Answers on uestions an

WHAT is meant by mortgage discounts? A mortgage is "dis-counted" when it sells for less counted when it sells for less than the principal amount of the mortgage. Example, a \$10,000 mortgage which sells for \$9,800 was discounted \$200, or 2%. This \$200 is the "mortgage discount." Similarly, if a \$10,000 mortgage were discounted 5%, the discount would be \$500. would be \$500.

WHY is it necessary to discount mortgages? The Federal Government controls the interest rate on FHA and VA mortgages. At present, the authorized interest rate is less than the going or prevailing rate of interest.

Therefore, VA and FHA mort-gages at these low fixed interest rates are less desirable than other investments such as bonds or conwentional mortgages which yield a higher return. The only way a mortgage may be made equally de-sirable is to "discount" it.

DO conventional loans have to be discounted? Almost never, because the interest rate is flexible and can be varied to meet the requirements of investors or those having or controlling savings,

WHO PAYS the discount on FHA and VA loans? Where a new FHA or VA loan is placed on a piece of property, so that the seller can get cash for the property, the seller pays the discount.
WHY SHOULD it be the seller

who pays the discount on FHA and VA mortgages? Under Federal law, the buyer is prohibited from paying the discount. Since the discount is a means of raising the effective interest rate or yield, if the buyer were allowed to pay the

discount, he would be paying high-er interest than the law allows. The buyer, of course, is re-quired to pay all other expenses connected with the loan except the discount

WHO GETS the discount on FHA and VA loans? The mortgage bank-er or other lender collects the discount at the time the loan is made, and generally must then pass the discount on by payment to the permanent investor. This money is then placed in reserve and "fed back" over a period of years as

additional interest.

DOES the mortgage banker make a profit on discount? Almost never, and certainly not as a general rule. In most cases, the mort-gage banker gets a commitment, or agreement to buy, from one of the investors he represents, before the loan is closed, at a specified discount.

knows the policy of his investors well, he may close without a m "take-out" and depend on his ability to sell the loan later. Some-times, therefore, he may make a profit or take a loss. He tries at

controlled by the difference bet- ty in their property, and take back,

ween the fixed rate chargeable on FHA or VA mortgages, and the "going" rate as established by conventional mortgage rates. Contact lending institutions for current

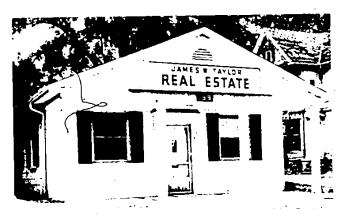
WHAT ABOUT discounts on purleast to break even.

WIAT IS the amount of the discount? The amount of discount is

count? The amount of discount is

exchange, mortgages to memors and a set of circumthemselves. stances arises where the holder of such a mortgage must sell it, he may have to sell it at a dis-count to obtain cash.

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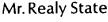
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