LENDING 101: PROCESSES & PRODUCTS

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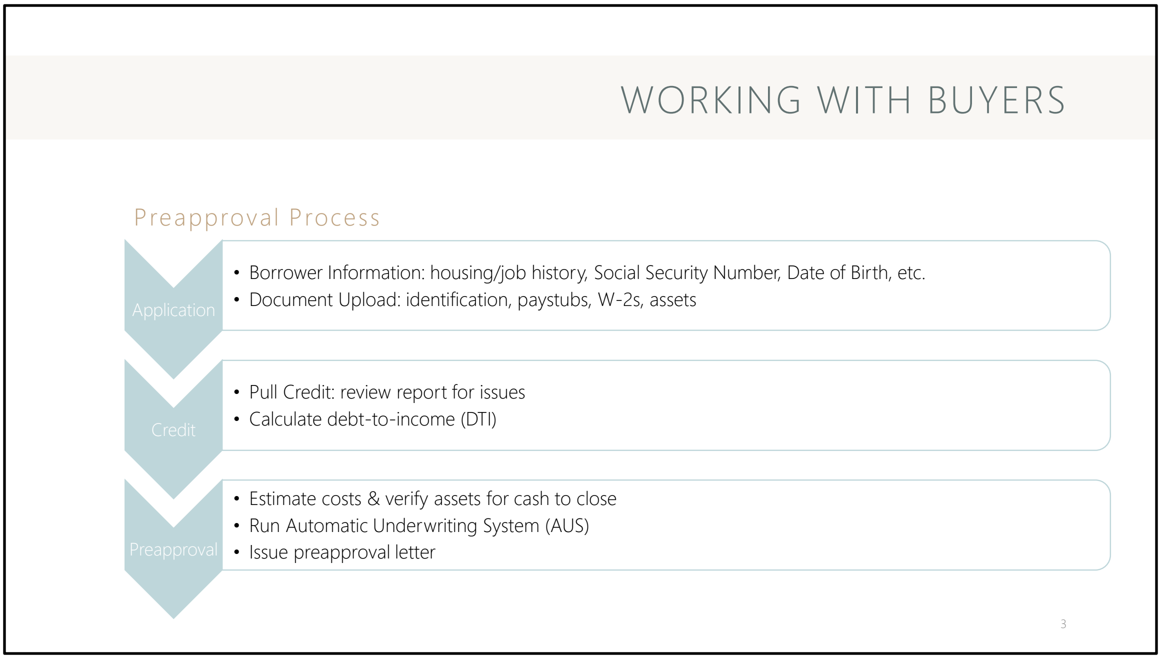
LEARNING OBJECTIVES

1. The real estate agent will understand each of the steps the mortgage application process and be able to guide clients on the process.
2. The real estate agent will understand mortgage income requirements and how to do basic calculations.
3. The real estate agent will understand how general credit scoring works and how it impacts mortgage guidelines.
4. The real estate agent will understand basic title, insurance, and appraisal requirements and issues.
5. The real estate agent will have a general understanding of the underwriting process including common findings.
6. The real estate agent will understand the loan process from initial application to closing.
7. The real estate agent will understand common available lending products to assist clients.



The preapproval process starts with an initial conversation between a prospective buyer and a mortgage broker or bank. During the conversation, the loan originator asks questions to determine the borrower's timeline and current financial situation.
The borrower will need to fill out an application, which can typically be done over the phone or online. The application covers the borrower's basic information like social security number, date of birth, and housing and job history for the past two years.
The originator will also want to see documentation including drivers license, paystubs, W-2s for 2 years, and asset statements to determine ability to repay, funds on-hand for closing, and potential fraudulent activity.
Once the documents are verified, the originator will pull credit and determine maximum purchasing power by calculating the debt-to-income ratio (or DTI).
The loan application is run through a computer program called Automated Underwriting System (or AUS) which uses algorithms to determine if the loan is eligible to be purchased by Fannie or Freddie Mac on the secondary mortgage market. In some cases, the application must be submitted to the lender for further review.
If the loan is approved by AUS, then the originator will issue a preapproval letter to the buyer and their agent.

WORKING WITH BUYERS

Traditional Income Sources

- W-2 employment : Verify one month of paystubs & 2 years of W-2s
- Contract for employment: Meet pre-employment conditions (drug screen, background check, etc.); start date no earlier than 30 days prior to note date and no later than 90 days after note date
- Variable hours, bonus, commission, & tip income: must have receipt for 2 years & will average
- Part-time employment/second job: must have had for 2 years
- Self-employed: 2-year tax returns averaged
- Retirees: pensions, retirement, social security
- Other: alimony/child support, trust, rental, capital gains royalties, interest/dividends, long-term disability

There are several types of income sources that are allowed to be used to qualify for a mortgage for a conventional, FHA, USDA, or VA loan.

For W-2 employees the lender is going to need to review a month of paystubs, and two years of W-2s. There are several ways that W-2 employees are paid, which can affect how income is calculated. Monthly income will be calculated using the salary amount, or hourly rate multiplied by 40 hours.

A contract for employment can be used for qualifying income if the contract is signed by the employer and borrower, all pre-employment conditions are met (for example: drug screens, background checks), and the employment start date is no earlier than 30 days prior to the closing date, but no later than 90 days after the closing date.

Variable income is when the borrower works less than 40 hours per week. Typically, the year-to-date income must be averaged over two years. Tips, bonus, and commission income needs to have been received for two years prior to the mortgage application and will be averaged over the two-year period. Typically, the lender will need to either order verifications of employment to break out these types of income or see year end pay stubs.

Part-time employment and second job income can be used but must have been received for two years. This type of income will also be averaged.

Self-employed borrowers must show income received for two years on tax returns.

The originator will review the tax returns to determine the amount of income that can be used and will average it over two years. If a tax extension has been filed for previous tax year, then the tax returns for two years before that will be used. The lender will also ask for a Profit and Loss statement to make sure that income is similar. If the company has been in business for over five years, then a 12-month average can potentially be used.

Retirees can use pensions, retirement, and social security income, and history of receipt is not required but must continue for three years.

Alimony and/or child support income must have been received regularly for 6 months prior to loan application and must continue for three years, so the child must be under 15 years old unless legal documentation details the support will be received for longer.

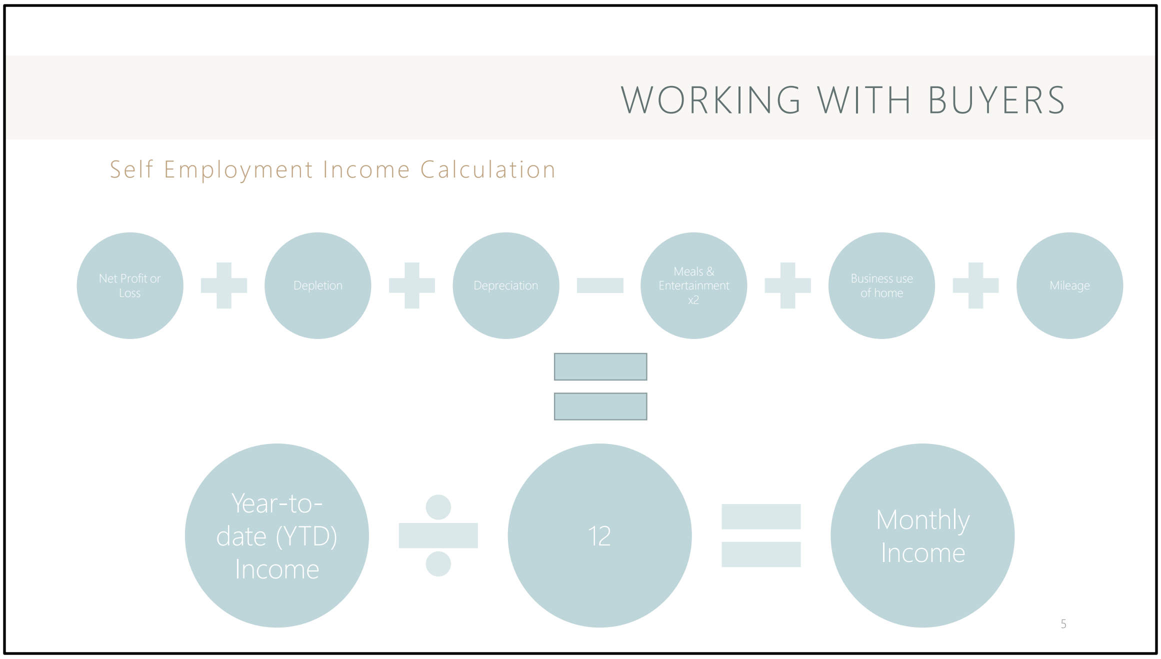
Trust income can be used if the borrower is the beneficiary and there is enough funds to prove that the money will be received for three years.

Rental income from other properties can be used by averaging past two years tax returns. If the property was not owned during the prior year’s tax returns, then the fully executed rental agreement can be used to qualify income by using 75% of the rental amount listed on the agreement. Note: FHA does not let you use rental income from a vacating property if the borrower is moving within 100 miles. For a 2–4-unit property, the net rental income from the other units can be used as monthly income.

