

# LENDERS UPDATE™

## ALT & ASSOCIATES NEWSLETTER

A COMPLIMENTARY SERVICE TO THE MORTGAGE LENDING INDUSTRY

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**JANUARY 10, 2013**  
**HAPPY NEW YEAR**

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### **"CFPB" ISSUES NEW ABILITY TO REPAY RULES**

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In what promises to be a year of much rulemaking by the Consumer Finance Protection Bureau ("CFPB"), today Thursday, January 10<sup>TH</sup> the Bureau issued a final Ability to Repay Rule. The Rule becomes effective in January of next year, 2014. This will be preceded by the Bureau publishing plain language explanations of the Rule, implementation guidelines and other information materials to help lenders understand their responsibilities. The Rule can be found on the CFPB website.

The text sets out requirements for compliance with the Rule which include:

- ✚ An evaluation of the borrower's financial information which must be subject to verification.
- ✚ Proof of sufficient assets or income to pay back the loan.
- ✚ Satisfactory evaluation of the borrower's ability to repay based on the lender's determination of the borrower's long-term capability, not just over the introductory period when a "teaser rate" may apply.

Lenders will have a form of “safe harbor” for compliance if the loan is a Qualified Mortgage. These loans must meet certain standards, including 1) no excess points and fees, 2) no toxic features and 3) a cap on the debt to income ratio of 43%. At a certain level of cost, i.e. higher-priced loans there is a rebuttable presumption of the lender’s compliance, if the loan is a Qualified Loan. For lower-priced loans (read prime) a true safe harbor status for compliance with the Rule is provided.

Hopefully the Bureau’s materials referenced above, when provided, will help us all implement these requirements with more certainty than in the case of several new rules issued in the recent past.

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