesperson. As a traveling salesperson he may drive his car all over the USA - meeting with customers. Doing this, it would be safe to say that his monthly auto gasoline bill is substantial. Does his employer reimburse him for this? If not, then this would be listed here (expressed as a monthly expense).

Total Monthly Payments:

Add up all the monthly payments above and put that figure here. This represents the total monthly payments that your borrowers pay and this is what is used in Qualifying them for that loan. After you have done that then total all the **Unpaid (Outstanding) Balances** for all the Creditor accounts you have listed and enter that sum in the **Total Liabilities box**. Since you have calculated your customers' Total Assets and Total Liabilities you can now calculate their Net Worth. Just to the left of that **Total Liabilities** figure, you just entered, there is a boxed space for your customers' **Net Worth**. To figure that, simply subtract your customers' Total Liabilities from their Total Assets and that gives you their Net Worth. Enter that amount in the Net Worth box. Okay, immediately below the above area for Assets and Liabilities is a section for . . .

Schedule of Real Estate Owned:

Here you would list (separately) all the properties that your customers own. If you are talking to renters who currently do not own any property then leave this blank and move on to the next area of inquiry. However, if you were meeting with some folks who wish to refinance their home then you would list that property (home) here. Also, if your customers own other property (or properties) you would enter those here as well. Bare undeveloped land would be listed here also. After completing this, if you did not put a value in the real estate owned box on the previous page, go back and do so once you have totaled the columns. If you did total that box, just verify to make sure they match.

Property Address:

Enter the street address here if possible. To the immediate right of this there is a small box. Here you enter the Status of that property: S = Sold, PS = Pending Sale, R = Rental Property. If none of these applies then leave it blank.

Type of Property:

Here, it is asking for the type of property, which alludes to its occupancy and number of units of that property: SFR = Single Family Residence, INV = investment property (renting), DUP = Duplex, TRI = Triplex, and so on.

Present Market Value:

Write here what your borrowers believe the current market value is for each of their properties - or what (they believe) it could be appraised for today.

Amount of Mortgages & Liens:

Enter here the outstanding balance of the mortgage on that property (if there is one). If the borrowers have a 2nd mortgage on that property then add those two mortgages together and write that totaled figure here. Do that for each property they own.

Gross Rental Income:

If your borrowers have a property that they rent out then enter here the total amount they receive each month from their renter(s). As mentioned, a quick way to figure this amount (as many loan processors do) is to multiply the monthly Gross Rental Income by 75% and enter that amount in this space. For example, if your borrowers received $1,000 each month, from their renters, then enter ($1,000 x 75%) $750 in this space for that property. It should also be noted here that some Conforming Lenders like to see Landlords have at least 2 years of landlord experience before including their rental income on the 1003 in qualifying them for their loan. So, ask your customers (here) how long they have been renting their property or properties.

Mortgage Payments:

Enter here the monthly total mortgage payments that your borrowers pay on that property. Ideally, we are looking for the P&I payment here. However, if your borrowers do not recall this but know only the PITI payment then enter that figure here. Again, like we discussed in the Amount of Mortgages & Liens above, if your borrowers have a 2nd mortgage on that property then add up those two mortgage payments and enter that summed figure here. This space represents all monthly mortgage payments made on that property.

Insurance, Maintenance, Taxes & Misc.:

If your borrowers can recall what they pay each month for their Property Insurance, Taxes, and Maintenance then write that figure here. However, since many customers pay their t & I directly with the payment, they may not have the exact numbers. This being the case, you will typically write "Inc." here. When you do this Loan Processors know you are telling them that the PITI figure you previously wrote includes this. Now, there may be a Miscellaneous Fee on their property that needs to be included here. An example of this could be the monthly Property Association Fee for Condo owners. So, be sure to ask your customers if there are any other monthly fees they pay on that property. If they pay a maintenance fee to a management company you would enter it here, but remember that 25% of the gross rents have already been taken out to account for normal maintenance costs.

