

INDIVIDUAL BORROWING LESSON

LENDERS AND BORROWERS: STUDENT HANDOUT

Note to Students: Review the following information, then answer the questions that apply to the group to which you have been assigned (borrower or lender).

- ∞ A mortgage is a loan to finance the purchase of real estate, usually with specified payment periods and interest rates. The borrower (mortgagor) gives the lender (mortgagee) a lien on the property as collateral for the loan. (Source: www.investorwords.com)
- ∞ Mortgage brokers make loans to homeowners (borrowers). Brokers facilitate the transaction between borrowers and lending banks.
- ∞ Lenders may sell the loans to other financial institutions in what is called a secondary market. Secondary markets enable banks to raise money to make more loans. Many of the mortgages are sold to Fannie Mae.
- ∞ Mortgages are also put together in a bond called a mortgage-backed security and sold to investors.
- ∞ A bond is a debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. Governments, corporations and other types of institutions sell bonds. (investorwords.com)
- ∞ If borrowers repay the loans and home prices rise, the bond investments become worth more money. If borrowers do not repay the

loans and/or if home prices fall, the bond investments become worth less money.

Borrower (House Buyer) Questions:

- ∞ What are the benefits of home ownership?
- ∞ What things should a potential homeowner do before being able to buy a home?
- ∞ What would make a borrower more likely to qualify for a prime mortgage rate and terms?
- ∞ How important is it for a borrower to have an ongoing relationship and good customer service from the mortgage lender? (Consider how you would feel and what you would expect if your cell phone company was bought by a new company and you no longer knew the people at your local store. Similarly, what impact might it have on you if, after you signed your loan, it was sold to another bank?)

Mortgage Lender (Bank) Questions:

- ∞ What factors will you weigh when considering making a loan?
- ∞ Where can you find more money to make more loans?
- ∞ To what degree is a good customer service relationship with the borrower important to you? (Consider that you will probably sell the loan to another bank soon after you make the deal with the borrower.)
- ∞ What incentive do you have to offer subprime loans to borrowers?