Ethics: Navigating a Moral Compass

And Fraud Awareness
June 2018
Ethics

Outline:

– Define ethics
– Discuss the importance of and differences between acting ethically, legally and prudently
– Develop tools to assist in making ethical decisions
– Apply those tools to an examination of ethical lapses in the mortgage industry over the past few years
– Help each person develop a personal code of ethics to use in mortgage lending
What Does “Ethics” Mean?

– Define what “ethics” means to you

Write a 25 word (or less) statement below
“Ethics is a code of values which guide our choices and actions and determine the purpose and course of our lives.”

- Ayn Rand
Charting Your Ethical Map

Are your ethics based on actions or consequences?

– **Actions:**
  • The action dictates if something is ethical

– **Consequences:**
  • The common good dictates if something is ethical
Charting Your Ethical Map

Reasoning vs Rationalization

- **Reasoning:**
  - Running facts through an ethical decision making process to arrive at a course of action

- **Rationalization:**
  - Finding reasons to support a course of action that was already decided
Map of Ethical Decision Making

1. Is this a decision which requires ethical consideration?
   - NO
   - YES

2. Under which of your ethical standards does the action align?
   - If necessary, write a new ethical standard.

3. If your ethics are action based, would your actions violate your ethics?
   - NO
   - YES

4. If your ethics are consequential, would the balance of the action’s consequences upon others be negative?
   - NO
   - YES

5. Is desensitization influencing decision making? Rationalization?
   - NO
   - YES

6. The action is not ethical, do not proceed.
   - If the action is prudent and legal, proceed.
Charting Your Ethical Map

There’s more to life than ethics

– Decisions must be:
  • Ethical
  • Legal
  • Prudent

– This class only deals with ethical considerations
– Remember to consider legality and prudence in all decisions
– The best course of action is that which is legal, prudent, and ethical
Charting Your Ethical Map

Ethical Lapses and the Role of Desensitization

– Three Big Transgressions:
  • Deceive
  • Steal
  • Harm

– Were there examples of these in mortgage lending over the past few years?

– Did desensitization play a role in allowing this to happen?
  • “If I don’t do it, the LO down the street will.”
  • “As long as the lender allows it, it must be okay.”
  • “It will be fine as long as property values keep increasing.”

– Can you think of any specific instances over the past few years in which desensitization allowed you to do something you regret?
Developing Positive Ethical Standards

- Professionalism
- Integrity and Confidentiality
- Public Trust
- Fiduciary Responsibility
- Disclosure
- Conflict of Interest

- Legal Compliance
- Non-Discrimination
- Honesty in Advertising
- Sanctity of Agreements
- Competition
- Other
Developing Positive Ethical Standards

Professionalism

– Conforming to the standards of a profession
– Having or showing great skill; expert

Source: Dictionary.com
Developing Positive Ethical Standards

Integrity and Confidentiality

– Integrity
  • Adherence to moral and ethical principles; soundness of moral character; honesty

– Confidentiality
  • Spoken, written, acted on, etc. in strict privacy or secrecy; secret
  • Having another’s trust or confidence; entrusted with secrets or private affairs

Source: Dictionary.com
Developing Positive Ethical Standards

Public Trust
– Trust
  • Reliance on the integrity, strength, ability, surety, etc. of a person or thing; confidence

Source: Dictionary.com
Developing Positive Ethical Standards

Fiduciary Responsibility
– One person places complete confidence in another in regard to a particular transaction or one’s general affairs or business
– …can be one of moral or personal responsibility due to the superior knowledge and training of the fiduciary as compared to the one whose affairs the fiduciary is handling

Source: dictionary.law.com
Developing Positive Ethical Standards

Disclosure

– The act or an instance of disclosing; exposure; revelation
– The need in business transactions to tell the “whole truth” about any matter which the other party should know in deciding to buy or contract

Source: Dictionary.com
Developing Positive Ethical Standards

Conflict of Interest

– A situation in which a person has a duty to more than one person or organization, and cannot do justice to the actual or potentially adverse interest of both parties
– This includes when an individual’s personal interests or concerns are inconsistent with what is best for a customer
– Many professionals must avoid even the appearance of conflict
Developing Positive Ethical Standards

