Central Bank
News you can count on

Mortgages 101

SUMMER 2014

WHAT IS AN "ASSET DEPLETION" PROGRAM?

The Dodd-Frank Act (DFA), also known as the Dodd-Frank Wall Street Reform Act and Consumer Protection Act, created a set of new laws as a direct response to the recent financial crises, and is intended to curb abuses in many areas of the U.S. financial markets. Many of these abuses are thought to be the cause of the recent financial crises.

As a direct result of the DFA, the new Consumer Finance Protection Bureau was established in January 2011 to create new mortgage lending rules to match the essence of the DFA. Many new rules were established as guidelines to protect consumers, and provide new legal consequences to those lenders not following the guidelines. Much has been written about how the new rules have negatively impacted the mortgage industry. Some lenders have dusted off a relatively older method of qualifying borrowers to assist with meeting maximum debt to income ratios. The theory is this; borrowers with substantial liquid assets can afford higher debt to income ratios because they have cash on hand to supplement other stable income. The essence of the program is to convert liquid assets into income based on the borrower's age, and an estimated rate of return.

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ARE YOU A PRIME BORROWER?

– WHAT IS A CONVENTIONAL PRIME MORTGAGE

You've been thinking about purchasing a home or refinancing, so you go online to begin the process of understanding current mortgage programs and interest rates. There are dozens of websites you can use as a beginning reference point to establish current mortgage rates, and of course, there are more than 100 banks, mortgage companies and mortgage brokers in the Tampa Bay area anxiously awaiting your call. There are also dozens of "50 State" mortgage lenders who would welcome your direct phone call or online inquiry for a mortgage loan. So, what's the big deal, all mortgages are basically a commodity so you should just pick the lowest Annual Percentage Rate (APR) and move on, right?

I wish it were that simple. I just Googled "Best Mortgage Rates in Tampa" and received 1,340,000 results, eeek! At the top of the list was Lendingtree with the following banner; "Rates Dropped to 2.75% (2.8% APR)". When I clicked on it, I got the rest of the details; "Mortgage Rates Now as Low as 2.80% APR for the First 60 Months"…but I was looking for a 30-year fixed rate mortgage.

So, I tried again … this time, I Googled "Best 30 Year Fixed Rate Mortgage in Tampa." The results showed two unrecognizable names at the top of the list but Lendingtree showed up third with the exact same banner as above.

Ranked just below Lendingtree was Zillow, then Bankrate, followed by Truila. Now, of course, Google knows my habits so what comes up on your search may vary slightly.

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The point is many of the lenders and non-lending referral sites will advertise "Specials," or something you're not looking for. At a minimum, most internet quotes are not going to be the rate available to you unless your profile is as follows:

Loan amount greater than $200,000

Down payment of 25% or more

You're willing to escrow for taxes and insurances

Your FICO score exceeds 740.

Just like credit card companies, most lenders and mortgage brokers are going to advertise the lowest possible interest rate attainable based on the perfect loan and the perfect borrower.

What is Risk-Based Pricing? What are Overlays?

Risk based pricing is a system that evaluates the risk factors of your particular situation and credit profile, and adjusts the interest rate, discounts points or origination fees up or down based on an evaluation risk. These adjustments are also commonly referred to as overlays.

Factors that can affect your pricing? There are several factors integrated with risk-based pricing overlays. Below are some of the factors that can affect your pricing:

Property: Is the property an investment or will it be owner occupied? Is the property a condominium, multi-family or single-family detached? The loan to value (LTV), which is calculated on the loan amount as a percentage of the value of the property, will also have an impact on your pricing. The higher the LTV, the higher the interest rate, and other costs of the loan. Also, borrowers financing more than 80% LTV will most likely be required to purchase mortgage insurance. The cost of mortgage insurance may also vary depending on your credit score. The score may increase your interest rate by as much as .5%.

Credit Profile: All lenders will obtain a credit report that shows your credit history and how you have handled your obligation in the past. There will also be a credit score (normally 3 scores) which may have an impact on your interest rate or overlays. Borrowers with higher credit scores will be able to obtain a lower interest rate than people with lower credit scores. If your credit scores are below a certain threshold, you may be denied the opportunity to obtain a mortgage.

Purpose of Loan: The purpose of your loan will affect your pricing; borrower(s) refinancing for cash out generally pay a higher price than those requesting a rate/term refinance.

Other Factors: Other issues which can affect the lender's risk and your final price may include overlays for such issues as; collections, unpaid judgments, foreclosures or prior short-sales. The type of loan being requested will certainly affect your pricing. For example; a 15-year fixed rate loan is going to be priced lower than a 30-year fixed rate loan. An adjustable rate mortgage is generally going to be priced lower than a fixed rate loan.

With all of these things in mind, when you call a lender to ask for a rate quote, unless you have complete information about your particular transaction you will receive an estimate.

What do you need to tell the lender about your transaction to receive an accurate quote?