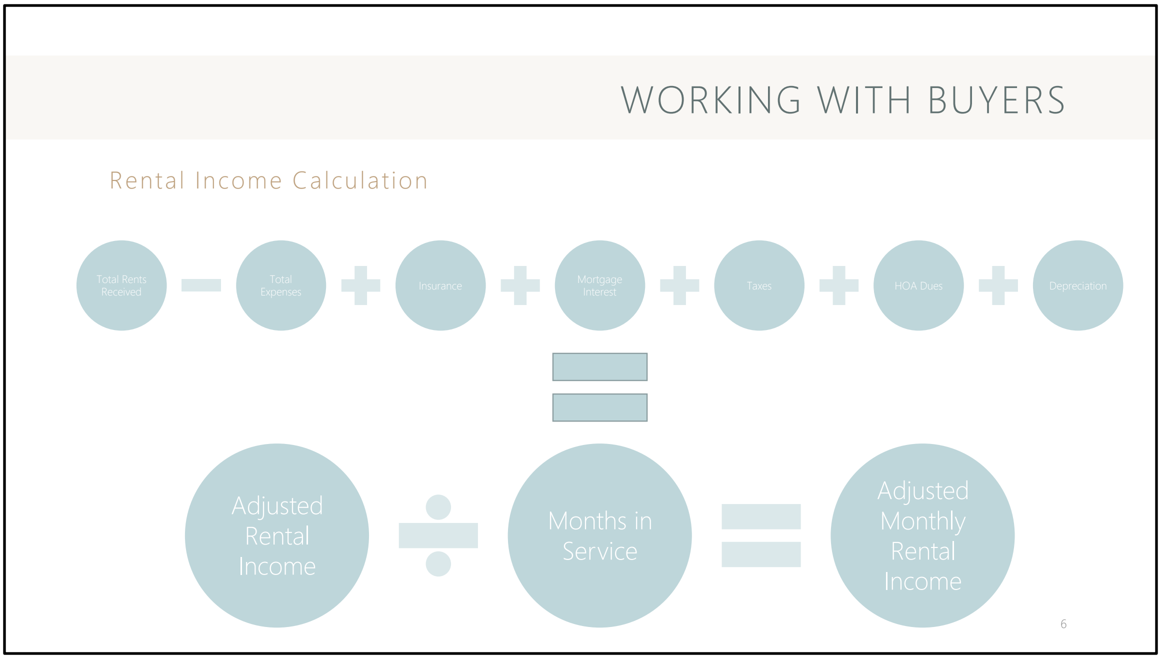
Capital gains, interest/dividends can be used if there is a two-year history of receipt, and there are sufficient assets to support continuance for the next three years.

Royalties only require a one-year history of receipt.

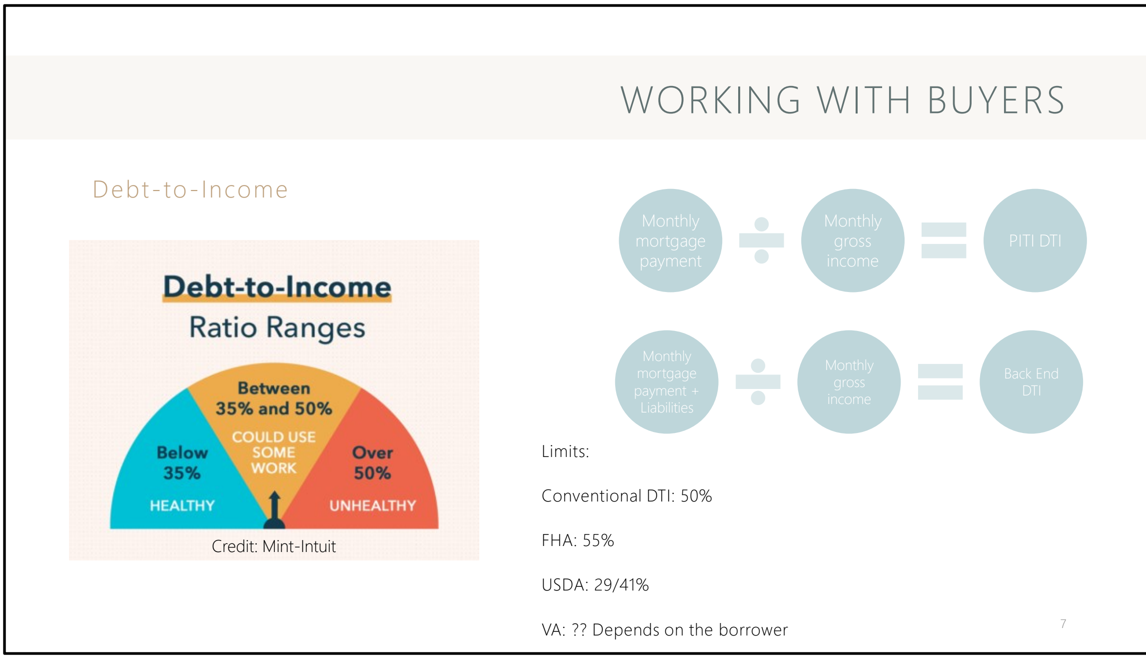
Long-term disability: no history of receipt or continuance if there is no pre-determined expiration date.



Self-employment income is calculated using tax returns. In this example calculation, the numbers are pulled from the Schedule C. Depletion, depreciation, business use of home, and milage are added to the net profit or loss, and meals and entertainment are multiplied by two and subtracted. This determines the year-to-date (YTD) income for the business. That amount is divided by twelve to determine the monthly qualifying income. In this calculation, the mileage is determined by the miles driven multiplied by that year's mileage deduction rate.



Rental income is calculated using the Schedule E of tax returns. Insurance, mortgage insurance, taxes, homeowner’s association (HOA) dues, and depreciation are added to the total rents received, and total expenses are subtracted. This determines the adjusted rental income for that year. That amount is divided by the months in service to determine the adjusted monthly rental income.



Debt-to-income (or DTI) is a critical factor when calculating the maximum purchasing power a borrower qualifies for. There are two types of DTI to factor in – the front-end ratio and the back-end ratio.

The front-end ratio is the monthly mortgage payment consisting of Principal, Interest, Taxes, Insurance, and Association fees (or PITIA). PITIA is divided by the monthly gross income.

The back-end ratio is the PITIA plus all monthly liabilities reported on the credit report. This number is divided by the monthly gross income.

VA is the most forgiving on back-end ratios. There is no published maximum ratio, but I have gotten an approval with as high as 70% back-end ratio. FHA has a maximum approval at 55% for back-end. Conventional is next with a maximum of 50% for back-end. USDA is the strictest and only allows a front-end ratio of 29% and back-end of 41%.

If the borrower is trying to maximize purchasing power, it is crucial to obtain a homeowners and flood insurance quote up front so that the DTI is not over the limit.

WORKING WITH BUYERS

Down Payment Options

1% - AMI 80% ($65,840/year)

3-3.5% - 1st time homebuyer only

2-4 unit: FHA 1st time homebuyer only 3.5% ; FHA & Conventional 2-unit = 5%, 3-4 units = 20%

Gift allowed with letter and donor statement showing assets

Retirement Accounts: If retirement plan allows for home purchases

Down payment assistance: New Orleans CDBG $55,000 down payment assistance for 80% AMI

FHA second liens

There are several down payment options besides the traditional 20% down, but any down payment less than 20% requires monthly mortgage insurance (MI).
Lenders are offering a 1% down payment option for first-time homebuyers (defined as not having ownership interest in any property within the last 3 years) whose qualifying income is below 80% area median income (AMI) which is published online and updated annually. For this down payment option, the borrower brings 1% to closing, and the lender pays the remaining 2% (up to the lender's published limit)
First-time homebuyers qualify for a minimum down payment of 3% for conventional loans for single unit properties, and 3.5% for FHA loans with 1-4 units. Mortgage insurance for conventional loans is calculated by the lender using FICO scores and DTI ratios. FHA charges .55% mortgage insurance for all loans with down payments less than 5%.
Borrowers who do not qualify as first-time homebuyers can purchase a home with 5% minimum down payment for conventional and FHA loans. For 2-4 owner-occupied units minimum down payment is 5% with conventional and FHA.
Conventional loans require 20% for 3-4 unit homes.
Typically, investment purchases start at 15% down payment.
Gifts are allowed with a gift letter and donor bank statement showing adequate funds. FHA is stricter on the gift giver and requires they be a relative or close friend.

Retirement accounts can be used for down payment and closing costs as long as the retirement plan allows early withdrawals for home purchases. The retirement loan repayment must be included in the DTI calculation as a new liability.
New Orleans CDBG has a soft-second 10-year forgivable down payment assistance of $55,000 for borrowers under the US Department of Housing and Urban Development (HUD) 80% AMI limit.
There are second lien down payment assistance programs for FHA which provide the 3.5% down payment in the form of a second lien. The second lien is typically amortized over 10 years and must be repaid. Typically, these come with higher interest rates and fees.

