

# Mortgage rules



## What the new CFPB mortgage rules mean for families and homeowners

Beginning in January 2014, some new CFPB rules will provide homeowners and consumers shopping for a home mortgage with new rights and greater protection from harmful practices. These rules should eliminate or sharply reduce the runarounds and painful surprises that hurt so many homeowners during and after the financial crisis.

### Safer mortgages with fewer surprises

Virtually every mortgage a lender makes must now be evaluated based on the borrower's ability to repay that loan. That means the borrower should be able to repay the loan for many years, not just during the first few months when an initial "teaser" interest rate may keep the monthly payment low.

Lenders can determine a borrower's ability to repay a loan by considering factors like the borrower's income, assets, debts, and credit history.

The CFPB rules also define a new class of mortgages for which borrowers who qualify are presumed to be able to repay. These mortgages are called "Qualified Mortgages" or "QMs." QMs are designed to be safer and easier to understand than many of the loans consumers got in the lead-up to the financial crisis. Any lender who wants to make a Qualified Mortgage will have to follow common sense rules:

- **A Qualified Mortgage is a loan a borrower should be able to repay.** Beginning on January 10, 2014, lenders making virtually any residential mortgage loan will have to assess a borrower's ability to repay the loan. A Qualified Mortgage is presumed to meet this requirement. A Qualified Mortgage is a loan that avoids risky features and meets other requirements (you can read about those requirements below.) In general, the borrower also must have a total monthly

debt-to-income ratio including mortgage payments of 43% or less.

- **A Qualified Mortgage is safer and easier to understand.** QMs can't have risky features like negative amortization or interest-only payments
- **A Qualified Mortgage should be a fairer deal.** The new rules limit the points and fees lenders can charge when they want to make a qualified mortgage. This requirement responds to the extremely high points and fees some borrowers paid during the mortgage crisis. A loan over \$100,000 can't be a QM if it has points and fees that are more than 3% of the loan amount.

### Improved protections against steering

Anyone who is paid to offer, arrange or assist you in finding a loan can't be paid more to steer you into a higher-cost mortgage. If you pay someone directly in connection with a mortgage loan, that person generally can't also be paid by someone else for the same transaction.

### A flexible market for mortgages

- **A Qualified Mortgage is easy to find.** QMs can be issued by nearly any type of lender. Additionally, for as long as the next seven years, loans eligible to be purchased, guaranteed, or insured by the VA and USDA or which are eligible to be purchased or guaranteed by Fannie Mae and Freddie Mac (so-called "conforming loans") are automatically QMs if they meet certain product requirements. Under HUD rules, loans insured or guaranteed by the FHA or HUD are also QMs.
- The Qualified Mortgage provides one way to meet the ability-to-repay requirement. But, with the exception of no-documentation and low-documentation loans, the new CFPB rules do not ban certain kinds of mortgages. The rules do say that lenders have to make a reasonable, good-faith effort to determine that a consumer can repay a loan based

on their documented income, assets, debts, and some other common factors.

## New rights put an end to the old runarounds

- We are now requiring mortgage servicers to send you a **clear monthly statement** so you can see how they are crediting your payments.
- We require mortgage servicers to **fix mistakes promptly**.
- We require mortgage servicers to **credit payments as of the day they get them**.
- We require servicers to give you **early notice** if you have an Adjustable Rate Mortgage and your interest rate is about to change. This should give you more time to shop for a new mortgage or get help if you have trouble with the new payment.

## Borrowers who fall behind now have more options to take control

- Mortgage servicers will now have to call or contact most borrowers by the time they are 36 days late on their mortgage.
- Under the new CFPB rules, servicers, with limited exceptions, cannot initiate a foreclosure until a borrower is more than 120 days delinquent. This should give borrowers time to submit an application for a loan modification or other alternative to foreclosure.
- Mortgage servicers can no longer start a foreclosure while they are also working with a homeowner who has submitted a complete application for help. The new CFPB rules limit the harm to consumers of "dual tracking."
- Mortgage servicers now have to make sure the people who take calls from borrowers are able to answer questions and have access to critical documents.
- Servicers will have to give homeowners who ask timely, accurate information about their foreclosure status when asked.

- The new CFPB rules require mortgage servicers to help borrowers who fall behind on their mortgages to know all the options available to them. If a borrower submits a complete application for assistance early enough—usually this is called a "loss mitigation application"—the mortgage servicer must evaluate the borrower for all the options that may be available to the borrower. These new rules should eliminate the need for multiple applications to be considered for different foreclosure alternatives.
- If the mortgage servicer denies a complete loss mitigation application sent in soon enough before foreclosure, the servicer must explain why the borrower was rejected. A borrower who filed a complete application soon enough before foreclosure is entitled to appeal mistakes the servicer may have made in evaluating the borrower for a loan modification.

## We will stand with borrowers and homeowners to ensure financial institutions treat them properly

Congress created the CFPB to make sure financial markets work for consumers and one way we do this is by writing rules for mortgages and other consumer financial products. Congress charged the CFPB with supervising financial institutions with respect to the new rules and with enforcing the new rules.

The CFPB also accepts complaints about mortgages, so if you have a problem, you can submit a complaint to the CFPB. We'll forward your complaint to the company and work to get a response from them.

You can contact the CFPB at (855) 411-2372 or [consumerfinance.gov/complaint](http://consumerfinance.gov/complaint).

However, the CFPB does not directly work with borrowers who need help with a new or existing loan. If you need assistance buying a home or understanding alternatives to foreclosure, you can reach an expert HUD-approved housing counseling agency by calling 888-995-HOPE (4673).