Lenders need to know the following to provide an accurate price quote:

For a purchase transaction:

- Be prepared to discuss your employment/sources of income for at least the past 2 years;
- Know your current monthly house expenses and fixed monthly payments; car loans, boat loans, credit cards and so on;
- Know your middle credit score (Most borrowers have three credit scores, one from each of the credit depositories; Equifax, Experian and TransUnion);
- If you have experienced a short-sale or foreclosure in the past three years, volunteer this information upfront;
- Be prepared to discuss the amount of down payment;
- Be prepared to discuss your annual household income;
- You will be asked if you are willing to escrow for taxes and insurances. (If you put less than 20% down, you probably will be required to escrow for taxes and Insurances);
- Have an idea about the terms you are looking for (10 year, 15 year or 30 year, etc.)

For a refinance transaction:

- In addition to the above items, you will want to have a good idea of your home's value and whether you are seeking cash-out.

A DISCUSSION ABOUT PRICING:

What is an interest rate? – The short answer is – The annual rate you pay on the funds you borrow. However, this can be confusing if you choose an adjustable rate mortgage (ARM) vs. a fixed-rate mortgage.

What is an annual percentage rate (APR)?

When you talk to your lender about a mortgage, you will be quoted an "interest rate," which may go up or down until your rate is locked. This will establish the initial amount of your monthly principal and interest payments if you are considering an adjustable rate mortgage. If you are discussing a fixed-rate mortgage, the principal and interest payments will not change over the life of the loan, except your final principal and interest payment may be slightly different than your preceding payments. Generally, we refer to this as the note rate because it is different than the APR.

When you receive disclosures about your quote, you should see both the note rate and the annual percentage rate in various documents. The APR is usually higher than the interest rate and expresses the cost of the mortgage as an ongoing annual rate; including certain fees, points, closing costs and other expenses, even if they are paid upfront or at closing. APR's can help you compare like types of mortgages and the costs between lenders, but remember the APR is different from the note rate on your loan.

A fixed-rate mortgage has an interest rate that remains the same over the entire term of the mortgage, regardless of how interest rates change over time in the marketplace.

An adjustable-rate mortgage (ARM) has an interest rate that is fixed for a specific period of time, and then changes at scheduled dates to reflect market conditions on those future dates. The initial rate is usually lower than a fixed-rate mortgage, making your initial payments lower. The rate is based on a market index that is subject to change, plus a margin that does not change. Make sure you fully understand all features of any ARM loan under consideration.

There are other product opportunities you can discuss with your lender, including permanent buy-downs and temporary buy-downs.

SO WHAT IS A CONVENTIONAL PRIME MORTGAGE?

A conventional prime mortgage is the most common category of mortgage, sometimes referred to as "A-Paper" mortgages.

- These types of mortgage are called "conforming" and have loan limits established each year by the federal government. Generally, these loans are made by the lender and then sold to the Federal National Mortgage Association (FNMA, also Fannie Mae) or the Federal Home Loan Mortgage Corp. (FHLMC, also Freddie Mac).
- These loans are not insured or guaranteed by a government agency, but may be the least expensive.

Like any category of mortgage loans, conventional prime mortgages have some drawbacks. One of the key benefits with the category is generally the best interest rate, with the drawback being it requires a minimum 20% down payment to get the best rate. On the other hand, some borrowers who may qualify for a government loan (FHA/USDA) may not have sufficient credit to qualify for a prime loan. A drawback of a conventional prime is the current maximum loan amount of $417,000 for a single-family home in most counties in Florida.

In summary, there are many factors to consider. As you can see, comparing annual percentage rates is a good starting point, but there is so much more you'll want to know before making your final decision. Finding a mortgage lender that will take the time to explain all the pertinent details and answer all your questions is important. Central Bank prides itself on being your partner in one of the most important financial decisions you will make.

Avoiding the Mortgage Meat-Grinder

FOR THE SELF-EMPLOYED BORROWER

I have been in the mortgage business since 1978 and I have never seen it so tough for a self-employed borrower to obtain a home mortgage. I'd like to share a recent example of a well-qualified borrower who recently confronted a six week process.

The borrower owned a percentage in multiple partnerships, and also received w-2 income. He was purchasing a home for $600,000 and putting $200,000 as down payment, thus his proposed loan was $400,000. The same borrower has more than $500,000 in cash and savings. As with 90% of all loans, the investor underwriting, and purchasing the loan will ultimately sell it to Fannie Mae or Freddie Mac.

The borrower's debt-to-income Ratio (DTI) was on the high side. The Automated Underwriting System guidelines (AUS) called for a copy of all partnership tax returns (6 different tax returns times two years) for a total of 12 returns. In addition, our processing department had to obtain all twelve transcripts directly from the IRS.

When the tax returns were reviewed there were a couple "short term liabilities" (debts due within one year) noted on the return. The Underwriter required a full description of "short term liability" and source documents to prove if they were renewable or due within a year. Fortunately the obligations were renewable so these didn't disqualify the borrower.

In addition to all the back and forth during the return review it was noticed there were some passive losses carried forward. Passive losses are not allowable deductions in the current year because the tax code requires passive losses to be offset by passive income or passive gains in the same year. This review raised additional questions which only the borrowers CPA/tax preparer could satisfy, so the borrower's CPA was brought in for additional explanation.