WORKING WITH BUYERS

Credit

- Increase credit scores – secured credit card @ 30% of limit, or add as an authorized user; never close accounts
- Medical bills: not factored into debts; <$500 will not be reported to credit bureaus
- Student loans: when deferred we use either 0.5% or 1% of loan balance depending on the product; income-based repayment for conventional only (can be $0)
- Installment debt with <10 payments is removed from liabilities; unless payment is > 5% of monthly income for FHA
- Collections: Borrowers can ask that a tradeline be deleted if they pay the account off (get in writing); do not pay if date of last activity is over two years
- Credit Inquiries: one inquiry takes about 5 points off score; mortgage rate shopping window for 30 days where multiple inquiries count as one; soft pulls do not impact credit scores and minimize marketing calls
- Derogatory information remains on the credit report for 7 years (Bankruptcy 10 years)
- Disputes: FHA cannot have any disputes > $1,000 collectively on credit report

9

Credit is pulled from Experian, Equifax, and Transunion. These reports use a different scoring methodology Fair Isaac Corporation (FICO) than consumer credit reports Fake FICO (FAKO) that are pulled online. Typically, a mortgage credit score will be lower than a consumer credit report. Credit reports can be obtained from www.annualcreditreport.com for free.

A credit score can be increased over time by paying bills on time and keeping less than 30% of the credit limit as a balance. To obtain new credit the borrower can order a secured credit card or be added as an authorized user on someone's long-standing account. Accounts should not be closed down but left open with a small balance over time because long payment histories bolster credit scores. Having credit lines for long periods of time has a big impact. Originators have software that can determine exactly what needs to be done to boost the credit score to a certain number.

Medical bills are not factored into debts and starting in 2023 any debt less than $500 will not be reported to credit bureaus.

Student loan debts reported to the credit bureaus are reported as a zero payment if the account is deferred, or in an income-based repayment plan. In these cases, the originator must calculate the monthly debt. Each loan product has a different calculation method. Fannie Mae uses 1% of the outstanding balance, Freddie Mac uses 0.5% of the outstanding balance. The payments can be excluded or updated if

the borrower is on an income-based repayment plan. FHA, VA, and USDA uses 0.5% of the outstanding balance.
Installment debts with less than 10 payments remaining are removed from liabilities and not factored into the debt-to-income (DTI). Note: FHA does not allow exclusion if the payment is greater than 5% of the monthly income.
Collections accounts can potentially be deleted if the borrower contacts the account holder and pays in full, but it is best to get their promise in writing because they can claim to delete the account, but not actually follow through. If the collections account is showing a date of last activity of over two years, then it should not be paid. Doing so will cause the credit score to decrease because it will bring the debt current.
Credit inquiries do affect credit scores. One inquiry reduces the score by about 5 points. There is a 30-day window for mortgage rate shopping, meaning multiple inquiries by mortgage companies will not reduce credit scores. Soft pulls also do not impact credit scores and can minimize marketing calls from other mortgage companies who buy credit pull leads.
Derogatory information such as missed payments, charge-offs, repossessions, collections, late student payments, chapter 13 bankruptcies, and foreclosures remain on the credit report for 7 years. Chapter 7 bankruptcies remain on the credit report for 10 years.
Disputes artificially lower credit scores and FHA requires disputes with balances greater than $1,000 to be removed from the credit report

WORKING WITH BUYERS

What is in a Credit Score?

10

Credit bureaus use algorithms to calculate FICO credit scores with a range from 300-850.
The factors that impact credit scores are as follows:
Payment history accounts for 35% of score (mortgage payments and installments are factored higher than revolving credit lines).
Amounts owed accounts for 30% of the score and keeping balances under 30% of the credit limit is key.
Length of credit history accounts for 15% of the score, so keeping accounts open for a long period of time is ideal.
New Credit and types of credit each account for 10%

WORKING WITH BUYERS

Credit - Bankruptcy

	Conventional	FHA	VA
Chapter 7 or 11	4 years	2 years	2 years
Chapter 13 Discharge	2 years	2 years	None w/ payment plan
Chapter 13 Dismissed	4 years	None	None

Credit - Collections/Charge-offs

	Conventional	FHA	VA
Collections	N/A	Cumulative balance >$2000	Only if there is a minimum PMT
Charge-offs	N/A	N/A	N/A

BREAK – 10 MINUTES

11

Bankruptcy has a major impact on credit and obtaining a mortgage. A Chapter 7 bankruptcy is known as a total bankruptcy, which wipes out all outstanding debt. It could force a liquidation of assets to pay off debts as well but forgives the debts. A borrower can apply for a conventional loan four years after a Chapter 7 discharge. FHA and VA allow application after two years.

A Chapter 13 bankruptcy is more like a repayment plan and can either be dismissed or discharged. A Chapter 13 is dismissed when the repayment is considered unsuccessful, and the borrower is still responsible for repaying their creditors (basically a failed bankruptcy). A discharge is when all of the debts have been paid and eliminated. A borrower can apply for a conventional loan two years after a Chapter 13 discharge, and four years after a dismissal. FHA allows application two years after a Chapter 13 discharge, and there is no waiting period after a chapter 13 dismissal. VA has no seasoning requirements.

A Chapter 11 bankruptcy is a reorganization of a debtor's business. A borrower can apply for a conventional loan four years after a Chapter 11 discharge. FHA and VA allow application after two years.

Collections and charge-off accounts negatively impact FICO scores, and some loan guidelines require balances be paid down.

Conventional loans do not have any requirements for collection accounts. FHA requires there be no more than $2,000 in cumulative collections accounts. If the borrower has more than $2,000 in collection debt, they will be required to pay it down under $2,000. VA only requires collections be included in the debt-to-income calculation if there is a minimum payment listed on the credit report. There are no requirements for charge-off accounts with conventional, FHA, or VA loans.

WORKING WITH BUYERS

Homeowner's & Flood Insurance

Replacement Cost Estimate for determining policy coverage

Split policies

Endorsements

Stripping: reducing/eliminating personal property and other lender non-essential items to get the DTI to work; very risky to borrowers & need to communicate what this means in the event of a claim

Flood: No area is a "no flood zone"; assumptions

Most flood insurance policies can be assumed prior to closing for better initial rates

12

A HO-3 policy covers the dwelling, personal belongings, and personal liability.
Some insurance companies quote much lower policy premiums because they are not using the Replacement Cost Estimate (or RCE) to determine dwelling coverage. In most cases the lender will require a RCE which determines the amount of money needed to rebuild the home if it gets completely destroyed.
In some cases, insurance agents can split polices meaning can lump dwelling, liability, and contents coverage on one policy, and wind and hail on a separate policy. Sometimes it is cheaper to do this.
Endorsements can be added to the policy for things like water back up coverage, city ordinance changes, identity theft protection, and extended replacement costs.
It may be possible to strip a policy if there are DTI issues. Usually this involves reducing the personal property limits of the policy or raising the deductible. It is important that the buyer understands how this will impact them in the case of a claim.
There is no such thing as a "no flood zone" in Louisiana so be careful when speaking to your clients. All locations carry flood risk, but only zones "A & V" require a flood policy to be carried with the mortgage. In most cases lenders do not allow deductibles over $10,000 for a flood policy. There are some private flood insurance companies out there, and sometimes they are cheaper than NFIP policies.

Flood insurance policies that are carried by the seller of the property can typically be assumed by the buyer prior to closing. The seller needs to call their flood insurance company to initiate that process. It is also possible to assume the policy post-closing. Some companies do not allow flood assumptions (Farm Bureau), but sometimes the old (cheaper) policy can be submitted to the new insurance agency, and it can be matched. It is crucial to get a new flood policy quote for the property so the borrower knows the maximum the policy will increase to with the Flood 2.0 18% annual increases.

WORKING WITH BUYERS

Title Insurance

Lender vs owner's title insurance

Buyer's choice: ultimately the title choice is up to the buyer

Shopping: title can be shopped for lowest quotes; if title work has already been done for the property, it may be discounted

Holding earnest money deposit (EMD): if a title company is holding the EMD it can be released if the client wishes to change before title work is completed

If the contract falls through after title work is complete, the buyer can incur charges from the title company

13

Title companies research public records to follow the ownership of the house, and discover problems associated with the property including liens, lawsuits, encumbrances, easements, back taxes, filing errors, forgeries, or undisclosed heirs. After their review, a lender title insurance policy is purchased which protects the lender's interest in the property until the loan is paid off, or refinanced. This ensures that the seller has the legal right to sell the home and is required by the lender on all purchases. The owner's title insurance policy is not required by the lender and is an optional policy that is always quoted. An owner's title policy protects the owner's rights to the property (For example: If someone else has a legal claim to the property then the owner's policy grants the buyer legal recourse against the seller; if unpaid property taxes, or outstanding liens or fines for code violations come up in the future, the owner's title policy will cover these; otherwise, the owner will have to pay to remedy). The owner title insurance policy is good for the entire time the buyer owns the home and does not need to be repurchased during a refinance.

