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Connecticut Mortgage Bankers Association, Inc.
Opening Doors

What I Want for the Holidays

By Norman H. Roos

It's that time of year when folks are making their holiday shopping lists. High up on my list will be the availability of 30-year mortgages for my children. Not really. I'm just trying to make a point.

My point is that the traditional mortgage financing that has played a key role in making homeownership available to Connecticut residents and people across the country for decades is in jeopardy of being placed on the "endangered" list.

The source of my concern is the seemingly unceasing barrage of federal, state and local legislation intended to address the causes and effects of the 2008 financial crisis. There have already been a plethora of laws making it more difficult for individuals and companies to enter the mortgage industry. As a result, there are far fewer loan originators and mortgage lenders in Connecticut today than there were 10 years ago (before the financial crisis occurred).

The Dodd Frank Act and similar legislation increase the regulatory requirements on those companies still in the mortgage business. In particular, small financial institutions who played no role in the events leading up to the financial crisis face difficult challenges maintaining profitability in a flat economy while coping with increasingly costly and time-consuming regulations.

Not only are there fewer sources of mortgage loans, there is the potentially far greater concern that a number of good mortgage products that have served borrowers well over the years may go away. Starting in January 2014, banks and other mortgage lenders will likely be limiting their loan offerings to really safe loans. The term used by the federal regulators is "QM" loans or "qualified mortgages." "Non-QM" loans will be much more risky for lenders to make.

While the QM rules are too complex to describe in detail here, suffice it to say that QM loans do not include low down payment or higher cost mortgages. While there has been extensive negotiation between regulators and the industry to expand the definition of QM loans, the number of borrowers who might qualify for mortgage financing today may drop significantly starting in January.

Apart from QM, there are other troubling issues on the mortgage front. Fannie Mae and Freddie Mac have long been under attack but the fact remains that they currently supply the bulk of the funding for 30-year mortgages in this country. While there may be excellent arguments for privatizing or reforming these government-sponsored entities, if the effect of doing so is to severely curtail or eliminate 30-year mortgages, it could have a devastating impact on housing values.

So what I am really looking for is an abatement of what I consider to be regulatory overkill that has followed in the wake of the mortgage meltdown. There have been many new laws that have gone a long way to protect consumers from mortgage lenders and loan servicers. The real challenge now is to protect consumers from myopic legislators and regulators.

That being said, there have been positive signs in that regard. Many regulators and legislators alike now understand that the cost and complexity associated with the Dodd Frank-era legislation and regulations is becoming counterproductive, I believe.

Hopefully, the regulatory burdens on those bankers and mortgage companies that we count upon for mortgage financing will now diminish rather than intensify. In any event, when I sell my home someday, I sure hope my buyers are going to be able to get a mortgage.

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