

NEWSBRIEF

New Mortgage Rules May Mean Less Choice



by Phyllis Rockover

Will Dodd-Frank change the way you do business?

New rules starting early next year designed to make mortgages safer may result in less choice for borrowers.

The problem: small banks may drop out of the business because of the cost of tougher regulations.

Beginning Jan. 10, banks have to make sure that borrowers can actually afford the loan, a result of the Dodd Frank law passed in 2010. The failure to do so carries strict penalties. “My concern is that we’re going to be in an environment where some lenders are too small to comply,” said David Stevens, CEO of the Mortgage Bankers Association.

During the housing bubble, some banks issued loans without even checking applicants’ income or assets. They were called liar loans.

That means, for example, that the banks can’t lend to anyone whose total debt payments would exceed 43% of their income. Lenders must carefully examine and double check pay statements, bank records, tax returns and other paperwork provided by borrowers.

The problem also lies in the fact that the law lumps us investors who are doing land contracts or any owner financing into this category.

There are opinions back and forth as to what the Safe act and the Dodd Frank act will mean to us. Supposedly, if you don’t comply and use an nmls [Nationwide Mortgage Licensing System] mortgage broker to spit negotiate and spit out the paperwork, you can get in deep doo-doo. The last thing I want to do is let some broker decide what terms I want to use for a new buyer.

I made a lot of money by doing land contracts and raising the interest rate. I think this is a great time to do this again but I am nervous. There is also a strategy where all you do is get a contract with a subject to clause and then merely assign the contract to a new buyer and collect an assignment fee. I don’t know how that will shake out also.

I believe that this is still a great strategy and I am not giving up on it. We just have to find the loopholes.

The author is the President and Founder of REIC of LA. Reprinted by Permission from the R.E.I.C. of L.A. News. Published by the Real Estate Investors Club of Los Angeles. Phone: 310-792-6404 Visit www.realestateclubla.com