It is the buyer's choice which title company is used for the purchase of a home. It is a RESPA violation for the seller or any other entity to require the use of a particular title insurance company.

Title companies can be shopped for lower rates. There can be hundreds of dollars of difference between title companies. If the property has already been under contract,

it might be wise to determine who did the title before because the title work might already be done. If the previous purchase was with the same title company, then the title quote may be discounted because the work was already done by that office.
If a title company is holding the earnest money deposit (or EMD), but the buyer wants to switch title companies, then the check can be released back to the client. If title work has already been completed by the title company and the buyer wishes to switch or backs out of the contract then they could be billed for work completed.

WORKING WITH BUYERS

Appraisals

Appraisals are managed through a third-party Appraisal Management Company (AMC)

Typically takes 7-10 days for completed report

Government loans are strictest: common issues include leaking roof, chipping paint (pre-1978), foundation problems, major plumbing issues, exposed wiring, broken HVAC, rotting wood, faulty exterior doors, missing smoke/carbon monoxide detectors

Subject to repairs: repairs must be completed and house re-inspected

Appraised value is lower than sales price: either reduce sales price, buyer come up with difference in cash, or buyer walks from transaction

Appraised value is higher than sales price: equity in home only; cannot use that towards down payment, or get cash back

FHA appraisals are good for 6 months and can be transferred

Appraisals are ordered and managed through a third party called an Appraisal Management Company (or AMC). The lender is not allowed to have contact with the appraiser. Typically, the appraisal is ordered after inspections are completed on the home. In most cases, if the appraisal is ordered and the buyer backs out prior to the appraisal taking place, the money can be refunded. It typically takes between 7-10 business days for the completed report to be sent to the lender.

Government loans are the strictest on appraisals because they do not allow safety issues to be present. In these cases, an appraiser will mark the appraisal as subject to repairs. When this happens, the repairs must be made and reinspected by the appraiser prior to closing the loan. The appraiser will charge an additional fee to reinspect the property. Some common issues that make appraisals subject to repairs are leaking roofs, chipping paint in houses that were built before 1978 (due to lead paint concerns), foundation problems, major plumbing issues, exposed wiring, broken HVAC units, rotting wood, faulty exterior doors, and missing smoke and carbon monoxide detectors. When there are non-safety issues, the buyer can work with the lender for an escrow holdback account where a portion of loan funds are collected at closing and set aside to pay for repairs. Some lenders require 120% of the repair estimates to be allocated in the escrow holdback account, and repairs must be completed in a specific timeframe.

If the appraisal comes back with the value lower than the sales price either the seller can come down from their price, the buyer can come up with the difference in cash at closing, or the buyer can cancel the contract.

If the appraised value comes in higher than the purchase price, then the buyer has built in equity in the home. The amount does not allow the buyer to get cash back, or funds towards down payment or cash to close.

FHA appraisals are good for six months. In the event a prior contract falls through, it is possible to contact the previous lender to purchase the appraisal. It is important to understand what the appraised amount is, and whether the appraisal is subject to repairs prior to purchasing. Sometimes the process can take longer and be more burdensome than just ordering a new appraisal because the AMC does not communicate with the new lender.

UNDERWRITING

Common Issues

- Disputes on credit report
- Explaining large deposits (>1% or all for USDA)
- Gaps in employment for FHA
- Frequent job changes
- Variable income
- Income limits for USDA
- New debts acquired
- More assets/reserves needed

15

After the loan application is completed and documents have been reviewed, the loan is submitted to underwriting. Typically, underwriters review the loan for 1-2 business days. The underwriter will issue conditions for items that are needed to meet federal guidelines for the loan type.

Some common issues are:

Disputes on the credit report: some credit clean-up companies suggest borrowers file disputes with credit bureaus. This does make the credit scores go up because the negative impacts are removed from that line of credit, but FHA requires that disputes be removed from all tradelines if the cumulative amount of disputed accounts is over $1,000. The borrowers then have to call each credit bureau to remove the disputes. Sometimes credit agencies don't follow through on this, and it can be a lengthy process that can hold up closing.

Large deposits: conventional guidelines mandate that any deposit greater than 50% of the monthly qualifying income be sourced. FHA guidelines is 1% of the property sales price, and all deposits must be sourced for USDA loans. The deposits will require a valid explanation, and there can't be any undocumented large deposits in any account for two months leading up to purchasing a home.

Gaps in employment greater than six months in the past two years can be an issue with FHA loans. The borrower won't be able to close until they have two years of

work history to the date of closing.
Frequent job changes must be explained and can hinder closing.
Variable income: borrowers who consistently make less than 40 hours per week will have to have the last two years of income averaged.
Income limits for USDA loans can be tricky as they are stricter with calculating income than typical guidelines. When qualifying for a loan usually you can use only one income source per couple, or even not use variable income, but USDA will require income received from all parties in the household and will include variable income even if it has been earned less than two years.
If new debts are acquired prior to closing, the liabilities will have to be added to the DTI and could cause the credit score to drop enough for the borrower to no longer qualify for the loan product, or negatively impact the interest rate.
Sometimes AUS findings require additional reserves if the DTI goes up, and the borrower may have to save up prior to closing. Sometimes the borrower will have a minimum required contribution that will not allow for gift funds.

REVIEW OBJECTIVES 1 - 5

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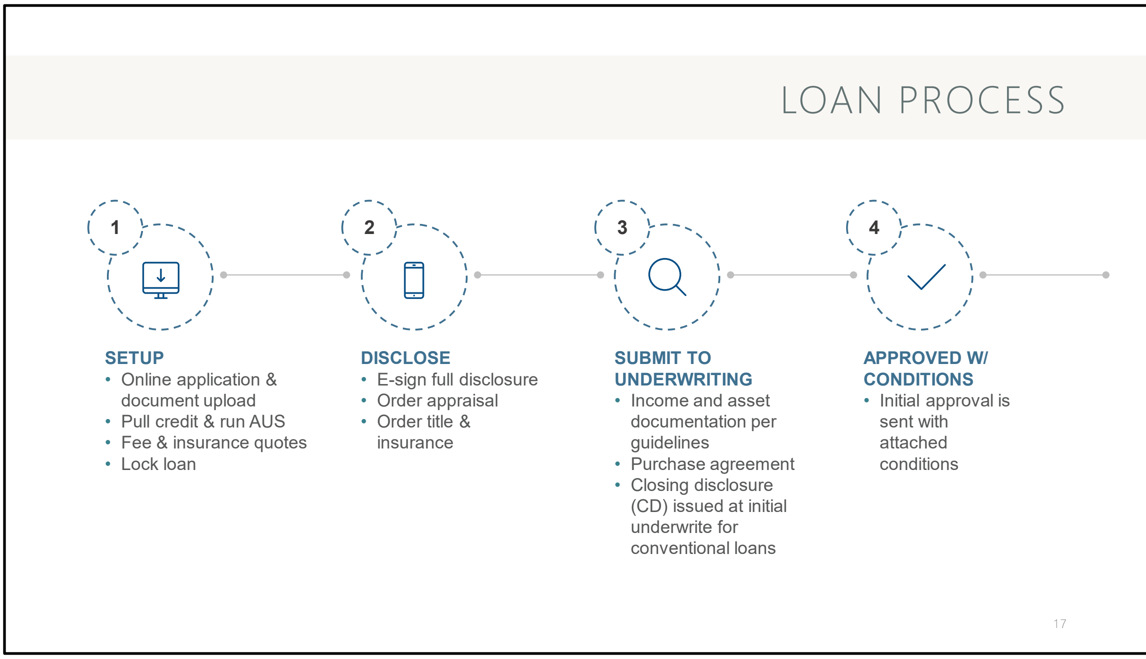
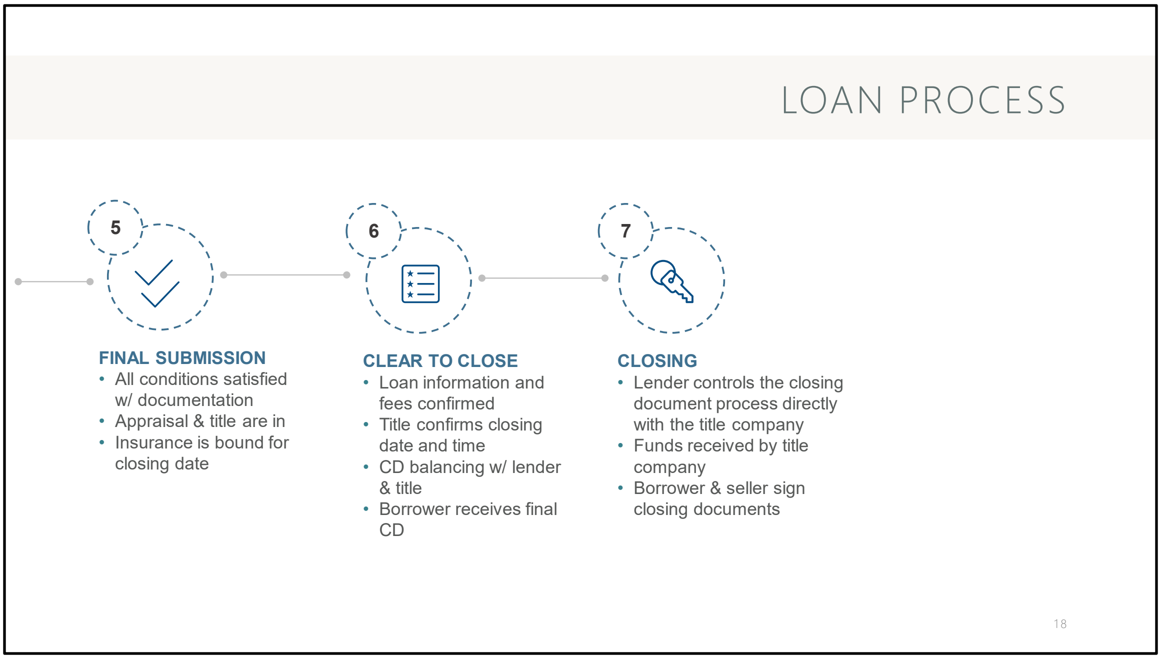


