

Comments for the Qualified Mortgage Rule-Making  
Submitted to the Consumer Financial Protection Bureau  
By Housing Counseling Agencies  
Submitted March 19, 2012

As housing counseling agencies which are working directly with homebuyers and homeowners, we are submitting comments on the Qualified Mortgage requirements in Dodd-Frank and on the Joint Comment submitted by Center for Responsible Lending, the Clearinghouse Association, Consumer Federation of America, and Leadership Conference on Civil and Human Rights.

Our primary concerns are that the Qualified Mortgage rules provide proper protections for housing consumers against unfair practices and do not create unnecessary barriers for housing consumers to access mortgage credit, especially for underserved homebuyers and homeowners.

In the Joint Comment, we are in favor of the rebuttable presumption, the strengthening of protections on adjustable rate mortgages, and the recognition of nontraditional or alternative incomes. These are all important contributions to the Qualified Mortgage requirements.

Housing counseling provided by nonprofit HUD approved housing counseling agencies is an important program, which can help homebuyers and homeowners seeking mortgage credit and can help lenders determine which mortgage applicants have the financial resources and ability to maintain their mortgage payments. This is especially important in underserved markets representing communities of color, low and moderate income neighborhoods and households that do not speak English as a first language.

Housing counselors can provide a deeper analysis of borrower's income, savings, credit, and resources than mainstream lenders traditionally do. Pre-purchase housing counseling from independent, objective third-parties delivered in a timely manner and in a one-on-one setting is highly effective. The critical knowledge a borrower needs to navigate the mortgage market is delivered at a point in time when 1) they are most receptive to the information (because it is relevant to a near-term decision) and 2) they have enough time to act on the information.

It is critical to distinguish between this kind of high-impact housing counseling and less effective models, such as a generic classes or online courses delivered moments before signing mortgage papers. This kind of "check the box" model does not empower consumers or inform their decision-making. Building the role of nonprofit housing counselors from HUD approved housing counseling agencies into Qualified Mortgage rules will help increase the access to credit for nontraditional borrowers while increasing the safety for the lender of the loans being made.

In the Joint Comment, there are two areas where the role of housing counseling can be strengthened. The first is the section on alternative or nontraditional income and the second is the section on extending the total debt ratio beyond 43%.

### Alternative or Nontraditional Income

Any reliable evaluation of a borrower requires a complete analysis of income and proper documentation. Traditionally, incomes are documented through paycheck stubs, W-2's, award letters, profit and loss statements, and tax returns. However, in many communities, there are nontraditional or alternative incomes, which are not routinely captured by the traditional income evaluations. These are real incomes with dependable income streams, which more accurately identify the actual income of the homebuyer or homeowner, as long as the income can be properly documented. Examples cited in the Joint Comment are boarder income, and informal self employment. To this list, we would add income pooling, where members of the household who are not on the mortgage application consistently contribute income into the household. A common example is the grandmother who contributes her monthly social security check. The Joint Comment includes boarder income and informal self-employment, and we urge that income pooling also be included in the examples of nontraditional or alternative income.

The key issue is proper documentation of these incomes sources. We recommend that housing counselors working for nonprofit HUD approved housing counseling agencies work with homeowners to identify and assemble the appropriate documents for verifying nontraditional or alternative income sources. Housing counselors can document alternative incomes through bank deposits, customer receipts, written agreements, income tax returns, canceled checks, and interviews with employers and customers.

### Extending the Total Debt to Income Ratio Beyond 43%

In our experience as housing counselors, it is clear that some homebuyers and homeowners can safely handle a total debt to income (TDTI) ratio that is above 43%. We endorse the concept of a water fall to determine which borrowers should be able to extend their TDTI beyond 43%. However, we recommend that housing counseling by a nonprofit HUD approved housing counseling agency should be a requirement for any borrower going over 43%. The housing counselor will be able to evaluate the borrower's income, savings, credit, and budget along with the factors in the Joint Comment water fall to determine when it would be appropriate to extend the TDTI beyond 43%. This is a perfect example of a point in the homebuying or refinance process where a housing counselor can work with the entire financial picture of the borrower and determine the best course of action.

