

REAL ESTATE LENDING EXAMINATION TECHNIQUES (RELET)

Federal Reserve Board

Course Description
for
RELET

Course Catalog Detail

REAL ESTATE LENDING EXAMINATION TECHNIQUES (RELET)

Type of Participant Targeted

Real Estate Lending Examination Techniques (RELET) course is designed for Federal Reserve System consumer compliance examiners with six to twelve months of examination experience and **responsibility for reviewing residential real estate loans for compliance in at least two examinations**. *All assistant examiners involved in the consumer affairs specialty must complete this course before being commissioned.*

Prerequisites

Participants should have:

- Completed the Introduction to Consumer Compliance Examinations (CA I) course
- Read SR 06-15/CA 06-12, “Interagency Guidance on Nontraditional Mortgage Products”
- Read CA 99-14, “TIL Restitution Policy Guide Q’s & A’s”
- Read CA 07-3, “Statement on Subprime Lending”
- Completed the following Compliance Coach (CC) online training modules:
 - TILA Closed-End for Mortgage Lenders *(60 minutes)*
 - TILA High-Cost for Mortgage Lenders *(20 minutes)*
 - TILA Home Equity Lines of Credit *(45 minutes)*
 - RESPA for Mortgage Lenders *(30 minutes)*
 - Flood Insurance Requirements *(30 minutes)*

*This total **three hour time estimate** is from CC. Your actual time to complete a module may vary.*

- Completed a written pre-course assignment using your Reserve Bank’s calculation tool to calculate payment streams/amortization schedules for the following loan types: fixed rate real estate, adjustable rate mortgage (ARM) real estate and temporary/permanent construction loans. The estimate to complete this assignment is **three hours**.
- Completed scenario questions for Regulation B, RESPA, Flood Insurance, Regulation Z, and the Homeowners Protection Act (HPA). The questions relate to a scenario about the particular regulation or Act. Specifically, the questions will focus on the basic regulatory requirements during the application phase, pre-closing phase, closing phase, and post-closing phase of a fixed rate purchase money real estate transaction. The estimate to complete these scenario questions is **14-19 hours**. Your actual time to complete this assignment may vary.

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- **Proficiency with the OCC APR calculation software program.** This microcomputer program should be loaded on their laptop computer or on a disk.

Course Overview

RELET will provide assistant examiners with the fundamental skills necessary to determine a bank's compliance with consumer laws and regulations as applied to real estate products. Participants will also learn about System policies and regulatory requirements associated with the residential real estate lending examination, including annual percentage rate calculations.

In place of a formal, paper-based assessment, participants will be evaluated through pre-course assignments, online learning modules, and in-class exercises.

Course Objectives

After completing this 4 1/2-day course, the participant, at a minimum, will be able to complete the following objectives.

- Apply analytical skills to the examination of real estate lending.
- Recognize critical regulatory issues related to real estate lending (e.g., identify acts or practices that may be considered unfair or deceptive).
- Apply System policies and procedures to assess compliance with consumer laws and regulations related to open- and closed-end real estate lending
- Perform complex calculations related to real estate lending.
- Identify and cite violations of consumer laws and regulations using the Federal Regulatory Service and other System resources
- Conduct the real estate lending portion of a consumer compliance examination of institutions supervised by the Federal Reserve.

Post-Course Intervention

After completing RELET, the participant should be given on-the-job assignments that will increase the retention of the competencies presented during class. Such on-the-job assignments may include the following:

- Evaluate compliance focusing on the regulations covered during this course.
- Prepare examination reports and workpapers.
- Participate in examination interviews.

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Overview of RELET Curriculum

Subject	Approximate Class Hours	Homework Hours
Course Overview/Icebreaker	1.25	--
Real Estate Overview/FCB Loan File	.25	--
Non-Traditional Products (e.g., reverse mortgages)	2.25	
Fixed Rate Purchase Money Products - RESPA	3.25	¹
Fixed Rate Purchase Money Products – Truth in Lending	4.25	--
Fixed Rate Purchase Money Products – Flood	2.00	--
New Mortgage Rules (MDIA, HOEPA, HPM, CPD, TILA Section 131)	1.50	--
Homeowners Protection Act (HPA) and PMI	2.50	--
Reimbursement Policy Guide	1.00	
Fixed Rate Purchase Money Products – In-Class Exercises	1.50	--
Non-Purchase Money Real Estate Loans	1.50	--
Adjustable Rate Mortgages	4.00	--
Construction Loans	3.75	--
Open-end, Home Equity Lines of Credit	2.00	--
Total	31.00	—

Learning Objectives

After completing each subject area, the participant, at a minimum, will be able to demonstrate the following skills and knowledge.

