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New Fed Mortgage Rules – What Consumers Need to Know

Ann Arbor, MI July 17, 2008 – On Monday, July 14, 2008, the Federal Reserve issued rules that are designed to combat predatory lending practices. “The final version of the rules incorporated many of the changes we suggested to the Fed when we commented on these rules a few months ago,” said Gibran Nicholas, Chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers. “Some of the rules apply only to higher cost non-conventional mortgages such as many jumbo loans and those in the sub-prime category, while other rules apply across the board and affect all mortgage originations,” said Nicholas. Here are two examples of how the new rules will affect consumers:

Documenting Income and Assets:

For higher-cost loans, borrowers must document income and assets in order to qualify for the mortgage, and “stated income” loans are no longer allowed. “The good news is that the Fed changed the final rule from the proposal they originally made a few months ago,” said Nicholas. Under the Fed’s original proposed rules, lenders could have faced huge legal liability if they made loans to borrowers in unique circumstances - such as self-employed individuals, borrowers new on their jobs and borrowers who lived in areas where the employment outlook was deteriorating. This would have greatly restricted lending and caused lenders to shy away from working with borrowers in unique situations.

“The final version of the rules are not as ambiguous as the Fed’s original proposal, and lenders are presumed innocent so long as they follow certain requirements that have been outlined by the Fed,” said Nicholas. “This means that lenders can start creating loan programs to address the unique needs of borrowers in the marketplace. This is great news for home owners and buyers who have been shut out of the market recently due to the unwillingness of lenders to take risks when lending to borrowers who have unique financial circumstances.”

Appraisals

The Fed is making it a violation for anyone to coerce, influence or otherwise encourage appraisers to misstate or misrepresent home values. “The great news here is that the Fed’s rules are a lot better than the guidelines proposed by Fannie Mae and the New York Attorney General a few months back,” said Nicholas. Under the previous proposed guidelines that are still being considered by Fannie Mae, consumers, lenders and brokers would have been completely prohibited from even having conversations with appraisers about their opinion of value. The proposed guidelines even went so far as to prohibit the ordering of a

second appraisal to get another opinion. "This would have been like telling a cancer patient that it's against the law for them to get a second opinion from another equally qualified doctor unless they could somehow prove the original doctor was incompetent," said Nicholas.

"On the other hand, the Fed's rules allow lenders to consider second opinions from other appraisers without these stringent and unnecessary restrictions." The Fed also allows lenders, brokers and consumers to have open communication with appraisers so long as the communication does not involve coercion or pressure to misstate the home's value. "This is fantastic news for home owners, buyers and the entire industry," said Nicholas. "The Fed is properly addressing the issue of appraisal fraud while not overreacting to the situation. Now it simply remains to be seen whether Fannie Mae and the New York Attorney General revisit their proposed guidelines in light of the Fed's new rules."

Other mortgage rule changes that affect consumers include:

- Changes to the advertising rules that lenders must follow - such as not allowing lenders to over-emphasize teaser rates and payments
- Changes to the customer-service procedures that loan servicers must follow - such as providing pay-off statements in a timely manner
- Changes to the way that pre-payment penalties are allowed to be used
- Changes to the disclosures, process and timeframe for lenders to collect up-front fees

"Although the new rules don't go into effect until October, 2009, lenders will probably start changing their procedures later on this year to start bringing themselves into compliance," said Nicholas. Members of the press can learn more about the Fed's rules and other current events in the mortgage industry by attending the upcoming CMPS event in New York City on July 28-30. The main presenter will be CMPS Institute Chairman Gibran Nicholas, and there will be a special real estate market forecast delivered by Dr. Lawrence Yun, chief economist of the National Association of Realtors.

The entire event is open to the press, who can request complimentary attendance by registering here: <http://www.cmpsinstitute.org/public/forecast>

About CMPS Institute: CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit www.CMPSInstitute.org or call 888.608.9800.