Net Rental Income:

Here you need to do a little math - but only if you are looking at rental property. Otherwise, leave this space blank. In doing your math here start out with the Gross Rental Income figure and subtract from that the Mortgage Payment(s)+ Insurance + Taxes + Maintenance + Any Misc. Expenses. You do that for each listed Rental property.

For example, assume the actual rent paid each month is $1,000 and that your expenses are as follows: Mortgage payment: $500; Insurance: $45; Taxes: $100; Misc. Expenses: $30. Total expenses = $675. <u>Net rental income</u> = ($1,000 x 75%) - $675 = $75.

If your customers have <u>**more**</u> than 3 rental properties , you would turn to page 5 of 5 titled: **Continuation Sheet/Residential Loan Application** and which contains the (continuing) section **VI. ASSETS AND LIABILITIES.** This page also contains a separate section for the continuing **Schedule of Real Estate Owned**. And, this provides enough lines for 22 additional rental properties! After you have fully completed this section then add up all the **Net Rental Income** figures for each column listed there. Hopefully that totaled figure will be positive. If it's negative then that amount (negative) will be deducted from the Gross Monthly Income you qualify your borrowers with. One thing to watch for, If you have calculated the mortgage payments into the net rental income figure, make sure that you do not carry that mortgage payment into their debt ratio twice. Since that liability will also show in the liabilities section, sometimes when calculating you may inadvertently add that payment in again which will result in a higher debt ratio.

Underneath the above section, whereby you listed all of your borrower's properties they own, there is a two-lined section area that asks you to. . . . **List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account numbers.**

If you customer or customers have had previous names or aliases (never had the opportunity to get one of those) then enter that name here and for whom that name represents. Most times this area will be used if your borrower or borrowers were previously married and/or the wife had obtained credit in her previous marriage or maiden name. Don't get overly concerned about this section because the Credit Reports today pretty much track this and you may see other names used by your borrower (usually women) on the Credit Report if they obtained credit using another name or names. Remember, their Social Security number follows them around no matter what their name is. Having completed that area then let's turn the page and that takes you to our next section:

SECTION VII. DETAILS OF TRANSACTION

This section is designed to provide for you a sort of double check - to make sure your numbers on the Good Faith Estimate match with what that 1003 is coming up with (based on the information you entered into it). . Today, most Loan Officers enter the information they have gathered into a new 1003, using their particular Loan Processing Software (after they have met with their customers). Their Loan Processing Software will calculate and enter the numbers in this section for you. The numbers in this section should match the figures on your Good Faith Estimate you are submitting on that loan file (or giving to your Loan Processor), Keep this section in the back of your mind as we will cover the Good Faith Estimate in more detail a little later.

SECTION VIII. DECLARATIONS

Within this Section there are 13 main questions you ask your borrowers about. Depending on their answer (Yes or No), you check the appropriate box to the right of that question for each borrower. What you can do when you get to this Section (and before you ask any of these questions), is say the following, "Now folks, I need to ask you a couple of goofy questions I ask everyone at this point in the application. I'm sure you have heard these before" (if your customers are refinancing then you know that they have). At this point, they should look at you and probably know the questions you are about to ask them. If this loan is for a married couple and yet only one of the spouses is present then you also include this before asking, "And please, answer for your wife (or husband) as well." Now, when you ask these questions, ask them in a very calm and matter-of-fact way and try to get through this as quickly as you can (without loss of detail). These questions are pretty straightforward, so there's any need to go into any detail here.

However, if your customers do answer yes to any of the questions from A to I then you need to stop, ask about that, and make notes regarding that (enter that information on page 5 of 5 titled: **Continuation Sheet/Residential Loan Application** and which contains a large blank space. Again, that's what it's there for. Whenever you get to this section it is not uncommon to get a question on #I: **Are you a Co-maker or Endorser on a Note**. A co-maker or endorser on a note is someone who (in addition to the primary signor) also signs on a note (usually referred to as a cosigner) who agrees to make the required monthly payments or repay the entire outstanding debt (on that Note) if the primary signer defaults or for whatever reason does not, will not, or cannot make payments on that Note. If the primary signer on that Note can't make the required payments then the Lender (of that Note) will then look to your borrower who is the co-signer, co-maker, or endorser on that Note to make the payments.