The first step in the loan process is to obtain the loan application. Documents such as drivers license, one month of paystubs, two years of W-2s (or tax returns), and two months of assets must be uploaded for review by the loan originator. The loan originator then pulls credit and runs AUS for an approval. After determining the preapproval amount, the originator will prepare a fees worksheet including estimates for title fees, taxes, and insurance. The fee worksheet will detail the monthly mortgage payment including escrows, and the total cash to close. The fee worksheet is just an estimation and is not binding. Once the borrower is under contract, the originator will lock the interest rate. Interest rates fluctuate on a day-to-day, and sometimes hour-to-hour basis and can go up and down quickly. Interest rates can be locked for a minimum of 15 days up to 120 days. Typically, a lock is for 30 days. Extended locks cost more points, or a higher interest rate.

Interest rates are pulled from the lender as a list of about 20 available rates. The lowest available rate costs the most amount of money known as “points”. This means the borrower is buying down the rate. 1% in interest rate buydown does not equate to 1% of the loan amount and varies significantly. Higher rates sometimes come with cash back to the borrower. They can utilize the cash back to assist with cash to close, but not the down payment. Typically, originators try to quote near the par rate which does not cost points or give cash back.

Once the loan is locked, the originator will prepare the disclosure package to be sent to the borrower. This package contains all disclosures required by law and includes a Loan Estimate which details all the fees associated with the loan. Some sections of fees on the Loan Estimate have a tolerance and cannot go up from the quoted amount or can only go up a prescribed amount. The disclosure package will be emailed to the borrower for them to e-sign. Once the disclosures are signed and the borrower is ready (usually post-inspections), the appraisal is ordered through the AMC. Title and insurance are typically ordered at the same time as the appraisal. After a quality control check by the loan processor, all documents furnished by the borrower and the purchase agreement are submitted to underwriting. Conventional loans can have the closing disclosure (CD) sent at initial underwrite so there is no three day wait for that after obtaining the clear to close.
Once the underwriter reviews the file, the loan is approved with conditions. At that time, the originator and processor work together to determine what documentation is needed and who is going to get the documents. Typically, the processor will work with the realtors, title, and insurance companies behind the scenes, and the originator will work with the borrower.



Once all documents have been received and reviewed by the loan originator to satisfy conditions, and the title, insurance binders, and appraisals have been received, the loan will be submitted to underwriting for final review. Sometimes the underwriter will review the documents and additional conditions can be generated.

If the underwriter is satisfied with all the documentation, they will mark the loan as clear to close. Once the loan is clear to close, the closing team will work with the title company to finalize the figures for the CD. All invoices for credit checks, verification of employment (or VOE), appraisals, etc. are submitted to the closing team. The lender and title company will balance the CD, and the official CD will go out to the borrower with the final cash to close amount. The title company will confirm the closing date and time with the buyers and sellers. The borrower can either wire funds for cash to close to the title company or bring a cashier’s check from their bank.

On the day of closing, the lender will work with the title company to make sure the funds are available at closing. The buyers and sellers sign documents. After closing the title company will upload documents to the lender.

LOAN PROCESS

Premier Lending #41105
2400 Veterans Memorial Boulevard, Suite 350, Kenner, LA, 70062 *Save this Loan Estimate to compare with your Closing Disclosure.*

Loan Estimate

DATE ISSUED
APPLICANTS
PROPERTY
SALE PRICE

LOAN TERM 360
PURPOSE Purchase
PRODUCT Fixed
LOAN TYPE ☑ Conventional ☐ FHA ☐ VA ☐ ___________
LOAN ID # 1523088924
RATE LOCK ☐ NO ☑ YES, until 08/17/2023 at 11:59 PM CDT
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 07/31/2023 *at* 11:59 PM CDT

Loan Terms		Can this amount increase after closing?
Loan Amount	$ 89,000	NO
Interest Rate	6.500%	NO
Monthly Principal & Interest *See Projected Payments below for your Estimated Total Monthly Payment*	$ 562.54	NO
		Does the loan have these features?
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

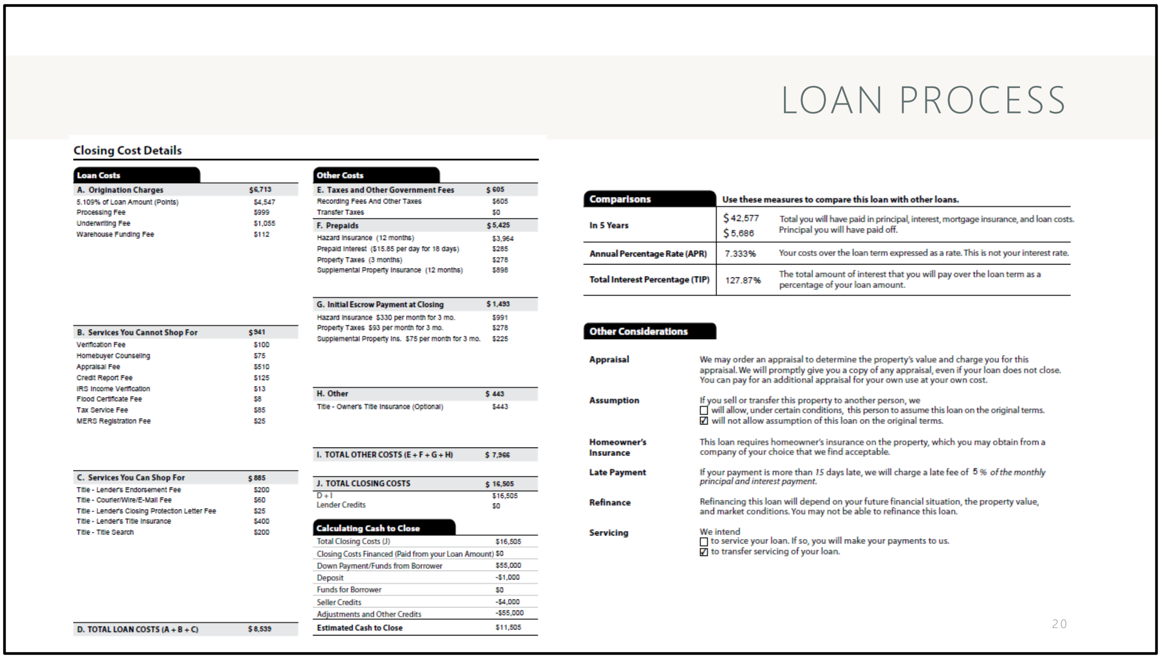
Payment Calculation	Years 1 - 30		
Principal & Interest	$ 562.54		
Mortgage Insurance	+		
Estimated Escrow *Amount can increase over time*	+ $423		
Estimated Total Monthly Payment	$ 985		
Estimated Taxes, Insurance & Assessments *Amount can increase over time*	$ 498 a month	**This estimate includes** ☑ Property Taxes ☑ Homeowner's Insurance ☑ Other: HOA Dues *See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.*	**In escrow?** YES YES

Costs at Closing

Estimated Closing Costs	$ 16,505	Includes $ 8,539 in Loan Costs + $ 7,966 in Other Costs – $ 0 in Lender Credits. *See page 2 for details.*
Estimated Cash to Close	$ 11,505	Includes Closing Costs. *See Calculating Cash to Close on page 2 for details.*

19

This is an example Loan Estimate
The first section is the details for the loan including applicant, property address, sales price, loan term, purpose (purchase or refinance), loan type, lender loan ID number, and whether the loan is locked.
The next section is Loan Terms. This details the loan amount, interest rate, and monthly principal and interest. This section will also designate if there are any prepayment penalties or balloon payments.
The next section details the total mortgage payment including principal and interest, mortgage insurance, and estimated escrow. The estimated escrow section will detail what is included in the escrow account (property taxes, homeowner's insurance, and any other payments like homeowner's association dues, or flood insurance).
The next section details the total estimated closing costs and cash to close.