Course Overview and Icebreaker

- Discuss basic risk-focused supervision concepts and key elements of the Federal Reserve’s Risk-focused Supervision Program
- Apply System policies and procedures to assess compliance with consumer laws and regulations related to open- and closed-end real estate lending
- Identify and cite violations of consumer laws and regulations using the Federal Regulatory Service and other System resources
- Participate in the real estate lending portion of a consumer compliance examination of institutions supervised by the Federal Reserve

¹ Homework for this course consists of daily unfinished in-class exercises or case study work.

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Real Estate Overview

- Describe various types of product lines associative with real estate lending
- List the examination regulations and supervisory actions associated with real estate loans

Real Estate Overview/FCB Loan File

- Identify the various documents of a sample real estate loan file

Non-Traditional Products - Reverse Mortgages

- Discuss the product history & interesting facts of a reverse mortgage
- List reverse mortgage products of:
 - Government lenders
 - Private lenders
- Describe sample transactions for:
 - Reverse calculator advertisements
 - Reverse loan example
- Discuss examination calculation issues for a reverse mortgage

Real Estate Settlement Procedures Act (RESPA)

- Describe Section 8 in terms of:
 - Prohibition against “kickbacks” and unearned fees
 - Sections 8A & 8B
- Discuss referral fees when payments are permitted
- Discuss HUD settlement agreements from the following years:
 - 2006
 - 2007
 - 2008
- Describe Section 8 in terms of:
 - Yield spread premiums
 - March 1999 HUD policy statement
 - Section 8 violations

TILA - Regulation Z Calculations

- Discuss Regulation Z calculation rules for:
 - Appendix J
 - Fed calendar
 - Minor irregularities
- Perform independent calculations for:
 - Payment schedule & amount financed verification

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- Perform APRWIN Program calculations
- Perform special calculation exercises:
 - Amount financed – HUD-1 exercise
 - PMI loan exercise
 - Reimbursement exercise – APRWIN
 - Real estate loan exercise

Flood Insurance

- Discuss compliance with Regulation H - Flood Insurance requirements and recent changes and additions to flood coverage requirements.
- Perform flood calculation exercises to determine if loans with properties located in flood hazard areas have adequate flood insurance
- Conduct the examination of loans located in a flood hazard area review
- Prepare a flood referral memorandum for management and Board review

New Mortgage Rules (MDIA, HOEPA, HPM, CPD, TILA Section 131)

- Discuss recent regulatory requirements for special mortgage transactions
 - Early Disclosure Rules – MDIA
 - HOEPA Changes
 - Basic HOEPA
 - Higher-priced Mortgages
 - Consumer's Principal Dwelling Loans
 - TILA – Section 131 Notice

Home Owners Protection Act (HPA) PMI Calculations

- Perform HPA PMI calculations

Reimbursement

- Discuss the difference between Regulation Z tolerances and reimbursement tolerances

Non-Purchase Money Real Estate Loans

- Discuss stages of the non-purchase money real estate loan transaction
- Discuss rescission rules
- Perform TIL and HOEPA calculation functions to determine if disclosed terms are correct and whether the transaction is subject to the high cost mortgage rules

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Adjustable Rate Mortgages (ARMs)

- Discuss ARM transactions and their unique characteristics, including advantages and disadvantages from both the banker's and the borrower's perspective
- Practice the complex payment stream calculations required in ARM transactions to verify the final truth in lending disclosures including loans subject to HPA
- Use the OCC APR program to verify the APR and finance charge calculations for ARM loans
- Review the application, pre-closing, closing and post-closing disclosure requirements that are unique to ARM loans

Construction Loans

- Discuss background information regarding construction loans
- Perform the construction loans scenario exercise
- Complete walk-through exercises for Appendix D
- Perform construction loans calculations
- Conduct the BoPaul file review
- Discuss the characteristics of construction loans
- List the requirements associated with the product and Regulations B, H, X and Z
- Perform Regulation Z's Appendix D calculation method for estimating interest on which disclosures are based
- Analyze a construction loan file

Home Equity Line of Credit (HELOC)

- Describe the HELOC product
- Review the relevant disclosure requirements for:
 - Regulations Z, H, X and B
 - Application, initial, periodic statements, rescission and advertising
- Practice HELOC examination techniques
- Discuss unique requirements for HELOCs

Class Size

The optimal class size for RELET is 15 participants. To provide sufficient variety of interaction among class participants, the minimum class size is 10 participants. Because RELET incorporates many in-class exercises and some topics require specialized subject matter expertise to present instructional material, sufficient instructors are available to assist individuals and small groups. Accordingly, to ensure a manageable instructor workload and maintain a reasonable participant-to-instructor ratio, a maximum class size is 25 participants.

REAL ESTATE LENDING EXAMINATION TECHNIQUES (RELET)

Instructors

RELET includes one lead instructor and three additional instructors with consumer compliance examination experience. Other instructors may include Board staff and other System examiners who have expertise in specific topics.