To further complicate the transaction, the property being purchased appraised for less than the sales price; earlier this year some areas in the Tampa Bay market abruptly transitioned from a buyer's market to a sellers-market, forcing the buyer's and seller's to renegotiate the sales price. Once the sales price was renegotiated the entire loan application had to be modified which resulted in the increase to the Loan-To-Value (LTV) 75% LTV to 84% LTV. The borrower was making the same down payment but the LTV is based on the lower of purchase price or property value, whichever is less.

This new twist subsequently modified the AUS results and required an additional step because the loan now required private mortgage insurance due to LTV being greater than 80%.

If you're self-employed and thinking of obtaining a mortgage in the next 3 – 12 months we strongly suggest you contact a Central Bank Residential Lending Originator for a complete income analysis as early in the home buying process as possible. This will save everyone in your transaction the stress of the mortgage meat grinder of the self-employed. **IT'S NOT JUST YOUR MORTGAGE LENDER – IT'S THE ENTIRE INDUSTRY!!**

During the Great Recession, between 2008 and 2010 mortgage lenders suffered severe losses with more than 250 mortgage companies failing in the United States.. The primary reason was the dreaded loan repurchases. As delinquencies dramatically increased during the recession, Fannie Mae and Freddie Mac began to increase the number of loan audits and discovered substandard and fraudulent underwriting practices that violated representations and warranties. They determined many of the loans they bought weren't the high quality loans everyone thought they were. Fannie and Freddie began making demands for the originating lenders of these "bad" loans to repurchase them. Lending houses suffered billions of dollars of losses repurchasing loans and began making the same demands from smaller originators.

Private issuers of billions of dollars of residential mortgage backed securities began following the audit practices too and soon the industry was facing deep financial problems on nearly every front.

As a result of all these repurchase demands and billions of dollars lost nearly every mortgage underwriter that survived is striving to make the "perfect loan". You don't really need perfect credit, or a large down-payment; you need to meet the profile that meets the credit underwriting guidelines for the loan being requested. More importantly you need to provide source-documents to support your story.

I like the term source-document because it depicts what underwriters are requesting when underwriting a loan. For example; if you're self-employed you most certainly will be asked to supply a copy of your last two years tax returns, but this isn't necessarily enough. There is also a high probability that behind the scenes your Lender will request a copy of your tax transcripts directly from the IRS. Another example of source documents your underwriter may request if you are self-employed includes additional documentation of business expenses. For those making car payments or credit card payments from your small business checking account as legitimate expenses, odds are you will be required to provide copies of cancelled checks or bank statements proving this is the case even though your profit and loss statements reflect these expenses. "Source Documents" are likely to be required for most self-employed borrowers.

Processors and underwriters are the people trained and charged with gathering all the necessary documents that will be required before your loan is approved.

The process begins with what I call the filter – the loan originator, loan consultant or mortgage banker. It is here at the front end where the deal is made or not. The rest of the approval process is just gathering paper (source documents) for the file. Even though most loans are approved by Automated Underwriting Systems (AUS) such as Loan Prospector or Desktop Originator, at their discretion underwriters may and many times do ask for documentation beyond what the AUS asks for. The underwriters are protecting their valuable reputations, not to mention their employer's financial well-being and are hedging against the dreaded re-purchase.

The reason the mortgage approval process is so rigorous is simple. Avoiding defaults and buy-backs has become the primary goal of mortgage lenders…**CONSULT YOUR MORTGAGE PROFESSIONAL EARLY IN THE PROCESS!!**

THINGS YOU MUST KNOW BEFORE BUYING A HOME

The home buying process is not the same as it was during the crazy days at the turn of the century. Beginning in about 1999 and through about 2008, getting a mortgage was pretty much as easy as having a purchase contract and walking into the local mortgage brokers office; didn't need a job, didn't need proof of assets, didn't need a decent credit score (over 620).

In the new world, with respect to buying a home, you can't even get a Realtor to let you in their car without either a pre-qualification (PQ letter) letter from a lender or proof funds if you're paying cash. Most sellers as well will not accept a contract to sell their property without a PQ letter or proof of cash sufficient to purchase the home. Obviously, where this paragraph is headed is step one:

HOW TO PREPARE TO OBTAIN A MORTGAGE

Step 1 - Strengthen your credit score: Know what your credit score is before even calling a lender for an interest rate quote. One old rule still applies regarding most mortgages; the higher your credit score, the lower your down payment and monthly payments. If you contact a bona fide lender for a rate quote, unless they know precisely what your score is, whatever they tell you is simply a guess. And guess what? They will quote you the lowest rate based on a FICO over 740 with at least 20% down payment.

Credit scores range from a low of 309 to a high of 839. Approximately 40% of the population have credit scores over 750 and only 13% have scores over 800. This means that the majority of the population (nearly 60%) pay a higher rate for mortgage credit than the other 40%.