LOAN PROCESS

Closing Cost Details

Loan Costs

A. Origination Charges	**$6,713**
5.109% of Loan Amount (Points)	$4,547
Processing Fee	$999
Underwriting Fee	$1,055
Warehouse Funding Fee	$112
B. Services You Cannot Shop For	**$941**
Verification Fee	$100
Homebuyer Counseling	$75
Appraisal Fee	$510
Credit Report Fee	$125
IRS Income Verification	$13
Flood Certificate Fee	$8
Tax Service Fee	$85
MERS Registration Fee	$25
C. Services You Can Shop For	**$ 885**
Title - Lender's Endorsement Fee	$200
Title - Courier/Wire/E-Mail Fee	$60
Title - Lender's Closing Protection Letter Fee	$25
Title - Lender's Title Insurance	$400
Title - Title Search	$200
D. TOTAL LOAN COSTS (A + B + C)	**$ 8,539**

Other Costs

E. Taxes and Other Government Fees	**$ 605**
Recording Fees And Other Taxes	$605
Transfer Taxes	$0
F. Prepaids	**$ 5,425**
Hazard Insurance (12 months)	$3,964
Prepaid Interest ($15.85 per day for 18 days)	$285
Property Taxes (3 months)	$278
Supplemental Property Insurance (12 months)	$898
G. Initial Escrow Payment at Closing	**$ 1,493**
Hazard Insurance $330 per month for 3 mo.	$991
Property Taxes $93 per month for 3 mo.	$278
Supplemental Property Ins. $75 per month for 3 mo.	$225
H. Other	**$ 443**
Title - Owner's Title Insurance (Optional)	$443
I. TOTAL OTHER COSTS (E + F + G + H)	**$ 7,966**
J. TOTAL CLOSING COSTS	**$ 16,505**
D + I	$16,505
Lender Credits	$0

Calculating Cash to Close

Total Closing Costs (J)	$16,505
Closing Costs Financed (Paid from your Loan Amount)	$0
Down Payment/Funds from Borrower	$55,000
Deposit	-$1,000
Funds for Borrower	$0
Seller Credits	-$4,000
Adjustments and Other Credits	-$55,000
Estimated Cash to Close	$11,505

Comparisons	**Use these measures to compare this loan with other loans.**	
In 5 Years	$ 42,577 $ 5,686	Total you will have paid in principal, interest, mortgage insurance, and loan costs. Principal you will have paid off.
Annual Percentage Rate (APR)	7.333%	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	127.87%	The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

Appraisal	We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.
Assumption	If you sell or transfer this property to another person, we ☐ will allow, under certain conditions, this person to assume this loan on the original terms. ☑ will not allow assumption of this loan on the original terms.
Homeowner's Insurance	This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.
Late Payment	If your payment is more than *15* days late, we will charge a late fee of 5 % *of the monthly principal and interest payment.*
Refinance	Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.
Servicing	We intend ☐ to service your loan. If so, you will make your payments to us. ☑ to transfer servicing of your loan.

20

Section A Origination Charges: All the charges from the lender. This section will include discount points, underwriting, application, processing fees, and any other fees the lender charges. Once the loan is disclosed, this section has a zero tolerance and is not allowed to change unless there is a valid reason. Valid reasons include the borrower requested the change, or new details about the loan were discovered (i.e.. the rate lock is expiring prior to the closing date, and the lock needs to be extended then the points will be increased to cover the new rate lock extension price).
Section B: Services You Cannot Shop For: This section includes all vendors that are involved in making the mortgage happen. These fees are typically appraisals, verification of employment fees, credit report fees, and registration fees associated with the loan. This section has a zero tolerance for increases in fees.
Section C: Services You Can Shop For: This section includes pest inspections, survey fees, and title company fees. The borrower has the ability to choose the provider for these services, and the tolerance for these fees is 10%.
Section E Other Costs: Include taxes and government fees like recording fees. This section has a zero tolerance for increases.
Section F Prepaids: These are the initial payments for homeowner's insurance, any supplemental policies (i.e.. Flood), and tax prorations paid to the seller.
Section G Initial Escrow Payment at Closing: This section funds the escrow account at

the time of closing to make sure there is enough funds to cover the next insurance or tax payment when it becomes due. Typically, the lender will hold an additional three months of payments to cover any increases that might be due when the next annual payment is due. The mortgage servicing company will conduct a review of all escrow accounts annually, and if there are any overages in the account above this three-month buffer, it will be refunded to the borrower. Escrows can also be waived by the borrower for conventional loans, and the borrower can pay the insurance and taxes on their own.

Section H Other: This section is where the owner’s title policy is listed.

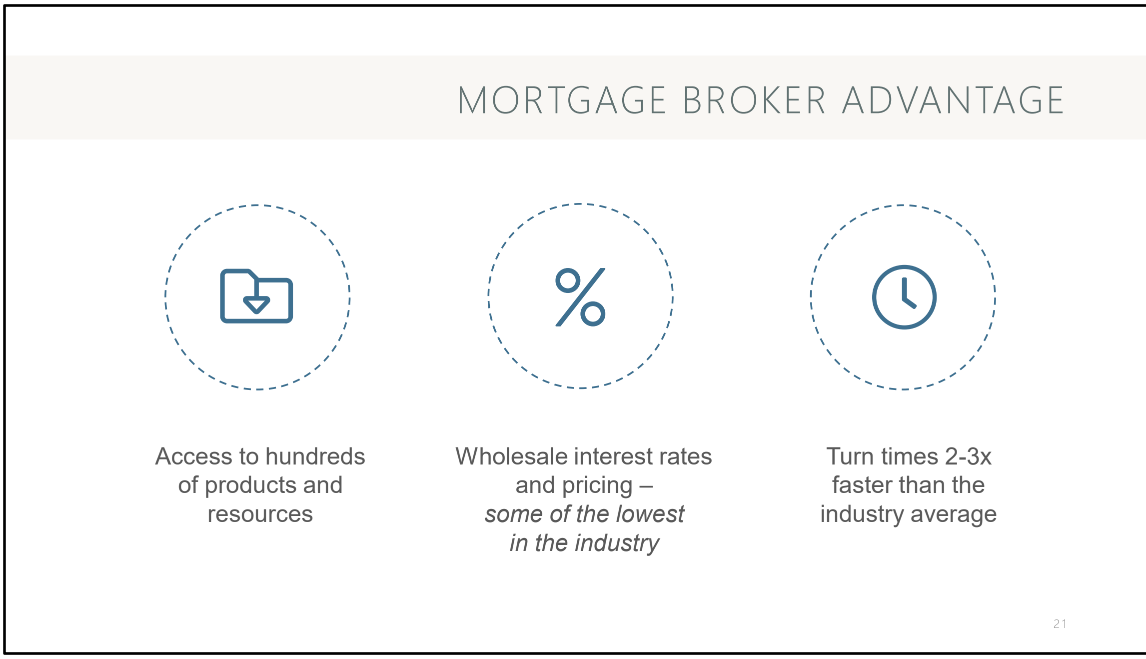
Calculating Cash to Close breaks out the total closing costs less down payment, deposit and any seller concessions and lender credits.

The comparisons section details the amount of principal, interest, mortgage insurance, and loan costs in five years versus the principal that has been paid.

The annual percentage rate (APR) is the costs over the loan term expressed as a rate. This is not the same as the interest rate. APR is the annual cost of a loan to a borrower including fees. The fees included are mortgage insurance, some closing costs, discount points, and origination fees.

The total interest percentage (or TIP) is the total amount of interest that will be paid over the loan term as a percentage of the loan amount. This is the amount of interest that will be paid over 30 years (or whatever the loan term is) and calculates what percentage of the original loan amount that will be paid in interest.

The Other Considerations section tells the borrower that an appraisal is required, whether the loan is assumable to a new buyer, that homeowner’s insurance is required, that there will be a late fee if the mortgage is not paid within 15 days from the due date, that refinancing is subject to loan approval, and whether the loan will be serviced by someone other than the original lender.



Why choose a mortgage broker over a bank? Mortgage brokers are not restricted by only having access to in house lending offerings. There are a wide variety of products available to meet borrower's restrictions. Mortgage brokers can typically work with clients who have lower credit scores and higher debt to income ratios, where banks have underwriting overlays that are more restrictive.

Mortgage brokers typically have better interest rates than banks and turn times are 2-3 times faster than the industry average.

REVIEW OBJECTIVE 6

1. The real estate agent will understand the loan process from initial application to closing.

BREAK – 10 MINUTES

LENDING PRODUCTS

Conventional

- Credit Score: Low 600s
- DTI: max 50%
- Mortgage Insurance (MI): < 20% down payment; goes by credit score and DTI ratio; cancel after 20% equity
- Occupancy: primary residence up to 4 units; second home; investment
- Property Types: single family, planned urban development (PUD), condo, modular/manufactured homes
- Loan Limit: conforming limits published annually (over limit is considered jumbo)

Occupancy	Units	Down Payment
Primary Residence	1	3% (1st time) / 5%
Primary Residence	2-4	5%
Second Home	1	10%
Investment Property	1	15%
Investment Property	2-4	25%

Seller Concessions	
Primary/Secondary <10%	3%
Primary/Secondary 10-25%	6%
Primary/Secondary >25%	9%
Investment	2%

23

Conventional loans are the most popular loan product. The minimum credit score for a conventional loan is in the low 600s, and the maximum back-end DTI ratio is 50%. Conventional loans with less than 20% down payment are required to have mortgage insurance (MI) that is determined by the borrower's credit score and DTI ratio. MI can be canceled once there is 20% equity paid into the principal, or if the property has appreciated 20% equity which can be proven by providing an appraisal report ordered by the borrower. The appraisal can be furnished to the mortgage servicer to remove the MI.