### The Value of Housing Counseling

Housing counseling is an effective tool for helping potential borrowers make the appropriate financial decisions, learn financial management techniques, and properly prepare for mortgage application with an accurate documentation of income, credit, debts,

and savings. Advising borrowers when they are over extended in housing payment to income ratio or total debt to income ratio or advising them when a loan product is not a good match for their financial situation prevented many people from getting into unaffordable and often predatory loans. Advising potential borrowers that they are not financially ready to purchase a home at this time is a valuable counseling contribution for the borrower and for the lender. Also, delivering housing counseling services in the language the borrower is most comfortable with increases understanding and effectiveness.

It is important that borrowers receive a full counseling program and not just come to a counselor for assistance in income documentation or stretching the total debt to income beyond 43%. Housing counselors provide financial education and coaching to support potential homeowners to be more financially prepared in their home purchase, by incorporating information about building savings for reserves, reducing overall consumer debt, and improving family budgeting skills. These skills not only help the homebuyers obtain their home mortgage, but also contribute to more successful and sustainable long term homeownership.

The CFPB must rely on robust data and information to inform the creation of Qualified Mortgage and Ability-to-Repay rule making. There is a growing consensus among lenders that housing counseling is a valuable activity, which properly prepares borrowers, increases the access for underserved markets, and improves delinquency rates. Unfortunately, the data behind these performance numbers is proprietary data, which lenders have not made available to regulators and policy makers. We encourage the CFPB to request these data from the lenders.

Recently, Collins and O'Rourke summarized 10 important studies on the effectiveness of homebuyer education and counseling. These studies provide "evidence that participation of homeowners in pre-purchase programs is associated with positive effects . . ." Collins also noted on a recent study of an Indianapolis credit counseling agency, "Using a well-designed propensity score-matching model, the authors find that the program significantly decreased applicants' default rates, especially among the riskiest (in terms of income and credit scores) borrowers. They attribute this finding to the pre-purchase counseling program, the type of mortgage offered to clients and the proactive post-purchase counseling component."<sup>1</sup>

Fannie Mae has also shared with housing advocates relevant data about successful pre-purchase counseling models utilizing state housing finance agencies and housing counseling. The data compared loan performance based on LTV, credit scores, and housing counseling. Fannie Mae loans administered through the state housing finance agencies that required housing counseling outperformed borrowers with high LTV and credit scores. We request that the CFPB ask the Federal Housing Finance Board for these data.

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<sup>1</sup> J. Michael Collins and Collin O'Rourke, Homeownership Education and Counseling: Do We Know What Works? Research Institute for Housing America April 2011.

In addition, two studies of loans made by an Ohio lender in several Midwestern states found a decrease in delinquencies for households who received financial counseling, and the second study showed a 39% decrease<sup>2</sup>. A recent in depth study of an Indiana housing counseling agency also showed a significant reduction in delinquencies<sup>3</sup>.

Many of these studies evaluate counseling based on delinquency rate. They do not evaluate other benefits of housing counseling, such as increased access to credit for underserved markets, improved borrower financial knowledge, avoidance of inappropriate loan products, decreased mortgage origination rejections, and borrowers deciding not to purchase because they are not ready.

In conclusion, we encourage you to include housing counseling as a component of the QM rule-making. We would like to request a convening with you to further discuss these recommendations. Thank you for your consideration.

Center for New York City Neighborhoods  
ClearPoint Financial Solutions  
HomeFree-USA  
Homeownership Preservation Foundation  
Housing Action Illinois  
Housing Partnership Network  
Mission of Peace National Corporation  
National Coalition for Asian Pacific American Community Development  
National Council of La Raza  
National Federation of Community Development Credit Unions  
National Foundation for Credit Counseling  
National Urban League  
Seedco  
Springboard Non Profit Consumer Credit Management, Inc

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<sup>2</sup> Hartarska, Valentina, and Claudio Gonzalez-Vega. 2005. Credit Counseling and Mortgage Termination by Low-Income Households. *Journal of Real Estate Finance and Economics*, 30 (3): 227-243 and Hartarska, Valentina, and Claudio Gonzalez-Vega 2006. Evidence on the effect of credit counseling on mortgage loan default by low-income households. *Journal of Housing Economics*, 15 (1): 63-79.

<sup>3</sup> Agarwal, Sumit, Gene Amromin, Itzhak Ben-David, Souphala Chomsisengphet, and Douglas D. Evanoff. Learning to Cope: Voluntary Financial Education Programs and Loan Performance During a Housing Crisis. Charles A. Dice Center Working Paper No. 2009-23.