JAN 10 2014

Prepared Remarks of CFPB Director Richard Cordray at the Phoenix Field Hearing

BY RICHARD CORDRAY

Housing counselors, legal aid attorneys, Attorney General Tom Horne, and Superintendent Kingry – let me extend a warm thank you for joining us today.

When people are making decisions about buying a home, they deserve the best possible guidance. Housing counselors and legal aid lawyers provide that sort of impartial advice, and you also offer much-needed help with rental and credit issues. But you also have been invaluable advisors to many homeowners in trouble. In fact, you are, to my mind, the unsung heroes of the foreclosure crisis, which would have done much greater damage to American consumers and American communities if not for your persistent service to those in need. We all know that particular work is not finished. You still stand in the breach to support millions of homeowners who are struggling with their mortgages and may be in imminent danger of losing their homes. All of us at the Consumer Financial Protection Bureau salute you for this important work that you do every day.

Today, I am happy to say, is a big win for you and your clients across the country. It is the day that our new mortgage rules go into effect and become the law of the land.

As we look back over the years before the financial crisis, we can recognize what Frank Lloyd Wright once said: "There is nothing more uncommon than common sense." That quotation epitomizes the heady years preceding the financial crisis of 2008. Reason and sound judgment were absent when many banks and other mortgage businesses lent to consumers without even considering whether they could pay back the money. The supposedly rational market had become wildly irrational.

Then, as you witnessed first-hand, it all blew up. The collapse of the housing market destroyed jobs in every economic sector and wiped out big chunks of people's hard-earned assets in every community across the country.

Out of this mess came demands for financial reform and, among other things, the creation of the new Consumer Bureau. Consumers want – and need – someone with the authority to stand on their side and provide reasonable safeguards against bad mortgage deals that ruin their credit, cost them their homes, and saddle them with problems that follow them throughout their lives.

While many areas of the country are now recovering and the economy is growing again, we must not forget those who are still struggling – your clients that you see every day. We decided to come to Phoenix to kick off these new mortgage rules because this community knows all too well the heartaches of troubled homeownership. One in five Arizona homeowners with a mortgage still owes more than their home is worth. Across

Receive press releases by email

Email address

SIGN UP

More Information On

Loans Mortgages

Consumer Financial Protection Bureau

Need our logo? You can find it here.

Photos and bios

Director Rich Cordray

Deputy Director Steven Antonakes

Press contacts

Jen Howard
Assistant Director of Communications
(202) 435-7170
Jennifer.Howard@cfpb.gov

Walter Suskind
Press Assistant
(202) 435-9469
Walter.Suskind@cfpb.gov

Mallory McLean
Regional Spokesperson
(202) 435-7955
Mallory.Mclean@cfpb.gov

the country, that number is roughly one in ten. As housing counselors, you know this means more than just having a hard time paying the bills; it also means stunted lives where people cannot move or sell their homes. Others may be embarked on a great struggle just to keep from losing their homes because they cannot keep up with their mortgage payments. Throughout the United States, two million households still remain at high risk of foreclosure.

These troubles did not come out of nowhere; these people were victims of a broken system, with deeply tragic consequences. And today, we are doing something about it by taking a "back to basics" approach to mortgage lending practices. No debt traps. No surprises. No runarounds. These are bedrock concepts backed by our new common-sense rules, which take effect today.

***

The first back-to-basics approach addressed by our new mortgage rules is no debt traps.

For most people, their mortgage is the largest financial obligation of their lifetimes. But it can be difficult to figure out how much house – and how much mortgage – is the right amount. It is easy to get confused by the intricacies of taxes, escrows, interest rates, private mortgage insurance, changing monthly payments, and various fees. So most people rely on the professionals to tell them how it all works. And they assume that the lender will not lend them money unless the lender is confident they will be able to repay the loan. They believe this all means they are positioned to make a responsible decision they can live with for decades, not be lured into something that will bring them financial ruin.

In the lead-up to the crisis, though, some mortgage businesses stopped their inquiries well short of the kind of due diligence needed to lend money responsibly. Some joined their customers to engage in wishful thinking. Some tricked people into believing they could afford loans they could not. Some actually falsified the numbers to make them look like they would work. Certainly some consumers should have known better and made very bad choices. But too many others did not even recognize the risks they had taken on until it was too late.