Legal Compliance

– Legal compliance is doing (or not doing) something (i.e. acting) in accordance with the law and rules and regulations of the law which covers the particular activity

Source: Dictionary.com
Developing Positive Ethical Standards

Non-Discrimination

– Discrimination:
  • Treatment or consideration of, or making a distinction in favor of or against, a person or thing based on the group, class, or category to which that person or thing belongs rather than on individual merit

Source: Dictionary.com
Developing Positive Ethical Standards

Honesty in Advertising

– Honest:
  • Marked by or displaying integrity; upright: *an honest lawyer*
  • Not deceptive or fraudulent; genuine: *honest weight*
  • Equitable; fair: *honest wages for an honest day’s work*

– Advertising:
  • The activity of attracting public attention to a product or business, as by paid announcements in the print, broadcast, or electronic media

*Source: Dictionary.com*
Developing Positive Ethical Standards

Sanctity of Agreements

– Sacred:
  • Hence, not to be profaned or violated; inviolable

– Agreement:
  • A binding arrangement between two or more parties

Source: Dictionary.com
Developing Positive Ethical Standards

Competition
– Rivalry between two or more businesses striving for the same customer or market

Source: Dictionary.com
Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender’s assistance. Applicants should complete this form as “Borrower” or “Co-Borrower,” as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when ☐ the income or assets of a person other than the Borrower (including the Borrower’s spouse) will be used as a basis for loan qualification or ☐ the income or assets of the Borrower’s spouse or other person who has community property rights pursuant to state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person has community property rights pursuant to applicable law and Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Co-Borrower</th>
</tr>
</thead>
</table>

I. TYPE OF MORTGAGE AND TERMS OF LOAN

<table>
<thead>
<tr>
<th>Mortgage Applied for:</th>
<th>□ VA</th>
<th>□ Conventional</th>
<th>□ USDA/Rural Housing Service</th>
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<tbody>
<tr>
<td>□ FHA</td>
<td>□ Other (explain):</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agency Case Number</th>
<th>Lender Case Number</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Amount $</th>
<th>Interest Rate %</th>
<th>No. of Months</th>
<th>Amortization Type:</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>□ Fixed Rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>□ Other (explain):</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>□ GPM</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>□ ARM (type):</td>
</tr>
</tbody>
</table>

IX. ACKNOWLEDGEMENT AND AGREEMENT

Each of the undersigned specifically represents to Lender and to Lender’s actual or potential agents, brokers, processors, attorneys, insurers, servicers, successors and assigns and agrees and acknowledges that: (1) the information provided in this application is true and correct as of the date set forth opposite any signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.; (2) the loan requested pursuant to this application (the “Loan”) will be secured by a mortgage or deed of trust on the property described in this application; (3) the property will not be used for any illegal or prohibited purpose or use, (4) all statements made in this application are made for the purpose of obtaining a residential mortgage loan; (5) the property will be occupied as indicated in this application; (6) the Lender, its servicers, successors or assigns may retain the original and/or an electronic record of this application, whether or not the Loan is approved; (7) the Lender and its agents, brokers, insurers, servicers, successors, and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented herein should change prior to closing of the Loan; (8) in the event that my payments on the Loan become delinquent, the Lender, its servicers, successors or assigns may, in addition to any other rights and remedies that it may have relating to such delinquency, report my name and account information to one or more consumer reporting agencies; (9) ownership of the Loan and/or administration of the Loan account may be transferred with such notice as may be required by law; (10) neither Lender nor its agents, brokers, insurers, servicers, successors or assigns has made any representation or warranty, express or implied, to me regarding the property or the condition or value of the property; and (11) my transmission of this application as an “electronic record” containing my “electronic signature,” as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or my facsimile transmission of this application containing a facsimile of my signature, shall be as effective, enforceable and valid as if a paper version of this application were delivered containing my original written signature.

