Michigan Mortgage Lenders Association

Senate Banking and Financial Institutions Committee

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Introduction

The Michigan Mortgage Lenders Association has served the real estate finance community in the state of Michigan since 1929. We are comprised of over 1500 individual members from 246 companies, including mortgage banking firms, mortgage brokers, commercial banks, savings banks, credit unions and other business entities providing products and services to the mortgage industry.

MMLA Mission Statement

To provide our members with the resources, legislative voice and education to effectively support the real estate finance community and guide the people of the State of Michigan in the achievement of the American Dream of homeownership.

Overview of the Michigan Mortgage Industry

- Both depository institutions (banks, savings banks, credit unions) and non-depository institutions (mortgage banking firms and mortgage brokers) originate and service mortgages in Michigan.
- Non-depository mortgage originators account for almost 48 percent of the total 1-4 family mortgage originations nationally.
- The Department of Insurance and Financial Services (DIFS) is the regulatory agency for non-depository mortgage lending and servicing firms, mortgage brokers and mortgage loan originators, with a total of over 600 companies and 8000 individuals licensed or registered.

Overview of the Michigan Mortgage Industry Continued

- Mortgage companies must comply with the Mortgage Brokers, Lenders, and Servicers Licensing Act, 1987 PA 173, for first lien, 1-4 family mortgage lending, and the Secondary Mortgage Loan Act, 1981 PA 125, for secondary mortgage lending.
- Individuals who negotiate and originate mortgage loans must be licensed by complying with the educational and background check requirements mandated by the Mortgage Loan Originator Licensing Act(MLOLA), 2009 PA 75.

Overview of the Michigan Mortgage Industry Continued

In 2002, with the full support of the MMLA, the Michigan Legislature enacted two new laws, which further added to the regulatory tools of the DIFS Director.

1. In May 2002 the "Bad Actors Law", PA 391 of 2002, gave the Director the authority to issue orders banning individual perpetrators who committed fraud, from having an ownership interest in, or being employed by a Michigan mortgage lender, broker or servicer.

2. In December 2002 the Consumer Mortgage Protection Act, PA 660 of 2002 was enacted, which addressed certain abusive and predatory lending practices and gave the Director explicit authority to enforce compliance with, and impose state sanctions for violation of, applicable federal laws and regulations.

Federal Laws Regulating Mortgage Firms

Mortgage Originators and Servicers must comply with many federal Laws and regulations including:

a) The Federal Truth in Lending Act

b) The Real Estate Settlement Procedures Act

b) The Home Mortgage Disclosure Act

c) The Equal Credit Opportunity Act

d) The Home Ownership and Equity Protection Act and Regulations

e) The Fair and Accurate Credit Transaction Act

e) The Dodd-Frank Act enacted by Congress in the wake of the 2007-2008 financial crisis and ensuing recession

Dodd-Frank Act
Major Challenges For the Mortgage Industry

The Consumer Financial Protection Bureau (CFPB), the agency that enforces the Dodd-Frank Act, has over the last couple of years issued several thousand pages of new rules to implement the Act including :

- The Ability to Repay Rule/Qualified Mortgage Rule

  Requires that a lender makes a determination that a borrower has the ability to repay a mortgage based on specific underwriting criteria. Limits characteristics of a loan and points and fees to 3% of the loan amount. If the requirements are met it provides a legal safe harbor for lenders. Some prohibited characteristics include negative amortization, interest-only, high debt to income extended terms passed 30 years. This rule became effective on January 10, 2014.

- Home Ownership and Equity Protection Act

  Provides limits to points and fees that can be charged in association with a mortgage loan. Also limits the Annual Percentage Rate charged.

Dodd-Frank Act
Major Challenges For the Mortgage Industry

- A Loan Originator Compensation Rule
  Prohibits loan originator compensation based on the terms of the loan, other than the loan amount, and would generally prohibit loan originators being compensated by both consumers and other parties. This rule became effective January 10, 2014.

- RESPA/TILA Servicing Requirements
  Requires monthly statements to all borrowers during the servicing of their loan. Prohibits "dual tracking", when a borrower is both in a foreclosure process and loss mitigation at the same time. Requires a dedicated single point of contact for borrowers in default. Requires that a loan be at least 1 20 days delinquent prior to starting the foreclosure process. Requires additional notices and prompt crediting of payments. These changes took effect in January 2014

Dodd-Frank Act
Major Challenges For the Mortgage Industry

- Equal Credit Opportunity Act

  Changes require that a borrower be provided with a copy of any valuation used in the decision process on a loan at least 3 business days before closing. This became effective in January 2014

- Home Mortgage Disclosure Act

  The changes require that several additional data elements be collected and reported. It also changes who is required to submit data. The final rule implementing this change was announced in October 2015.

Dodd-Frank Act
Major Challenges For the Mortgage Industry

- Truth in Lending Act/Real Estate Settlement Service Act Integrated Disclosure Rule or TRID- Effective October 3, 2015
  - This is momumental regulation completely overhauling the main financial disclosures provided in the mortgage process.
  - Over 1800 pages of identifying requirements require changes to business processes, technology, policies and procedures, vendor relationships, employee training, etc.
  - Two new forms replacing the Good Faith Estimate, Truth in Lending Disclosure and HUDI Settlement Statement in most loans.

- Major increase in delinquencies and foreclosures
- Michigan was in the top ten states with the highest delinquency and foreclosure rates
- A huge fall in mortgage originations for refinancing or home purchase
- These developments resulted in a significant reduction in the number of mortgage brokers, lenders and servicers operating in Michigan.

IMPACT OF THE RECESSION OF 2008

- In April of 2008 Michigan enacted legislation requiring the registration of loan originators including mandating 24 hours of coursework, the passing of a proficiency exam, FBI background checks, and continuing education.

- In July of 2008 Congress enacted the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act, which mandated that all states enact mortgage loan originator licensing laws that met certain specific minimum standards.

- In 2009, in response to the federal mandate, Michigan enacted the Mortgage Loan Originator Licensing Act (MLOLA), which repealed the 2008 loan originator registration law. MLOLA, in addition to pre-licensure requirements similar to the repealed Michigan law, required bond coverage for each mortgage loan originator.

IMPACT OF THE RECESSION OF 2008

Statistical Overview of Michigan's Mortgage Market-Source Mortgage Bankers Association

- Michigan, homeownership rate as of the second quarter of 2015 was 75.3% which is over 10% higher than the national rate of 63.4%.
- Serious delinquency rate (90 days or more past due or in foreclosure) in Michigan was 2.70% in the second quarter of 2015, compared to 6.76% in the fourth quarter of 2011.
- The Michigan foreclosure starts rate in the second quarter of 2015 was 0.34% compared to 1.22% in the fourth quarter of 2011.
- The year over year change in home prices (2014/2013) was 6.53% compared to 5.46% nationally.

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THANK YOU TO THE COMMITTEE

QUESTIONS?