Everyone is eligible for one free credit report each year from each of the three (3) repositories. Yes, there are only three; Experian, Equifax and Transunion. Most likely, you will also have a different score from each repository, ranging from 309 to 839. The reason the scores are different is a two-fold answer; first, many institutional creditors only report to two of the three repositories. Second, their scoring models are not exactly the same. TransUnion uses the FICO model, Experian opts for the Fair Isaac model and Equifax goes with the Beacon model. All three models were developed by Fair Isaac

Corporation, and this is where the acronym FICO came from. Commonly in the mortgage industry, we just refer to the middle of the three scores as the FICO score, even though it may be one of the other two models used. There is one more factor that I have noticed over my 35 years in the business. All credit bureaus aren't created equally. Note, there are dozens if not hundreds of credit bureaus, not to be confused with repository. There are only three repositories as named above but hundreds of credit bureaus that re-sell the information. There are different versions of the scores; for example the current version Experian is (v2). I have seen in the past where one bureau may report using an older version because their client(s) mortgage lender didn't specify they want to maintain the latest version utilized by the agencies.

At the end of the day, you should get a copy of your credit report for review and make sure there are no old paid or settled debts that are penalizing you. Also, keep in mind you need to know your credit score to rely on an interest rate quote from a bona fide lender.

Step 2 – Figure out how much house you can afford: There are various rules of thumb that will help you get an idea of how much home you can afford. Many are not rules but guidelines because everyone has different compensating factors, which may work in your favor or against you. When calculating what you can afford, you need to be concerned with two mathematical formulas and know precisely about your gross income and current institutional obligations. Understanding the math is fairly simple: total housing expense divided by gross income will equal your housing ratio; sometimes we also call this the front ratio. The second formula for calculating Debt to Income Ratio (DTI), sometimes referred to as the back-end ratio, simply includes all other monthly institutional debts, plus the housing expense divided by your stable monthly gross income.

The tricky part is understanding what "stable income" means. If you are self-employed, this can be particularly complex. If you have had a one-time windfall (perhaps you won $25,000 on the lottery last year) that would hardly be considered "stable income." There are literally hundreds of underwriting rules and guidelines, which makes it difficult, if not impossible, for a consumer to figure the maximum loan for qualification.

The best thing to do and my advice is to go see your local mortgage lender before home shopping. If you prepare yourself properly, a qualified mortgage loan officer will tell you fairly quickly what you can qualify for.

For the record, the Federal Housing Administration (FHA) generally does not want to see a housing ratio over 41% and a total DTI ratio of 55% is the maximum. Also for the record, most borrowers are not comfortable with a DTI exceeding about 43%.

Step 3 – Accessing money for the down payment and closing costs. Depending on your credit and financing, there will generally be a down payment requirement of between 3.5% and 20%. There are exceptions, of course. The United States Department of Agricultural (USDA) has 100% financing for those purchasing in certain rural zip codes, although there are also household limitations; Veterans Affairs loans (VA) also allows 100%.

Another cash expense is closing costs, also known as settlement fees. Florida is considered a high cost closing state because of government doc stamps on the mortgage $.35 per $100 (or the portion thereof) of the loan amount and intangible tax at the rate of $.20 per $100. Also, Florida title insurance tends to be high. Florida is ranked 9th in the nation as far as closing costs as a percentage of loan amount. Most lenders charge an origination fee, which varies by lender but the average amount of closing costs for say a $200,000 loan would be in the range of 3%, which is $6,000. This is without consideration for the first-year hazard insurance, flood insurance and escrow reserves. If you reserve for escrows and are required to purchase the first-year policy for both flood and hazard insurance, you can rack up another 1.5-2.5% in additional settlement costs.

Where to access funds for down payment and settlement charges:

1) Cash savings from your own funds;

2) Gifts from relatives or friends;

3) Negotiate for the seller to pay a portion or all of your closing costs (commonly done);

4) Check out local down payment assistance funds in the form of grants or second mortgage funding;

5) You may also be able to tap into retirement savings to purchase a home. You should check with your own employer plan administer or accountant to see what may be allowed and what the best options may be;

6) Cash value life insurance loans.

This is just to name a few … What is also critical to understand is that your lender will be requiring you to source any deposits into any of your bank accounts (not including payroll) exceeding 25% of your gross monthly income. So, if you make $4,000 per month, any deposit over $1,000 will have to be sourced.

We have clients who seem to have a fetish for constantly moving the funds around online from one account to the next and so on. This drives our processors crazy and, in turn, they drive borrowers crazy for documentation.

Let's say you have some stock options you can exercise, then re-sell and come up with $7,500 for down payment money. YOU MUST RETAIN A PAPER TRAIL to show your mortgage lender for those funds to be considered in the transaction.

A paper trail would look something like this;

a) A copy of the stock option agreement;

b) A copy of the sell order;

c) A copy of the settlement and check received;

d) A copy of the deposit into your checking account.

The same applies to gift money. You must have a precise paper trail for the documentation to be acceptable.

So, if you want a smoother transaction, don't move your money around and maintain perfect records of the source of down payment and closing costs.

Step 4 - Get pre-qualified for a mortgage

Before any real home shopping begins, you want to get financing in place. The truth is, I don't know a single professional Realtor who will put you in their car and take you around home shopping without a pre-qualification or pre-approval letter.