Acknowledgement. Each of the undersigned hereby acknowledges that any owner of the Loan, its servicers, successors and assigns, may verify or reverify any information contained in this application or obtain any information or data relating to the Loan, for any legitimate business purpose through any source, including a source named in this application or a consumer reporting agency.

<table>
<thead>
<tr>
<th>X</th>
<th>Date</th>
<th>Co-Borrower’s Signature</th>
<th>Date</th>
</tr>
</thead>
</table>

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Uniform Residential Loan Application

Verify and complete the information on this application. If you are applying for this loan with others, each additional Borrower must provide information as directed by your Lender.

Section 1: Borrower Information. This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

1a. Personal Information
Name (First, Middle, Last, Suffix)
Social Security Number (or Individual Taxpayer Identification Number)
Alternate Names – List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix)

Section 6: Acknowledgments and Agreements. This section tells you about your legal obligations when you sign this application.

Acknowledgments and Agreements
I agree to, acknowledge, and represent the following statements to:
• The Lender (this includes the Lender’s agents, service providers and any of their successors and assigns); AND
• Other Loan Participants (this includes any actual or potential owners of a loan resulting from this application (the “Loan”), or acquirers of any beneficial or other interest in the Loan, any mortgage insurer, guarantor, any servicers or service providers of the Loan, and any of their successors and assigns).

By signing below, I agree to, acknowledge, and represent the following statements about:

1) The Complete Information for this Application
• The information I have provided in this application is true, accurate, and complete as of the date I signed this application.
• If the information I submitted changes or I have new information before closing of the Loan, I must change and supplement this application or any real estate sales contract, including providing any updated/supplemented real estate sales contract.
• For purchase transactions: The terms and conditions of any real estate sales contract signed by me in connection with this application are true, accurate, and complete to the best of my knowledge and belief. I have not entered into any other agreement, written or oral, in connection with this real estate transaction.
• The Lender and Other Loan Participants may rely on the information contained in the application before and after closing of the Loan.
• Any intentional or negligent misrepresentation of information may result in the imposition of:
  (a) civil liability on me, including monetary damages, if a person suffers any loss because the person relied on any misrepresentation that I have made on this application, and/or
  (b) criminal penalties on me including, but not limited to, fine or imprisonment or both under the provisions of federal law (18 U.S.C. §§ 1001 et seq.).

2) The Property’s Security
• The Loan I have applied for in this application will be secured by a mortgage or deed of trust which provides the Lender a security interest in the property described in this application.

3) The Property’s Appraisal, Value, and Condition
• Any appraisal or value of the property obtained by the Lender is for use by the Lender and Other Loan Participants.
• The Lender and Other Loan Participants have not made any representation or warranty, express or implied, to me about the property, its condition, or its value.

4) Electronic Records and Signatures
• The Lender and Other Loan Participants may keep any paper record and/or electronic record of this application, whether or not the Loan is approved.
• If this application is created as (or converted into) an “electronic application”, I consent to the use of “electronic records” and “electronic signatures” as the terms are defined in and governed by applicable federal and/or state electronic transactions laws.
• I intend to sign and have signed this application either using:
  (a) electronic signature; or (b) a written signature and agree that if a paper version of this application is converted into an electronic application, the application will be an electronic record, and the representation of my written signature on this application will be my binding electronic signature.
• I agree that the application, if delivered or transmitted to the Lender or Other Loan Participants as an electronic record with my electronic signature, will be as effective and enforceable as a paper application signed by me in writing.

5) Delinquency
• The Lender and Other Loan Participants may report information about my account to credit bureaus. Late payments, missed payments, or other defaults on my account may be reflected in my credit report and will likely affect my credit score.
• If I have trouble making my payments I understand that I may contact a HUD-approved housing counseling organization for advice about actions I can take to meet my mortgage obligations.

6) Use and Sharing of Information
I understand and acknowledge that the Lender and Other Loan Participants can obtain, use, and share the loan application, a consumer credit report, and related documentation for purposes permitted by applicable laws.
Legal Disclaimer

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