If your clients have co-signed a note, most likely it already has shown up on the credit report and therefore you have counted the debt already. If they have cosigned a note that does not show up on the bureau, the underwriter may require proof of payments which would be at least 6 cancelled checks from the most recent payment backwards in order from the responsible party.

After you have obtained the answer to that co-maker question then move on down and ask the next 4-6 questions. Once you have the answers to those questions – then jump over to **SECTION IX. ACKNOWLEDGEMENT AND AGREEMENT** and go to . . .**SECTION X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES** As discussed before, on page one of the 1003, you asked your customers their DOB and Years of Schooling: Here we are going to be checking off the boxes which are (or we believe) is the Ethnicity and Race of your borrowers. And, as you may have correctly guessed – these are HMDA related questions. You are obtaining this information on your borrowers because - if in the event that your company or branch office is ever audited by HUD (or one of its agencies) then they may want to be sure that you or your company does not have any (racial or other) discriminatory lending practices. And, as said before, the government might also want to do a statistical analysis on homes bought and refinanced during a particular period by various homeowners of different Ethnicity and Race.

In completing this section you answer the questions regarding the **Ethnicity** and **Race** for both your Borrower and Co-borrower. Now, there is a box above the row for Ethnicity (for **BORROWER** and **CO-BORROWER**), where customers can place a check (or an "X") for: "I do not wish to furnish this information." That's okay. Sometimes customers, you send this application to, will return it with that box checked. Sometimes when you meet with them they will tell you this. Then check off that box. One thing to note, if you read the small print directly above this section it maintains that "if you do not furnish…the lender is required to note the information on the basis of visual observation and surname if you have made this application in person." This simply means that you, as the advisor, would complete the information even if the customer opted not to. Some lenders will require the information to be furnished, even if the customer chose not to furnish it. In this case, if you have not met the customer, you would need to make an educated guess. Most customers will not have a problem identifying their information.

Below that Section, in the lower left-hand corner, is a boxed area stating: **To Be Completed by Interviewer. This Application was Taken by**: Check the box that applies to you here. How did you take that application? Met with your customers? Then check the box "**Face-to-face Interview**." Customers live out of your state and you mailed them the application => by **Mail**. Perhaps you completed that loan application over the **Telephone**. And finally, did you receive and/or take the application via the **Internet**? To obtain more (loan) information and also to find out what their loan goals and needs are. Again, as above, you would then check **Internet** and **Telephone** **Signing Your Name on the 1003:**

To the right of that (if you haven't already done so) **Print Your Full Name** and below that it is asking for you to sign your **Signature** with the **Date** signed. Now, the question here is: When should you actually sign that 1003? **That's a very important question because the date you sign that 1003 begins our so-called Compliance Clock to start ticking**. The answer to that question is really quite simple: The Date you completed that application with your customer or when you received that completed application in the mail. Now, when you completed that application with your customer, it is meant either face-to-face or completed it over the telephone. If you mailed the application to the customer, then sign it when you received it back from that customer. And, as you may recall, this is also a HMDA related question. Therefore, to summarize, you sign your name on that 1003 when:

- **Face-to-Face Application**: Date Application was completed with Customer

- **Telephone Application**: Date Application was completed over the Telephone

- **Mailed Application**: Date you received the Application from your Customer Okay. Below that write your company's main **Telephone Number** (or your cellular number). And, to the right of that should be **Your Company's name, Address, Main Telephone, and Fax Number.**

Regarding HMDA and dates, it is also important to know that the date on the credit report, if pulled before the 1003 is completed and signed, may also start the compliance clock. In this case, once you have pulled credit, you would have three business days to complete the 1003 and all required disclosures. If you are required to mail the application and disclosures after the credit has been pulled, it is good practice to stamp "mailed" and date within the three days. If you or your company were ever audited, this would help the auditor to identify that you did what you needed to do in order to deliver the required documents within the required time period.

