Compliance as a differentiator

QUALIFIED MORTGAGE

CFPB, an independent agency responsible for ensuring consumer protection for financial services products in the United States, issued a final rule to implement laws requiring mortgage lenders to consider a consumer's ability to repay home loans before extending credit to him or her. This ruling was imposed to avoid another "mortgage crisis" in which the CFPB believed too many mortgages were made to consumers without regard to the consumer's ability to repay the loans. During this time, consumers were not fully informed of the implications of undertaking a loan they could not afford. However, through the laws enacted by the CFPB, as well as personal experiences where so many consumers lost their homes, today's mortgage customer is much more informed and empowered to make wiser decisions. The final rule contains a series of criteria that must be met in order for a mortgage to be considered a Qualified Mortgage. The rule includes a more stringent evaluation of factors, such as the "Ability-to-Repay Determinations," which requires underwriters to evaluate at least eight underwriting factors. The final rule provides a safe harbor for loans that satisfy the definition of a Qualified Mortgage and are not "higher priced," based on the CFPB's original 2008 rule.

The rule, that went into effect on Jan. 10, 2014, requires mortgage lenders to adopt and execute on predefined Qualified Mortgage guidelines in an expedited manner. With final criteria coming out as late as October 2013, implementing significant changes in financial institutions' underwriting and loan processes by the effective date with very little relevant information to make such changes was challenging. Mortgage lenders have a lot of factors to evaluate to determine to whom and what type of mortgage loan should be offered to their customer. Balancing the demands of the CFPB ruling, while also still favorably servicing the consumer, is a dichotomous demand on mortgage loan providers.

These evaluative factors, however, are helpful for financial institutions as they begin to implement new products and processes that both meet the requirements of the CFPB's ruling and create opportunities for the consumer to get a competitively priced mortgage loan. Implementation of new underwriting criteria, using predefined guidelines, will allow lenders to establish terms that are fair and consistent for consumers, resulting in increased consumer confidence. Increased consumer confidence can increase the demand for mortgage loans, driving mortgage volume and revenue. Therefore, beyond simply complying with

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