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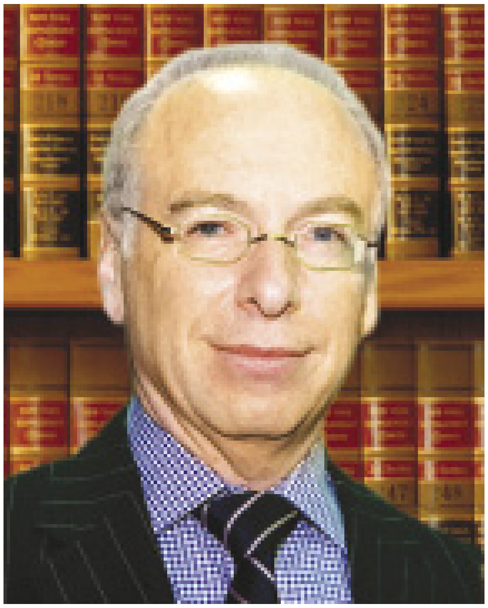
The Consumer Financial Protection Bureau - The new rules issued



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Lenders should not set up the consumer to fail. This is the underpinning of new rules issued by the U.S. Consumer Financial Protection Bureau instituted after the recent housing bubble burst.

The rules which take effect January 10, 2014 will require a lender to consider whether a consumer has the ability to repay the home loan before extending the borrower credit. The emphasis of the new rule is to require lenders to overcome lax practices that led to mortgages that were made without regard to the consumer's ability to repay. Under the new rule, lenders must consider at least eight specific criteria, including a borrower's income, assets, credit history, debt obligations, and employment status. Lenders must verify and document this information. The rule also tells lenders what to look at, but not how to evaluate if the borrower has the ability to repay—such is up to the lender's judgment.

The second part of the law creates a new category called a "qualified mortgage." To be considered "qualified," mortgages must follow specific product and underwriting criteria. The rule seeks to eliminate some of the particularly bad practices that led to the home lending disaster. For example, terms should not be longer than 30 years, keep fees and points to not more than 3% of the loan, and for underwriting criteria, the borrower cannot have a debt-to-income ratio above 43%, meaning they cannot spend more than 43% of their monthly income paying debts, including mortgages, credit cards and child support.

The new rules will generate industry comment and may get fine tuned before actually taking full effect.

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