JAN 29 2015

CFPB Issues Proposal To Facilitate Access To Credit In Rural And Underserved Areas

Proposal Would Extend Provisions to Cover More Community Banks, Credit Unions, and Other Creditors

WASHINGTON, D.C. – The Consumer Financial Protection Bureau (CFPB) today proposed several changes to its mortgage rules to facilitate responsible lending by small creditors, particularly in rural and underserved areas. If finalized, the proposal issued today would increase the number of financial institutions able to offer certain types of mortgages in rural and underserved areas, and help small creditors adjust their business practices to comply with the new rules.

"Responsible lending by community banks and credit unions did not cause the financial crisis, and our mortgage rules reflect the fact that small institutions play a vital role in many communities," said CFPB Director Richard Cordray. "Today's proposal will help consumers in rural or underserved areas access the mortgage credit they need, while still maintaining these important new consumer protections."

In January 2013 and May 2013, the CFPB issued several mortgage rules, most of which took effect in January 2014. Among these rules, the Ability-to-Repay rule protects consumers from irresponsible mortgage lending by requiring that lenders generally make a reasonable and good-faith determination that prospective borrowers have the ability to repay their loans. Under the Ability-to-Repay rule, a category of loans called Qualified Mortgages prohibit certain risky loan features for consumers and are presumed to comply with ability-to-repay requirements.

There are a variety of provisions in the rules that affect small creditors, as well as small creditors that operate predominantly in rural or underserved areas. For instance, a provision in the Ability-to-Repay rule extends Qualified Mortgage status to loans that small creditors hold in their own portfolios, even if consumers' debt-to-income ratio exceeds 43 percent. Small creditors in rural or underserved areas can originate Qualified Mortgages with balloon payments even though balloon payments are otherwise not allowed with Qualified Mortgages. Similarly, under the Bureau's Home Ownership and Equity Protection Act rule, small creditors that operate predominantly in rural or underserved areas can originate high-cost mortgages with balloon payments. Also, under the Bureau's Escrows rule, eligible small creditors that operate predominantly in rural or underserved areas are not required to establish escrow accounts for higher-priced mortgages.

Since issuing the mortgage rules, the CFPB has continued to monitor the mortgage market and seek public feedback. In May 2013, the Bureau announced it would study whether the definitions of rural and underserved should be adjusted. In May 2014, the Bureau requested public comment regarding the origination limit for small creditor status. The proposal announced today reflects the Bureau's ongoing study of the market and extensive outreach to stakeholders including consumer advocates and industry groups. Today's proposed amendments would:

- **Expand the definition of "small creditor":** Under the proposal, the loan origination limit for small-creditor status would be raised from 500 first-lien mortgage loans to 2,000 and would exclude loans held in portfolio by the creditor and its affiliates.

- **Include mortgage affiliates in calculation of small-creditor status:**The proposal would not change the current asset limit for small-creditor status, which is set at less than $2 billion (adjusted annually) in total assets as of the end of the preceding calendar year. However, the proposal would include the assets of the creditor's mortgage-originating affiliates in calculating whether a creditor is under the limit.

- **Expand the definition of "rural" areas:** In addition to counties that are considered to be "rural" under the CFPB's current mortgage rules, the proposal would expand the definition of "rural" to include census blocks that are not in an urban area as defined by the Census Bureau.

- **Provide grace periods for small creditor and rural or underserved creditor status:** Creditors that exceeded the origination limit or asset-size limit in the preceding calendar year would be allowed to operate, in certain circumstances, as a small creditor with respect to mortgage transactions with applications received prior to April 1 of the current calendar year. The proposal would create a similar grace period for creditors that no longer operated predominantly in rural or underserved areas during the preceding calendar year.

- **Create a one-year qualifying period for rural or underserved creditor status:** The proposal would adjust the time period used in determining whether a creditor is operating predominately in rural or underserved areas, from any of the three preceding calendar years to the preceding calendar year.

- **Provide additional implementation time for small creditors:** Eligible small creditors are currently able to make balloon-payment Qualified Mortgages and balloon-payment high-cost mortgages regardless of where they operate, under a temporary exemption scheduled to expire on January 10, 2016. Today's proposal would extend that period to include balloon-payment mortgage transactions with applications received before April 1, 2016, giving creditors more time to understand how any changes will affect their status, and to adjust their business practices.

The proposal would make several additional minor or technical changes to the rules. The proposed rule will be open for public comment until March 30, 2015.

A copy of the proposal is available at:http://files.consumerfinance.gov/f/201501_cfpb_amendments-relating-to-small-creditors-and-rural-or-underserved-areas.pdf

The CFPB has been working to ensure a smooth transition to compliance with the new mortgage rules. The Bureau has coordinated with other agencies, published plain-language guides and other compliance aids, and had regular contact with industry participants, consumer advocates, legal aid attorneys, housing counselors, and others to answer their questions. The CFPB also has provided educational materials to the public about their new protections under the rules.

###

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.