You were on the front lines. We are all now familiar with "low doc" and exotic mortgages. We know people took out loans they could not afford, or could only keep up with for the first year or two. We know people signed onto complicated terms with no real comprehension of how the transaction worked. We know loan originators got kickbacks for putting families in higher-cost loans than they actually qualified for.

Our new mortgage rules will not allow such practices. Our Loan Originator Compensation rule restricts certain practices that created financial incentives for pushing people into loans with higher interest rates than they actually qualified for based on their creditworthiness. And under our Ability-to-Repay rule (also known as the Qualified Mortgage or QM rule), lenders must now make a reasonable, good-faith determination that the consumer can actually afford the mortgage before they make the loan. Now, obviously, mortgage lenders do not have a crystal ball: they cannot predict if someone will lose a job or have an unexpected financial emergency. But they must look at a consumer's income or assets, and at their debt, and must weigh them against the monthly payments over the long term – not just a teaser rate period. Lenders then can offer any kind of mortgage they reasonably believe the borrower can afford to pay back. This is, in fact, the very foundation of responsible lending – lending money based on a reasonable determination that you will get paid back.

***

Our second back-to-basics approach affects the mortgage servicing market, which

Michelle Person
Spokesperson
(202) 435-7857
Michelle.Person@cfpb.gov

Sam Gilford
Spokesperson
(202) 435-7673
Samuel.Gilford@cfpb.gov

Stay connected

Twitter Facebook Flickr Youtube

Archive

▼ 2014
JANUARY 2014 (4)

► 2013
► 2012
► 2011
► 2010

performed so poorly in recent years. As housing counselors, you know how important mortgage servicers are to homeowners. They bear responsibility for managing the loans. They collect and apply payments to loans. They can work out modifications to the terms of a loan. And they handle the difficult foreclosure process. Because of all the things servicers do and the immense size of the $10 trillion mortgage market, their effects on borrowers and communities can be profound.

New rules are all the more necessary because of the basic structure of mortgage servicing. For the consumer, this relationship often is not a matter of voluntary choice. After a borrower chooses a lender and takes on a mortgage, the responsibility for managing that loan can be transferred to another servicer without any say-so from the borrower. So if consumers are dissatisfied with their servicer, they have no opportunity to protect themselves by switching over to another provider.

The fundamental disconnect between servicers and consumers was starkly revealed during the financial crisis. When the tsunami of delinquencies hit, you saw how problems worsened exponentially for homeowners. Servicers were unprepared to work with borrowers who needed help to deal with their individual problems. People did not get the support they needed, such as timely and accurate information about their options for saving their homes. Servicers failed to answer phone calls, routinely lost paperwork, and mishandled accounts. Consumers missed out on much-needed help due to the indifference or incompetence of their mortgage servicers.

Communication and coordination were so poor that many consumers thought they were on their way to a solution, only to find their homes being foreclosed upon. Sometimes people arrived home to find they had been unexpectedly locked out. Sometimes people found themselves stuck in a nightmare of lost paperwork even as the clock ticked on toward foreclosure. I am sure many in this room have had clients who dealt with similar nightmares.

***

To fix this broken system, the central principles of our mortgage servicing rules are no surprises and no runarounds. Simply put, consumers should not be hit with surprises by those responsible for collecting their payments. If a consumer takes out a mortgage to buy a home, our rules require servicers to keep the homebuyer informed about their loan and to investigate and fix errors. Consumers must be able to see how payments are credited. They cannot be caught off-guard when interest rates adjust. And they cannot be surprised by "forced-placed insurance," which often can be more expensive than the insurance borrowers buy on their own. Our rules force servicers to be more transparent in this process, including advance notice and pricing information before charging consumers.

Our new rules will help borrowers know where they stand. Consumers will not have to guess how much money they owe or when they owe it, because servicers now must send monthly statements showing how they credited the monthly payment. The statement puts all the important information in one place, showing the interest rate, loan balance, escrow account balance, and where the payments are going. And consumers will get ample notice when interest rates adjust. This is valuable, practical information to guide people's choices and actions – exactly what they need. And these requirements apply to all servicers other than the smaller ones such as community banks and credit unions, which typically avoided problems by continuing to work closely with their customers throughout the financial crisis.

To clean up the servicing market, we also are taking square aim at practices that have constantly given consumers the runaround. Our rules require mortgage servicers to treat consumers fairly – when things are going well and also when people get into trouble. It is time to put the "service" back into mortgage servicing. So starting today, our new rules require some very basic things. For example, if you report errors on your bill or account, the servicer must investigate and fix any mistakes.

