SUBPRIME MORTGAGES UNDER A NEW NAME

Is "Dignity Mortgage" seeds of future trouble?

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Recently I saw an article in the Denver Post's business section that gave me a bit of a chuckle. I had to go back and look at the date of the paper and make sure it wasn't April Fools' Day.

The headline:

"Activists envision a subprime loan with dignity"

The article, drawn from the Los Angeles Times, by E. Scott Reckard, describes how some consumer advocates are calling for lenders to offer a "new kind of loan for buyers with lower incomes or bad credit."

They are referring to this "new kind of loan" as the Dignity Mortgage.

Not to be confused with a Subprime Mortgage (although I don't see the difference).

Debt with dignity

This type of loan would have a higher initial rate for higher-risk applicants. After borrowers make timely payments for five years, their rate would be reduced to the same rate as borrowers who have excellent credit.

The consumer advocates who are pushing this idea are concerned about the difficulty that higher-risk applicants are facing trying to qualify for mortgage loans in the current environment.

The segment of home buyers that the advocates are describing are individuals who have poor credit scores because they lost their jobs, their homes, or both in the past few years. Now, they have found new jobs and started to put together some money for a downpayment on a new home.

However, mortgage lenders' credit standards have tightened considerably.

Lenders are not as willing to make subprime mortgage loans as they use to be.

I wonder why? Perhaps they have kept up with the latest Dodd-Frank-Act-inspired mortgage regulations from the Consumer Financial Protection Bureau.

Be sure you don't drown in the spin cycle

My point is that everything runs in cycles.

I remember the days when regulators and consumer groups were "encouraging" banks to make loans under innovative lending programs and flexible credit standards to make more loans available to more people, within safe and sound banking standards, of course.

Now, those loans are subject to more stringent regulatory requirements as higher-priced mortgages and high-cost mortgages, which create a disincentive to that type of lending.

Not to mention the negative image associated with "subprime lender" that the media and the regulators attach to the lending category.

However, if mortgages continue to be difficult to obtain for a large portion of the population based on the current regulatory environment, we might just see those efforts to incent a Dignity Mortgage or some other innovative lending

program for mortgages reborn.

Everything runs in cycles--and not just fashion and hairstyles.

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In the March ABA Banking Journal Lucy Griffin, Nancy's co-blogger, presents an appreciation of the new world of mortgage lending, which she believes is like the old world of mortgage lending.

Read "The ‘70s are back: Post-crisis regulatory overhaul remakes how American home finance works--and how many lenders are going to work."

About Nancy Derr-Castiglione

“Lucy and Nancy’s Common Sense Compliance” is blogged by both Lucy Griffin and Nancy Derr-Castiglione, both ABA Banking Journal contributing editors on compliance.

Nancy, a Certified Regulatory Compliance Manager, is owner of D-C Compliance Services, an independent regulatory compliance consulting services business that has provided expertise in compliance training, monitoring, risk assessment, and policies and procedures to financial institutions since 2002.

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