CUMAnet

2014

Dodd-Frank Regulations Whitepaper

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Dodd–Frank Regulations Implementation Update

In January 2014, the Dodd-Frank mortgage regulations will go into effect. CUMAnet has been and continues preparing for the dramatic changes in the way mortgage loans are originated and serviced. All staff members understand the regulations and are preparing for changes in our systems, processes and procedures. We are in constant contact with our current vendors and Fannie and Freddie (GSEs) to ensure compliance in the next year.

We are also forming alliances with prospective vendors to facilitate error resolution tracking in our servicing department. This update addresses the two regulations that will have the greatest impact on lender and servicer activity - the qualified mortgage rule and the servicing protocols. Below are some highlights from each of these areas and attached are summary charts from the Consumer Finance Protection Board.

Servicing

The servicing department is readying its systems and vendors for new disclosure and mortgage statement requirements (all non-coupon book and all ARM borrowers must receive a statement each month.) There are revised timing constraints for issuing adjustable rate change notices.

CUMAnet is in discussions with new vendors to acquire an error resolution tracking system that will allow us to intake and track servicing complaints and inquiries. If the chosen system is successful we hope to expand its use to capture ALL incoming inquiries and complaints - in the servicing department AND in the loan fulfillment department as well.

Ability to Repay (ATR)

At a minimum, all lenders must CONSIDER and VERIFY the following government enumerated factors when making such loans:

- Mortgage related obligations
- Income
- Assets
- Employment status
- Simultaneous loans
- Debt, alimony and child support
- DTI and Residual Income

- Credit History

Loan Fulfillment

Pursuant to the new regulations, a mortgage lender must analyze and document the borrower's ability to repay the loan prior to consummation. This can be accomplished in a variety of ways depending upon the type of loan the institution chooses to make.

Qualified Mortgages (QM)

The QM designation lets potential investors know that the loan was underwritten in accordance with a certain set of standards. QM loans will be afforded a safe harbor presumption that the lender adequately assessed the ability to repay the loan prior to consummation, thereby limiting any future litigation. Saleable QM loans underwritten in accordance with automated underwriting (DU and LP) guidelines are GSEQM loans. Loans underwritten in accordance with Appendix Q, the underwriting standards set forth in the regulation itself, are General QM loans.

General QM loans originated by large lending institutions (those that exceed $2 billion in assets and make more than 500 loans per year) will be limited to a 43% Debt to Income Ratio. Small creditors can make General QM loans that exceed the 43% Debt to Income Ratio if they hold the loans in portfolio for 3 years or sell to another small creditor. GSEQM loans have no DTI limitation. Another distinguishing feature of a QM loan is the 3% limitation on points and fees.

Relationship based lending and servicing is at the core of what community based lenders do best

Not every borrower loan will qualify for sale on the secondary market. Not every borrower will have employment status that satisfies Fannie or Freddie or comports with Appendix Q. Some borrowers may have a DTI exceeding 43% while simultaneously having significant assets or a good amount of residual income. Some borrowers may suffer temporary hardships requiring temporary TLC from their mortgage servicing department. This does not mean that they are undeserving of mortgage loans.

Continuing to serve your borrowers is our number one priority

CUMAnet underwriters are examining the Qualified Mortgage and Ability to Repay underwriting requirements and clients will be advised if they should reconsider any of their current product offerings or underwriting guidelines in light of the new regulations. Once they have completed their analysis, our client relations department will be in touch if any revisions to your lending profile are required. Until that time, should you have any questions, please contact Daniel von Schaumburg directly.

Our servicing staff is working hard to identify the best possible vendor to intake, track and resolve mortgage servicing inquiries and complaints.

Find out more

If you are currently processing, underwriting or servicing mortgages in-house and are seeking a compliant outsourcing solution, Dan would be happy to meet with you to discuss how your borrowers will be better served utilizing CUMAnet:

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