There is just one more little but very important thing you still to do here: Obtain the required initials and signatures from your customers on this 1003. Turn now to page one of your 1003. Look down at the bottom of this page, in the middle - just to the right and below where it states page 1 of 5. You see an area there for the Borrower and Co-borrower to write their initials on. They do this on pages 1of 5 through 3 of 5. On page 4 of 5 they sign their names and date it. HUD wants you to do this (obtain the customer's initials and signatures) because they (and the Lender) want to be sure that the information on this loan application was disclosed and obtained from them personally. Their initials and signatures confirm this.

Now, when you get to this point you know you are through asking questions on the 1003. However, to complete this form you still need them to either initial or sign each page on this loan application. If you have done you job right and been timely then you probably completed the 1003 in about 20 - 30 minutes . Obtaining signatures is simple, as the customer has already given you most of their detailed personal information. Acknowledge to them that by signing, they are only confirming the accuracy of the information and it is neither a commitment to lend not a commitment for them to borrow. Every page either needs initials or signatures. Make sure to get them all, and remember page one needs both a signature at the top and initials at the bottom.

SECTION IX. ACKNOWLEDGEMENT AND AGREEMENT

This Section is made up of about 2 inches of small print that basically states that the loan that the borrowers are applying for will be secured by a deed of trust and real property and that all the information on this application, provided by the borrower(s), is true to the best of their abilities. As you can read here, there can be quite serious consequences for borrowers who lie and give us false or misleading information on their 1003 for the purposes of obtaining a mortgage loan. When you get to the third page, turn it around so they can clearly see it. Doing this enables them to read it if they wish.

You can then say something like, “This paragraph basically states that all the information you have given me is true to the best of your abilities and that we are not making it up as we go along here” (try to keep it light). You can then add, “*Part of that paragraph is a nasty gram from HUD regarding fraud*.” And it is! Just read it sometime. As a MMB™, you should read and know every word on every form in order to offer detailed, educated explanations and answers about any thing on the forms.

It also should be noted here that if this loan is being done Jointly then both applicants need to sign this Section (just as they did in the beginning of this 1003 - at the top of page 1). This is one of those new requirements of this updated 1003. After they have signed and dated that Section then turn the page - to page 5 of 5 titled: **Continuation Sheet/Residential Loan Application** and which contains that large blank space. If you have needed this page, during the completion of the 1003, then there will be writing on it. Otherwise, it will be blank. If this is the case then a common practice of many Loan Officers is to write a big X on this page and then hand it to your customers to sign and date. Your customers may ask you why do they need to sign this page when there is nothing on it? Because this page is part of your customer’s loan application (the 1003) HUD still wants them to sign it.

Just tell your customers this. They won’t have any problems with that. Once they have signed that page then take a look at all 8 pages of the 1003 and see if you also needed (and wrote information on) any those other three additional **Continuation Sheet/Residential Loan Application** pages containing:

1. Section IV. Employment Information: For additional employment history.

2. Section VI. Assets and Liabilities: For writing additional Assets and/or Liabilities

3. Section VI. Assets and Liabilities: For writing in additional Real Estate Owned.

If you did use any one or all of these additional continuation sheets then have your customers also sign and date those as well. These additional continuation sheets (if required) become part of the complete loan application (1003) for that customer. One question that you may have in mind is: There are four pages numbered 5 of 5. Which one should you use and include in that customer’s loan application? That’s a good question and the answer to that is: Whichever page you used. If you didn’t need any of those continuation sheets (showing page 5 of 5) then include the page: **Continuation Sheet/Residential Loan Application** containing the large blank space. However, if you didn’t need that page, but instead used the **Continuation Sheet/Residential Loan Application** page containing Section IV. Employment Information - then include that page in its place. And finally, if you needed and wrote information on all of those continuation pages, then include all four of them within your loan application for that customer. Congratulations! We are done with the 1003.