Come to Central Bank for a free pre-qualification letter before you walk through the first house … It's that simple.

Step 5 – Buy a house you like! If you're buying a house for yourself and your family, you should purchase a home that will make you happy for the next few years. Although home values are rebounding and in some markets we could even argue it is a "seller's market," short-term ownership can be a pretty expensive proposition.

Final comments: The mortgage process can be daunting and frustrating. Especially, if you purchased a home between say the late 1990s through about 2009 when all you had to do to a mortgage was add water. In today's new brave world of mortgage lending, be prepared to drop your guard, leave your ego at the door and produce all source documentation. Good mortgage officers will stay with you from pre-qualification right through the closing. Be prepared if you are asked for information today that was not being requested prior to the financial crisis. After all, it is a different world today with the new Consumer Finance Protection Bureau and the guidelines dictated by the Frank-Dodd Act.

Mortgage Eminent Domain – Really?

In the interest of full disclosure, I'm not an attorney, and I'm sure any attorney(s) reading this article will take exception with my inability to articulate my points in proper legalize. However, it is an interesting subject matter and one of the most controversial issues being faced today by the Federal National Mortgage Association (FNMA), Freddie Mac - Federal Home Loan Mortgage Corp (FHLMC) and dozens of private mortgage backed securities issuers. Let me make this admission, "This article is above my legal pay-grade."

Most of us have had a relative or friend who owned property and a local government forced the owner to sell them part or all of a particular piece to widen or build a street or bridge. The legal process is known as Condemnation and under the Fifth Amendment "Eminent Domain" provides the legal vehicle to accomplish this. Every independent government in America has the right to exercise Eminent Domain. The Fifth Amendment also states; 'nor shall private

property be taken for public use, without just compensation.' The question hotly contested thousands of times annually across the country is: what is just compensation? The process requires no constitutional recognition; it is an attribute of sovereignty.

One misconception about Eminent Domain is that it is limited to only real estate. As I now understand it, Condemnation or Eminent Domain may apply to other personal property; a vast number of objects may be affected, such as underwater mortgage backed securities.

The Washington Post published a great article on this subject written by Mike Konczal, "Is Richmond's Seizure Scheme Even Legal?" – Sept. 21, 2013:

http://www.washingtonpost.com/blogs/wonkblog/wp/2013/09/21/is-richmonds-mortgage-seizure-scheme-even-legal/

For those who don't have the time to read the article in its entirety, I'll attempt to paraphrase here:

Richmond, Ca. is attempting to use eminent domain to reduce the number of underwater mortgage debts in the city. A few big banks tried to derail the process quickly but a U.S. District Court Judge tossed out the big banks legal argument that the Richmond argument was completely without merit.

Richmond has proceeded to attempt to purchase 624 mortgages held in private-label securities through Condemnation, first offering a price as determined by an independent appraisal. It's important to understand that Richmond isn't attempting to take title to the real estate; rather they are attempting to take possession and ownership of the mortgages themselves. If they are successful, the owners of the mortgages would stand to lose millions. An example; A mortgage has a value of say $400,000 and the property value is $200,000; so the just value of the mortgage is arguably $200,000 or less … the current mortgage would suffer a $200,000 loss. If the city is successful, they would then modify the loans to something less than market value of the property, and then re-securitize the loans through other channels to replenish the capital they used to purchase the mortgages.

The purpose of the legal action from the cities/municipalities participating is this; within states, cities or municipalities that were the hardest hit during the recent recession, there were thousands of borrowers defaulting on their home mortgages, some because they experienced extreme financial hardships and some strategically, because they were so far underwater (Underwater means they owe substantially more than the property is worth). In turn, many cities around the country have huge excess inventory, which is dramatically slowing down the housing recovery. The cities attempting the Condemnation see it as a way to force the owners of the loans to sell the loans to the cities at "Fair Market Value," then modify the existing mortgages to put the homeowners back in equity (essentially lower their mortgage balances and payments); now the homeowners aren't so anxious to continue walking away because they wouldn't be underwater any longer. If the cities are successful, they see it as a way to save some neighborhoods from blight and assist in the recovery of their local real estate markets.

There are at least another half dozen large cities watching this legal maneuver and exploring the same mortgage seizure plan.

Personally, this is a difficult pill to swallow; on one hand, I recognize the Great Recession and consequent de-valuing of real estate wasn't any single borrowers fault; on the other hand, it could represent another government bailout. What would investors around the world think who own billions of dollars of these securities if they suddenly lost 20%-40% of their securities value (the mortgages are held as mortgage backed securities). One thought could be, gee, what is next, if we can't trust United States contract law, perhaps we shouldn't be buying U.S. Treasuries either?

I would like to hear other people's ideas on this.
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ROAD
COMING
THROUGH

NEW MORTGAGE RULES

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BACKGROUND:

The Dodd-Frank Act (DFA), also known as the Wall Street Reform Act and Consumer Protection Act, was enacted as a direct response to the financial crises and was intended to curb abuses in many areas of the U.S. financial markets. Many of these misuses are thought to be the reason for the recent financial crises. The Commodity Futures Trading Commission (CFTC) was charged with writing rules in 38 different specific areas of complex trading activities, which generally will not have an impact on small banks and will not be discussed in this document.