Conventional loans can be used to purchase up to a 4-unit property as a primary residence, second home, or investment property. Conventional loans allow single family, planned urban development (PUD), condo, modular, and manufactured homes.

Conventional loan limits are published and typically increase annually. Loan over the conforming limit are considered a jumbo product.

Minimum down payments are determined by property use and unit amounts. A single unit primary residence minimum down payment is 3% for first time homebuyers, and 5% for non first-time homebuyers. A 2-4 unit primary residence minimum down payment is 5%. Conventional loans only allow a single-unit property for second homes and require 10% down payment. The minimum down payment for a single unit investment property is 15%, and 25% for a 2-4 unit investment property. Seller concessions are allowed at 3% of the purchase price for primary and secondary homes with down payments less than 10%. Concessions of 6% are allowed for primary and secondary homes with down payments between 10% and 25%. Concessions of 9% are allowed for primary and secondary homes with down payments greater than 25%. Investment properties are allowed 2% seller concessions regardless of down payment amount.

LENDING PRODUCTS

FHA

- Credit Score: mid to high 500s
- DTI: max 55%
- Down Payment: 3.5% for 1st time homebuyer; 5%
- Assumable
- Mortgage Insurance: can be for life of loan
- Occupancy: primary residence only
- Property Types: 1-4 units, PUDs, condo (on FHA approved list), modular/manufactured homes
- Seller Concessions: Max 6%
- Second lien financing for down payment

Down Payment	MIP	How Long?
> 10%	50%	11 years
5-10%	50%	Life of Loan
<5%	55%	Life of Loan

24

FHA minimum credit score is in the mid to high 500s, and the maximum back-end DTI ratio is 55%.
Minimum down payments are 3.5% for first time homebuyers and 5% for non first-time homebuyers. These down payment amounts are for property sizes from 1-4 units.
FHA loans are assumable and can potentially be assumed by a new buyer.
All FHA loans are required to pay mortgage insurance premiums (MIP) regardless of down payment amount. MIP rates are published and are changed periodically. FHA stipulates 50% MIP for 11 years if the borrower contributes greater than 10% down payment. If the down payment is between 5 and 10%, the MIP is 50% for the life of the loan. If the down payment is less than 5%, the MIP is 55% for the life of the loan. MIP can only be canceled by refinancing the loan into a conventional loan or other loan product.
FHA loans can be used to purchase up to a 4-unit property as a primary residence.
FHA loans allow single family, planned urban development, condos on the FHA approved list, modular, and manufactured homes.
Single family FHA loan limits are published and typically increase annually.
Seller concessions are allowed at 6% of the purchase price regardless of down payment amount.

Second lien down payment financing is available for FHA loans.

LENDING PRODUCTS

VA

- Credit Score: high 500s
- DTI: none; based on residual income
- Down Payment: 0%
- Assumable
- Occupancy: primary residence only
- Property Types: 1-4 units, PUDs, condo (on VA approved list), modular/manufactured homes
- Seller Concessions: Max 4%
- Loan limit published

25

VA loans are available to veterans who qualify for entitlement. The minimum credit score for a VA loan is in the high 500s, and the maximum back-end DTI ratio is not defined.
A down payment is not required for VA loans.
VA loans are assumable by other veterans with entitlement.
VA loans are for primary residences only and can be used to purchase up to a 4-unit property. VA loans allow planned urban development, condos on the VA approved list, modular, and manufactured homes
Seller concessions are allowed at 4% of the purchase price.
The VA loan limit is published and typically increases annually.

LENDING PRODUCTS

USDA

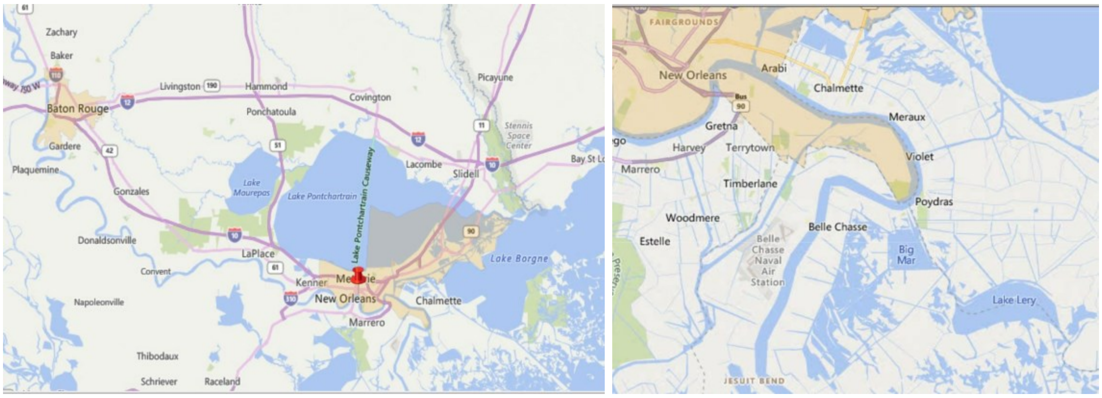
- Credit Score: low 600s
- DTI: 29%/41%
- Down Payment: 0%
- Monthly MI: 0.35% of outstanding principal balance
- Occupancy: primary residence only
- Property Types: 1 unit, PUDs, condo, modular/manufactured homes
- Seller Concessions: Max 6%
- Loan limit published
- Income limit published

26

USDA minimum credit score is in the low 600s, with a maximum front-end DTI ratio of 29% and back-end DTI ratio of 41%.
A down payment is not required for USDA loans.
All USDA loans are required to pay .35% MI on the outstanding principal balance.
USDA loans can be used to purchase a primary residences only. USDA loans allow single family, planned urban development, modular, and manufactured homes.
The USDA loan limit is published and typically updated annually
Seller concessions are allowed at 6% of the purchase price.
USDA has strict income limits set for all individuals who will occupy the house. The income limit is published by family size and typically is updated annually. USDA is intended to incentivize people to move away from urban areas into rural areas so there are location eligibility restrictions for USDA loans.

LENDING PRODUCTS

USDA Eligibility Areas



27

USDA eligibility must be determined by address, but local eligibility excludes Baton Rouge, Orleans and Jefferson Parishes (with the exception of south of Oakwood Mall on the Westbank in Jefferson Parish). This can be accessed easily online by searching for “USDA eligibility map”

LENDING PRODUCTS

Jumbo

- Credit Score: high 600s
- DTI: 45%
- Down Payment: 10-20%
- Occupancy: primary/second home/investment
- Property Types: 1-2 units
- Seller Concessions: Max 4%
- Loan Minimum & Maximum published and updated annually

Jumbo loans are designed for borrowers who are purchasing homes that exceed the conventional conforming loan limit. The minimum credit score for a jumbo loan is in the high 600s, and the maximum back-end DTI ratio is 45%.
The minimum and maximum loan sizes are published and typically increase annually.
Down payments are between 10% and 20%.
Jumbo loans can be used to purchase 1-2 unit properties as a primary residence, second home, or investment property.
Seller concessions are allowed at 4% of the purchase price regardless of down payment amount.

LENDING PRODUCTS

One Time Close New Construction (Conventional or VA)

- Credit score: low 700s
- Down Payment: 5%/10%/15%
- Occupancy: primary/second home/investment
- Property Types: 1-4 units
- Loan Max: conforming conventional loan limit
- One closing with modification at completion; interest rate capped on permanent loan with float down option
- Interest only during construction then fixed rate at completion
- Borrower chooses contractor; lender verifies

29

One time (OTC) new construction loans are designed for borrowers who are purchasing land and building homes on the land.
The minimum credit score for a OTC construction loan is in the low 700s, and the maximum back-end DTI ratio is 50%.
Down payment minimums are 5% for a primary residence, 10% for a second home, and 15% for an investment property.
Property types of 1-4 units is allowed.
The maximum loan size is the same as the conforming conventional limit and is typically updated annually.
Loans are initially locked with capped interest rates on the permanent loan that can be floated down if the market adjusts. The loan is closed one time and starts off as interest-only during construction. The loan is modified to a permanent fixed-rate loan at completion.
The borrower is able to choose their contractor, and the lender will verify that the contractor is qualified. There are additional fees associated with the loan for progress inspections required to release funds according to project milestones.