For consumers in trouble, getting the runaround is not just frustrating, but it can be disastrous. They need good information and actual help. Our rules require mortgage servicers to let consumers know about available options to save a home or to work out a problem in making payments.

Once borrowers become delinquent, servicers must give them instructions on how to obtain more information and begin a process that is intended to determine whether their homes can be saved. Servicers have to provide regular and dependable assistance when consumers call for help. No more endless phone trees or dealing with people who lack access to the relevant information.

We are also restricting "dual tracking" by barring servicers from starting foreclosure proceedings until the borrower has been delinquent for at least 120 days. If the borrower submits a completed application for loss mitigation, no foreclosure sale can occur until all other available options have been considered. These options can range from deferring payments to modifying loans or even a short sale, among other things. And servicers cannot foreclose on a property once a loss mitigation agreement has been reached, unless the borrower fails to perform under that agreement. We expect these simple protections to help prevent needless foreclosures, which is best for borrowers, lenders, and our entire economy.

These measures can often determine whether people save or lose their homes. That is not just an economic matter. For many, their home is the only safe place in their lives, the fundamental constant in their family relationships, and a key symbol of their progress in climbing the ladder to success in life. Those deep emotional attachments show just how much is at stake here.

I would like to take a moment to correct an erroneous myth that these new measures will bog people down in red tape. On the contrary, these measures are not new at all. They are exactly what good community banks and credit unions have been doing for many, many years. They amount to little more than taking the time to work directly with customers to address their personal circumstances. In short, our rules mean simply that mortgage servicers must now do their jobs.

It may seem silly that we need rules to tell servicers to answer the phone; not to lose people's paperwork; to tell borrowers how much they owe. It might also seem silly that we need a rule telling lenders they must pay attention to whether borrowers will be able to repay the money that is lent to them. But we have lived through the financial crisis. We have seen with our own eyes the grave dysfunctions in the mortgage market. There was an embarrassingly long list of things that should have happened but never seemed to happen. Our new rules are aimed at setting things right again.

We mean to end a failed process in which too many struggling homeowners have been kept in the dark about where they stand. Too many Americans have been forced to roll this rock up the hill only to see it roll down again, repeatedly. People deserve better; they are entitled to be treated with respect, dignity, and fairness. Our new servicing rules will help ensure that happens.

***

Importantly, these new mortgage rules are now subject to federal supervision and enforcement across the entire marketplace. It does not matter whether a loan is made by a bank or by some other kind of financial firm. It no longer matters whether a bank or some other kind of financial firm is servicing mortgages for the mortgage owner: the same basic rules and oversight apply. In particular, our mortgage rules are backed by the full supervisory and enforcement authority that Congress has vested in the

Consumer Bureau. We will be vigilant about overseeing and enforcing these rules.

As we all saw in the lead-up to the financial crisis, common sense turned out to be not so common. By bringing back the basic building blocks embodied in these rules, we will improve conditions for all Americans seeking to enter the housing market, as well as for those who are working to pay down their existing loans or struggling to stay in their homes.

Today, we are very glad to take the time to walk you through the specifics of these rules. We urge you to help us spread the word about their benefits to your clients as well. Work with us to help educate the public about the specific ways they can look forward to a new and better marketplace. And if they experience problems with servicers that are not following these new rules, please let them know that anyone is welcome to file a consumer complaint – on mortgage issues or on many other consumer financial issues – at our website, consumerfinance.gov. For those of you here today, if you have any further questions about the issues we will be covering, please go to consumerfinance.gov/mortgage to find out more.

It is a great partnership for our new agency to be working with housing counselors and legal aid attorneys across the country. You have made, and continue to make, a crucial difference in many people's lives. When I served in state office in Ohio, we were hit by the first waves of the foreclosure crisis. We struggled to understand the issues, and we worked and worked to help people save their homes. Again and again, we found that nobody did that as well as HUD-approved housing counselors. Today is an important day because the Consumer Financial Protection Bureau is providing you with the kind of support you needed and deserved all along. Together, we can find renewed hope in what lies ahead. Our mutual goal is sustainable homeownership based on responsible lending and excellent customer service. Common sense, after all, serves the common good. Thank you.

###

The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.