The DFA and Consumer Protection Act also established the new Consumer Finance Protection Bureau (CFPB) formed in January 2011 to develop new rules and enforce parts of the DFA, which will impact the mortgage industry and is the topic of this document. CFPB rules are intended to protect consumers from unfair, deceptive, or abusive practices. The CFPB has been rule making since it was created and many of the new rules in effect since Jan. 10, 2014 will have a direct impact on residential lending programs.

COMMENTARY:

In the past year, I've read countless white papers written about proposed CFPB rules as it relates to the mortgage industry. Most of what has been written created fear and resistance throughout the mortgage and banking industry. I recently read in US News: "The new rules would also make it easier for lenders to be slapped with consumer lawsuits when loans go bad." Private research firms estimated that from 10 to 50 percent of potential borrowers who qualify for real estate loans now would lose out under the new regulations.

This type of reporting has been rampant across most all news reporting channels since the CFPB was created to enforce these parts of the DFA and it has been discouraging. The truth of the matter is that the new rules, which have mostly been finalized simply equate to responsible lending in my opinion.

The housing crisis cost the nation about $13 trillion when tallying all losses from lawsuits, mortgage-backed securities litigation and taxpayer bailouts. A representative with fraud analytics firm Interthinx said: "The irresponsible lending proved to be a financial disaster, and possibly single-handedly caused the worst recession since the Great Depression." In my view, the new CFPB rules are simply putting sanity back into the mortgage lending industry.

As much as the new rules seem to restrict lenders and protect consumers, the mortgage industry itself seems to be overlooking the fact that the new rules are structured to actually protect lenders as much as consumers. I have worked in the loss mitigation side of the industry for the past two years and can provide countless examples from mortgagees and special servicers where it has taken three or more years to foreclose on defaulted borrowers. I doubt we can tally the burden the consumer advocate attorneys placed on the court systems with thousands of different excuses (affirmative defenses) and allegations that lenders made loans borrowers could never afford in the first place. The truth of the matter is; that lenders made millions of loans borrowers couldn't afford because Wall Street was hungry for them, and lenders have been punished for their bad deeds!

Every major lender in the country had to buy back loans from FNMA & FHLMC; Citi-Group had to buy back more than $100 million; Countrywide was found liable for defrauding FNMA; J. P. Morgan is still paying fines for Mortgage Backed Securities (MBS) fraud. These types of headlines have bombarded the financial news in the past five years.

The fraud was substantially a result of manipulating the Government Sponsored Enterprises (GSE's) Automated Underwriting Systems (AUS), having people who didn't know how to drive the machines or ignoring documentation to prove a borrower's ability-to-repay. The GSE's didn't require the repurchase of a single loan, which met all of their underwriting guides. If Countrywide intentionally misrepresented the characteristics of loans they sold to FNMA, then it is fraud, not negligence.

On the flip side of all the arguments against the new CFPB rules, making Ability-To-Repay (ATR) and Qualified Mortgage Loans (QM) will actually protect the lenders from costly litigation and fines if they abide by the new rules. In fact, it is quite possible that the new CFPB rules in the long run could actually reduce the cost of mortgages because of reduced foreclosures and defaulted mortgage litigation.

All responsibly governed lending institutions' Board of Directors are charged with understanding, discussing and providing management with appropriate guidance relating to the new rules. Ability-To-Repay (ATR) and Mortgage Loan Servicing new rules are not up for discussion; they represent new law. QM rules are not the law, but rather guidelines for defaulted loan court litigation.

ATR/QM RULES

Congress established the CFPB to protect consumers by carrying out federal consumer financial laws. Among other things, the CFPB will:

- Write rules, supervise companies, and enforce federal consumer financial protection laws;
- Restrict unfair, deceptive, or abusive acts or practices;
- Take consumer complaints;
- Promote financial education;
- Research consumer behavior;
- Monitor financial markets for new risks to consumers;
- Enforce laws that outlaw discrimination and other unfair treatment in consumer finance.

We Are Proudly A Minority Owned Institution

Central Bank has been servicing the local community for more than 7 years. Many of our shareholders are local and most of our Directors are local.

Central Bank is a Safe, Strong, Stable Bank focused on doing what is best for our community and our customers

Are lending money to small businesses
Offer FREE checking and savings

We are different from the big banks because:

- We are a local community bank. Our goal is to serve this community, its people and local businesses.
- Central Bank uses and supports local merchants, helping to keep our community vibrant and growing.
- Our bank and employees take pride in volunteering and supporting a wide variety of local community organizations and events.
- Our officers are accessible to customers on site and we listen to you.
- We respond to people and small business owners on an individual basis.
- We offer responsive decision-making on loans, because decisions are made here, locally.
- We focus on our customers and don't hide behind the "big bank bureaucracy".

