Mortgage sections of Dodd-Frank to affect small banks’ lending ability

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Marcy Misner/Amy

Mortgage—wrap—

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Under a new law that takes effect this month, homebuyer can – in certain situations- sue their mortgage lender. If their mortgage exceeds a certain percentage of their income, borrower will be allowed to sue the bank that issued them the mortgage.

Marcy Misner reports.

The change takes effect this month under mortgage rules of the Dodd–Frank Wall Street Reform and Consumer Protection Act.

Under the law, banks that issue mortgages to certain homebuyers may face lawsuits from those borrowers within the first 3 years of their home loan.

Some economists argue that the 2008 economic collapse was the result of poor financial regulation; others say the crisis was a result of the government’s own housing policies.

Either way, changes will affect the way some banks issue mortgages.

John Allison is senior vice president at Central Savings Bank in Sault Ste. Marie. He says under the new regulations, customers looking for a new mortgage must have no more than 43% of a debt to their gross monthly income ratio.

**If they exceed that 43% they no longer have what’s called a qualified mortgage. If banks choose to do mortgages that are not qualified, they have the potential to be sued during the first three years of that customer’s loan. The bank would be required to pay all interest, fees, their attorney fees.. (:24)**

Allison says the mortgages can still be sold in a secondary market. The law does not affect current homeowners.

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Mortgage sections of Dodd-Frank to affect small banks’ lending ability

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Marcy Misner/Amy

Mortgage—1—

(:41)

Any time within the first three years of a new mortgage, a customer will now have the right to take their bank to court if their mortgage doesn’t meet guidelines under a new law set to take effect this month.

Depending on a judge’s ruling, a bank can now be liable to pay interest and fees under the Dodd–Frank Wall Street Reform and Consumer Protection Act.

John Allison is senior vice president at Central Savings Bank in Sault Ste. Marie. He said the law is a response to a financial crisis which caused the government to bail out large banks like Lehman Brothers and Bank of America.

**They are coming about as a result of the crash in 2008. it’s come through there where the secondary market and others had stated income loans. You came in and you told me you made $20,000 a month and you had great credit, I didn’t have to verify anything. So they came about because of lax practices within the industry itself. Now, a bank like ours, we’ve never done that. We’ve always done what this new rule is requiring us to do. so for us, it’s not a huge change. Other than we are going to have some customers who we’ve lent money to in the past, we’re going to have a difficult time doing a mortgage for if they go above that 43%. (:41)**

That 43% is a customer’s ratio of debt to gross monthly income. The law states that number is the maximum level of debt that a bank should be putting a customer into. A bank can still issue a mortgage to someone with more debt under other rules.

Mortgage sections of Dodd-Frank to affect small banks’ lending ability

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Marcy Misner/Amy

Mortgage—2—

(:25)

Several changes to mortgage rules are taking effect this month.

They’re part of the Dodd–Frank Wall Street Reform and Consumer Protection Act, commonly called Dodd-Frank.

John Allison is senior vice president at Central Savings Bank in Sault Ste. Marie.

He says now, a customer coming in for a new mortgage must have no more than 43% of a debt to their gross monthly income ratio. That new rule; called a qualified mortgage is one of many changes under Dodd-Frank.

**The biggest one is the qualified mortgage. They have minor stuff on servicing loans, on appraisal rules, and then the other, probably bigger one is the ability to repay and that ties in to the qualified mortgage and it just spells out more or less how you have to verify somebody’s income and their debts, which as a small community bank, we’ve always done. (:25)**

The new Dodd-Frank rules are intended to be a response to the housing and financial collapse in 2008 which caused the government to bail out large banks like Lehman Brothers, which were quote ‘too big to fail.’

It was signed by President Barack Obama in 2010. The measure is intended to raise accountability and transparency in the financial system.

Some people argue Dodd-Frank strangles the U.S. financial system with too many regulatory restrictions.

John Allison

WEB Version

Several changes to mortgage rules are taking effect this month.

They’re part of the Dodd–Frank Wall Street Reform and Consumer Protection Act, commonly called Dodd-Frank.

Under one new part of the law that takes effect this month, homebuyer can – in certain situations- sue their mortgage lender. If their mortgage exceeds a certain percentage of their income, borrower will be allowed to sue the bank that issued them the mortgage.

Depending on a judge’s ruling, a bank can now be liable to pay interest and fees to a borrower within the first 3 years of a new loan if the bank issues a mortgage outside certain parameters.

Some economists argue that the 2008 economic collapse was the result of poor financial regulation; others say the crisis was a result of the government’s own housing policies.

Either way, changes will affect the way some banks issue mortgages.

John Allison is senior vice president at Central Savings Bank in Sault Ste. Marie. He says under the new regulations, customers looking for a new mortgage must have no more than 43% of a debt to their gross monthly income ratio.

That new rule, called a qualified mortgage, is one of many changes under Dodd-Frank.

“If they exceed that 43% they no longer have what’s called a qualified mortgage. If banks choose to do mortgages that are not qualified, they have the potential to be sued during the first three years of that customer’s loan. The bank would be required to pay all interest, fees, their attorney fees,” Allison explained.

Allison says the mortgages can still be sold in a secondary market. The law does not affect current homeowners.

He said the law is a response to a financial crisis which caused the government to bail out large banks like Lehman Brothers and Bank of America.

“They are coming about as a result of the crash in 2008. it’s come through there where the secondary market and others had stated income loans. You came in and you told me you made $20,000 a month and you had great credit, I didn’t have to verify anything. So they came about because of lax practices within the industry itself. Now, a bank like ours, we’ve never done that. We’ve always done what this new rule is requiring us to do. so for us, it’s not a huge change. Other than we are going to have some customers who we’ve lent money to in the past, we’re going to have a difficult time doing a mortgage for if they go above that 43%,” Allison said.

The law states that number is the maximum level of debt that a bank should be putting a customer into. A bank can still issue a mortgage to someone with more debt under other rules.

There are other changes under the Dodd-Frank law.

“The biggest one is the qualified mortgage. They have minor stuff on servicing loans, on appraisal rules, and then the other, probably bigger one is the ability to repay and that ties in to the qualified mortgage and it just spells out more or less how you have to verify somebody’s income and their debts, which as a small community bank, we’ve always done,” Allison said.

The new Dodd-Frank rules are intended to be a response to the housing and financial collapse in 2008 which caused the government to bail out large banks like Lehman Brothers, which were ‘too big to fail.’

Signed by President Barack Obama in 2010, the measure is intended to raise accountability and transparency in the financial system.

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