THE ALPINE Advisor

Alpine Mortgage Planning

NEW RULES SAME GAME?

WHAT THE TRUTH-IN-LENDING ACT MEANS FOR YOUR HOME-BUYING STRATEGY

Did you know that reportedly fewer than 10 percent of people keep their New Year's resolutions? Now that it's almost the second month of the year, many people have already fallen behind on their great plans for 2014. Hurdles to resolutions are easy to come by, and they're often the reason big plans don't pan out.

You may have heard talk of the new mortgage laws that took effect this month, along with some scary warnings about how hard it'll be now to qualify for a mortgage. If you have a homeownership goal you're hoping to meet this year, the last thing you need is that kind of rumor to pour cold water on your dreams. Fortunately, hearsay is never the whole story, and the new regulations don't necessarily mean your plans are doomed to fail.

While it's true that these rules could change the game for a very small percentage of borrowers, the vast majority of mortgage-seekers can still expect to find a good deal on a home loan. And even if you're one of the few who are unable to meet the new requirements immediately, you can take some simple steps this year toward helping you qualify in the near future.

So, what are these new rules?

ABILITY-TO-REPAY (ATR) AND QUALIFIED MORTGAGES (QM)

Last month, the Consumer Financial Protection Bureau's final rule under the Truth-in-Lending Act went into effect. The new regulation has two parts: The Ability-to-Repay rule and the Qualified Mortgage distinction. Ability-to-Repay is a law lenders have to uphold, while underwriting Qualified Mortgages is a "best practice" that offers lenders protection from lawsuits. Although it isn't required, most lenders choose to comply with Qualified Mortgage tests for their own security — and because it's best for both borrowers and lenders to write responsible mortgages that borrowers can reasonably repay.

The Ability-to-Repay rule requires lenders to look at eight parts of your financial profile, including your income, current employment status, calculated monthly mortgage payments, debts and monthly obligations, total debt-to-income ratio, and credit history.

They're then required to document evidence of their investigation into each area, with enough detail to show that you're able to pay the loan back based on current and expected circumstances.

Qualified Mortgages are the final piece in the puzzle. In order to be considered compliant with Qualified Mortgage standards, with very few exceptions a new loan can't have total points and fees that exceed 3 percent of the loan amount, and in extremely rare cases the borrower's debt-to-income ratio can't exceed 43 percent. The mortgage also can't be a "balloon," interest-only or negative-amortization loan. If the borrower does default on a loan designated as a Qualified Mortgage, the new legislation provides the lender with "safe harbor" from a legal dispute.

WHAT THE RULES MEAN FOR YOU

And so we arrive at the million-dollar question: "How does the change affect me?" For most people, the new rules won't change your ability to qualify for a mortgage — they will just mean a more thorough or lengthy peek into your financial situation during the qualification process, in order to give your lender the best-possible picture of your whole financial outlook. Self-employed buyers can expect the income-verification process to be a bit more involved, and buyers looking to take out very large mortgages ("jumbo loans") may need to reconsider the loan amount they can afford based on their total debt profile.

But a small percentage of those who want a home loan — experts estimate up to 10 percent — may struggle to qualify for any mortgage, usually because of debt-to-income ratio or credit history. The good news is that in all but the most extreme cases, reducing your debt and working to repair your credit can eventually bring you below the 43 percent threshold and demonstrate to lenders that you're a responsible borrower. When you're ready, you'll be able to shop the market for a competitive product.

SMART LENDING, SMART BORROWING

It's been six years since the housing-market bubble burst — six long years of anxiety, anticipation and recovery. In 2012 we saw the market's much-anticipated turnaround, and in 2013 we heard it breathe a sigh of relief. This year promises continued restoration and prevention. If you're considering purchasing a home, talk to an Alpine mortgage advisor about the mortgage-qualification process and the loan types that might be available to you. An expert can help you look at your full financial picture, review your targets for 2014 and decide if this year is the right time to realize your homeownership goals.