Location and Hours

Central Bank is conveniently headquartered at 20701 Bruce B. Downs Boulevard just South of the Pasco/Wesley Chapel County Line Road in Hillsborough County, Florida.

Our current hours of operation are:

Lobby:

Monday - Thursday	9 a.m. - 4 p.m.
Friday	9 a.m. - 6 p.m.

Drive Thru :

Monday - Thursday	8 a.m. - 5 p.m.
Friday	8 a.m. - 6 p.m.

The two most discussed topics under the new rules, which affect mortgage originators and went into effect in January 2014, is the Ability-To-Repay and Qualified Mortgage Loans.

Within the discussion of ATR and QML, there are three categories of loans:

1) QM Safe Harbor Loans – Loans which are not a Higher Priced Mortgage Loan (HPML), and meet all of the ATR rules.

General requirements for a QM Loan:

- APR does not exceed 1.5% above the Average Prime Offer Rate for like mortgages.
- Meets the maximum Debt to Income Ratio test (DTI) of less than 43%. It is important to note; loans that are eligible to be sold to the GSE's are presumed to be QM under the CFPB Rules. This means loans that are run through FNMA or FHLMC's Automated Underwriting System and approved are QM loans. This guideline is temporary until 2021 or until the GSE's are removed from conservatorship, whichever occurs first.
- Regular periodic payments that are substantially equal, subject to interest rate adjustments.
- No negative amortization.
- No deferral of principal.
- No balloon payments.
- Points and fees may not be excessive.
- Term cannot exceed 30 years.
- Underwritten based on the maximum interest rate during the first five years.
- Based on verified current or reasonable expected income or assets and current debt obligations, alimony and child support.

2) QM Rebuttable Presumption Loans – These loans are QM except that the interest rates are Higher Priced Mortgage Loan (HPML).

3) ATR Loans - Lenders are prohibited from making a covered residential mortgage loan unless the lender makes a reasonable and good faith determination that the consumer will have a reasonable ability to pay the loan according to its terms. The ATR requirements are summarized as follows:

- Current or reasonably expected income or assets;
- Employment status, if the creditor is relying on employment for repayment;
- Monthly payment on covered loans;
- Monthly payment on a simultaneous loan secured by the same property;
- Monthly payment for mortgage-related obligations;
- Current debt obligations, alimony and child support;
- Monthly debt-to-income ratio ("DTI") or residual income; and
- Credit history

(Lenders must use third party source documents to validate the information above).

Banks are generally not discouraged from making loans, which do not meet QM Loan guidelines. However, they are required to follow ATR underwriting practices.

- Making mortgage loans which are QML Safe-Harbor provides the bank an extraordinary legal "Safe Harbor" against legal claims and damages within the courts.

In summary, the new rules are not bad for banks or borrowers. It simply means there will be no more exotic loan products, e.g. payment option ARM's, interest only, no-income loans and no more liar loans. The new rules in the long run will be better for everyone and help keep interests lower because there will be less litigation, which only drives the cost of mortgages up for everyone.

ASSET DEPLETION PROGRAM

Continued from page 1

The best way to explain this is the example below:

First, the borrower's current age is compared to their life expectancy. The asset depletion worksheet utilizes average age expectancy actuarial. In our example; an individual who just turned 61 would receive an amortization of 24.4 years based on this table.

Then all qualifying liquid assets of the borrower are identified. Retirement accounts are eligible liquid assets for borrowers aged 59.5 years or greater. This would include 401K, IRA, Roth IRA, 403b, thrift savings plans; plus all liquidity listed below:

Eligible accounts for borrowers younger than 59.5 years include checking accounts, savings accounts, money-market accounts, CD's, publically traded stocks, bonds, mutual funds, trusts and cash value of life insurance.

In our example the calculation would be as follows:

Retirement Accounts	$383,000
Checking Accounts	$ 53,000
CD's	$250,000
Life Ins. Cash Value	$ 44,000
Bonds	$ 89,000
Money Market	$123,000
Total Deposits	$942,000
Less Down Payment	$ 40,000
Total Assets Eligible for Asset Depletion:	**$902,000**

Using the asset depletion method we then calculate the monthly income payment the same way a mortgage payment is calculated:

Present Value = $902,000

Interest Rate = 4%

Term = 24.4 years

Monthly Income Payment = $4,837

(This is the amount of monthly income that would be added to other stable sources of income, such as employment, retirement distributions and social security. In essence this allows the borrower to qualify for a larger mortgage amount under the new rules. If you are interested in learning more about asset depletion give us a call at 813-929-4477.

Central Bank
News you can count on

Mortgages 101

SUMMER 2014

U.S. Treaties Allow Some Foreign Residents To Obtain HOME LOANS

An acceptable visa includes E Series (E-1, E-2, E-3), H Series (H1-B, H1-C, H-3, H4), L Series (L-1A, L-1B, L-2), O Series (O-1) and NATO (TN-1 and TN-2)

Over the years, the United States has signed treaties with most of the other countries in the world, of particular interest are the treaties of "Friendship, Commerce and Navigation." These treaties are designed to promote trade and investment between the United States and other contracting states and their citizens, thereby encouraging good relations and peace. In recent years, the United States has also entered into a number of bilateral investment treaties with mainly former Communist states, designed to promote investment but not generally designed to promote trade-related immigration privileges.