LENDING PRODUCTS

Conventional Renovation

- Credit Score: low 600s
- Down Payment: 3%/5%
- Occupancy: primary/second home
- Property Types: 1-4 units
- Loan Max: conforming conventional max; up to 75% of as completed value
- Interest rate locked at closing
- Borrower chooses contractor; lender verifies; limited DIY scenarios
- Completion in 12 months

Conventional renovation loans are designed for borrowers who are renovating primary residences or second homes.
The minimum credit score for a conventional renovation loan is in the low 600s, and the maximum back-end DTI ratio is 50%.
Down payment minimums are 3% for a first-time homebuyer primary residence and 5% for a second home or non first-time homebuyer.
Property types of 1-4 units is allowed with 15% down payment required for 2-4 unit properties.
The maximum loan size is the same as the conforming conventional limit and is typically updated annually, and up to 75% of as-completed value.
The borrower is able to choose their contractor, and the lender will verify that the contractor is qualified to complete the work. There are additional fees associated with the loan for progress inspections required to release funds according to project milestones.
There are limited do-it-yourself scenarios.
The renovation can include luxury upgrades such as pools or outdoor kitchens.
The renovation must be completed in one year.

LENDING PRODUCTS

FHA 203(k) Renovation

- Credit Score: high 500s
- Down Payment: 3.5%/5%
- Occupancy: primary home only
- Property Types: 1-4 units
- Standard vs Limited 203(k)
- Must be completed in 6 months
- Interest rate locked at closing
- Borrower chooses contractor
- DIY – maybe?

31

FHA 203(k) renovation loans are designed for borrowers who are repairing or renovating primary residences only.
The minimum credit score for a 203k renovation loan is in the high 500s, and the maximum back-end DTI ratio is 55%.
Down payment minimums are 3.5% for a first-time homebuyer, and 5% for non first-time homebuyers.
Property types of 1-4 units is allowed.
Single family FHA loan limits are published and typically increase annually.
A standard 203(k) provides financing for major repairs or renovations with a minimum repair amount of $5,000 and no set maximum amount. Loan amounts are up to 110% of the home's after improved appraised value. A HUD-approved consultant must be hired.
A limited 203(k) allows homeowners to finance up to $35,000 to repair or renovate their home. Loan amounts are up to 110% of the home's after improved appraised value. Up to six months of mortgage payments may be included in the loan. A HUD consultant is not required. The renovation must be completed in six months and luxury upgrades are not allowed.
DIY is only allowed if the borrower is skilled and licensed to do the work. Lender overlays may not allow. Borrower chooses their own contractor to perform the work.

LENDING PRODUCTS

NOLA CDBG Down Payment Assistance

- FHA or Conventional
- Down payment assistance up to $55,000; closing cost assistance up to $5,000
- Primary single-family home only
- First-time homebuyers only
- 80% median family income (MFI) limits including all members of household
- Homebuyer education required
- Takes 60 days to close; city inspection
- Max purchase price $324,000
- Strict DTI limits 29-33%

32

New Orleans CDBG down payment assistance is a 10-year amortized soft second loan. CDGB offers a maximum $55,000 down payment assistance. The downpayment amount is required to be paid back in full if the borrower sells the home before year five. If the borrower sells the home between years five and 10 then the amount is prorated. If the borrower sells the home after year ten, then they do not have to pay anything back. The city also provides $5,000 in closing cost assistance if the borrower has less than 12 months of proposed household payment as liquid assets.

Only first-time homebuyers purchasing primary single-family residences qualify for NOLA CDBG assistance.

Borrowers must have income below HUD 80% median family income (or MFI) limits as determined by total household resident's income.

Homebuyer education is required and can be taken online or in-class, both for a fee.

It takes a minimum of 60 days to close a NOLA CDBG loan, and the city completes their own inspection of the property which is similar to an FHA appraisal.

The maximum purchase price is $324,000

The city is strict on the DTI ratio and requires the front-end ratio be between 29-33% and the maximum back-end DTI ratio is 48%.

LENDING PRODUCTS

Non-Qualified Mortgage (Non-QM): Bank Statement

- Credit Score: high 600s
- Down Payment: 10% - 25%
- Occupancy: primary/second home/investment
- Property Types: 1-4 units, condos (including. non-warrantable), townhome, PUD
- Reserves: 6-12 months
- 12 months personal or business bank statements (average deposits)

33

A non-qualified mortgage (or Non-QM) is a mortgage product that does not go by conventional guidelines. These types of loans come with less restrictions, but higher interest rates. During mortgage recessions these products will typically be withdrawn from the market because they are riskier and less likely to be purchased on the secondary market. Bank statement loans are a type of Non-QM loan where business owner's bank statements are used to calculate qualifying income instead of using traditional tax returns. These products require credit scores in the upper 600s, down payments ranging from 10-25% depending on whether the property is a primary residence, second home, or investment. Property types allowed are up to four units, condos, townhomes, and PUDs. These loans usually require reserves. Typically, 12 months of bank statements are reviewed, and all allowable business deposits are averaged to calculate the qualifying monthly income. Personal or business bank statements are allowed.

LENDING PRODUCTS

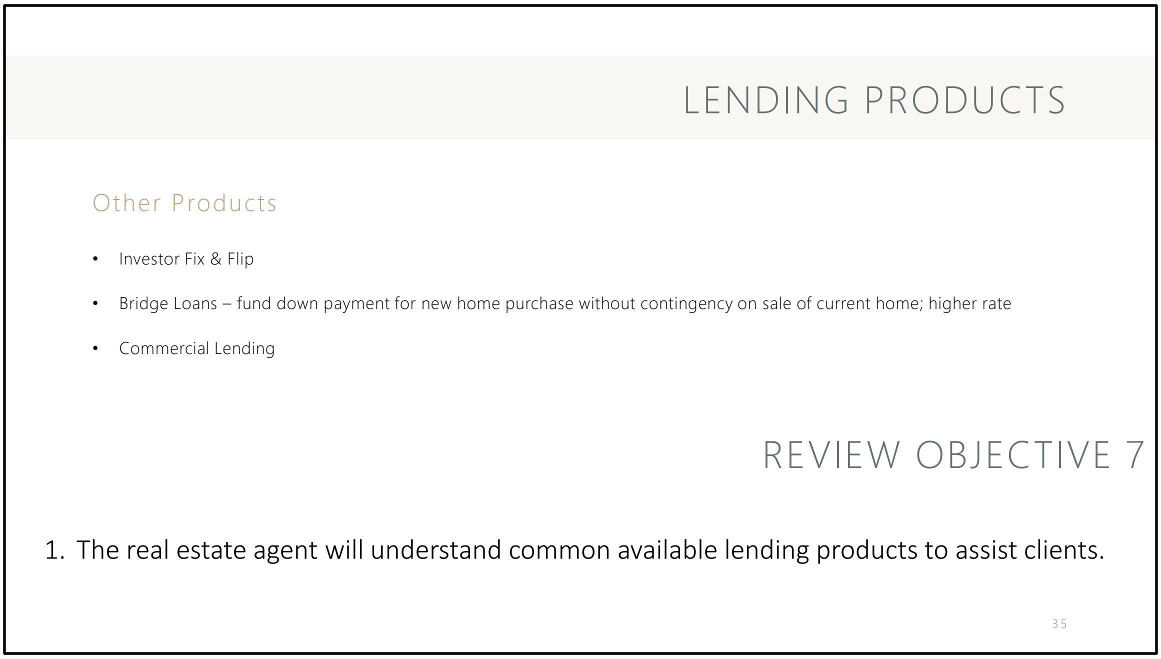
Non-QM: Debt Service Coverage Ratio (DSCR)

- Credit Score: high 600s
- Down Payment: 20% - 40%
- Investment only
- Property types: 1-4 units, condos (including. Non-warrantable), townhome, PUD
- Reserves: 3-6 months
- Minimum Ratio: 1% or no ratio
- Short-term rental (STR) can be used

Gross Rents ÷ PITIA = DSCR Ratio

34

A Debt Service Coverage Ratio (or DSCR) loan is used for income producing investment properties. They are based on the cash flow the property will generate instead of the borrower's monthly income. These types of loans do not require any tax returns, paystubs, or any income documentation. They typically require a credit score in the upper 600s and a down payment of 20% or more. They are for investments only and can be up to 4-units, condos, or townhomes. These loans typically require the borrower to have reserves and a minimum debt ratio which is calculated as the gross rents divided by the principal, interest, taxes, insurance, and homeowner's association fees. Most loans require a ratio of 1% or higher. Short-term rental (STR) loans use cash flow to qualify for the loan.



Investor fix and flip lending products are for seasoned flippers who are needing a short-term loan between six months and one year to flip a 1-4 unit property. These products usually require a credit score in the mid-600s and 25% down payment. Typically, the more flips the investor has done, the better interest rates will be offered. The goal is for these loans to be paid back as soon as possible and there aren't usually prepayment penalties.

A bridge loan is a short-term loan taken out while long-term financing is arranged. This usually allows a borrower to cover the down payment for a new home without selling the current home.

Commercial lending applies to properties over 4-units. These loans typically have down payments between 20-25% and some have riskier features such as balloons requiring the remaining mortgage balance be paid in a set number of years (for example 3 or 5) and prepayment penalties.

QUESTIONS & COMMENTS

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