Nationals (individuals or companies) of countries with such treaties with the United States can obtain visas to work here to develop and direct their investment in and/or trade with the USA. Such visas are known as E-visas, and come in different types.

Broadly speaking, there are two types of aliens living in the U.S., which may qualify for FHA and (Federal Housing Administration) FNMA or (Federal National Mortgage Association) FHLMC (Federal Home Loan Mortgage Corporation) home loans, permanent and non-permanent Aliens. Many of these aliens do not realize they are eligible for these loans, and in fact if eligible, based on visa type, there are no additional requirements for permanent and non-permanent aliens than those for a natural born U.S. citizen. Another way to think about this is immigrant visas and non-immigrant visas; immigrant is permanent stay and nonimmigrant is temporary stay.

So, how would a person know if they have the proper residency credentials to qualify for a home loan?

First, let's distinguish between permanent and non-permanent residents;

Permanent Resident Alien:

Taken from the U.S. Citizenship and Immigration Services website; "an alien is someone who is admitted to the United States as a lawful permanent resident. Permanent residents are also commonly referred to as immigrants; however, the Immigration and Nationality Act (INA) broadly defines an immigrant as any alien in the United States, except one legally admitted under specific nonimmigrant categories. An illegal alien who entered the United States without inspection, for example, would be strictly defined as an immigrant under the INA but is not a permanent resident alien. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States."

There are many different ways to obtain Permanent Resident Alien (PRA) status and all legitimate PRA's will have a Green Card. Some ways to obtain PRA status;

- An immediate relative of a U.S. citizen – this includes spouses, unmarried children under the age of 21, and parents of U.S. citizens 21 or older.
- A family member of a U.S. citizen fitting into a preference category – this includes unmarried sons or daughters over the age of 21, married children of any age, and brothers and sisters of U.S. citizen petitioners 21 or older.
- A family member of a green card holder – this includes spouses and unmarried children of the sponsoring green card holder.
- A member of a special category – this may include battered spouses or children, a person born to a foreign diplomat in the United States or a widow(er) of a U.S. citizen.
- Certain special categories of jobs.
- Victims of certain criminal activity.

The list above is not all inclusive; to learn more, visit http://www.uscis.gov/green-card/green-card-through-family

All Green Card holders have the same eligibility requirements through the eyes of FHA, FNMA and FHLMC and other government sponsored entities.

Non-permanent Resident Alien

Substantially, a Non-permanent Resident Alien (NRA) is not an immigrant, and they are admitted into the United States on a temporary basis. These classes of individual in the U.S. are admitted with an acceptable visa. There are other ways short-term travelers may enter the U.S. legally. However, my scope is narrowed to those visa and (Employment Authorization Document) EAD card holders who are eligible for government agency of sponsored entities.

There are three categories of immigrant visas; family-sponsored, employment-based and special immigrant:

To qualify: a Non-permanent Resident Alien must have a valid Social Security number and evidence of an acceptable visa, an acceptable expired visa along with a I-797A with a detachable i-94 or an EAD Card. An acceptable visa includes E Series (E-1, E-2, E-3), H Series (H1-B, H1-C, H-3, H4), L Series (L-1A, L-1B, L-2), O Series (O-1) and NATO (TN-1 and TN-2). For NAFTA professionals from Canada or Mexico a visa OR EAD card is not required as long as the borrower(s) has an unexpired passport that is stamped with the H1-B status. If a borrower(s) visa will expire within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided. If the EAD will expire within six months, the borrower must show evidence they have applied for an extension or provide a letter from their employer indicating they will continue to sponsor their employment. Loans requiring Mortgage Insurance (MI) may have additional restrictions.

A U.S. credit history shorter than two years is permissible provided it is supplemented with an international credit report that meets credit standards. FNMA and FHLMC also require at least a two-year credit history documented with a minimum of three traditional trade-lines or four non-traditional trade-lines. Non-traditional trade-lines must be documented with a minimum of 12 months history in the U.S. (also required for U.S. citizens). To verify credit history outside the U.S., we may obtain a credit report from a foreign independent credit reporting agency (if available), written verification directly from a bank or an institutional creditor or any other common form of credit references used in the country where the borrower had established credit. Credit histories may also be developed for borrowers who normally do not use credit or who do not have the type of credit that will appear on a credit report by relying on a full factual credit report verifying rental histories from landlords and/or utility payments and telephone bills, etc.

Income and employment history must be documented for a minimal amount of two years and be verifiable through a third disinterested party. We are also required to make a reasonable determination that the income will continue for at least three years. Non-permanent resident aliens who were previously self-employed may not be eligible.

For my purposes here, I won't attempt to describe all the nuances of each visa above; many are tied to country of origin and types of work.

If you hold a visa and want to know if you qualify for a home mortgage, call Central Bank's mortgage department at (813) 751-0496.

Central Bank
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