

Michelle W Bowman: Mortgage market regulation and access to mortgage credit

Speech (via webcast) by Ms Michelle W Bowman, Member of the Board of Governors of the Federal Reserve System, at "Opportunities and Challenges for Homeownership," a Virtual Roundtable Discussion, Bozeman, 1 October 2020.

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Good afternoon, everyone. Thank you to Montana State University (MSU) for hosting today's event and for that very kind introduction. It is wonderful to see the success of your Community Banking Program here at MSU and your commitment to investing in the education of future generations of community bankers.

Throughout the response to the pandemic, community bankers have continued to serve as the primary source of credit to small businesses and have continued to provide economic and financial support to communities across our nation. Young people, like all of you engaged in this program, will very likely become the future leaders of these institutions, which are critical to their communities and to our economy and financial system.

One of the most significant challenges facing community bankers today is navigating the complex regulatory framework. One area that has become more complicated is a line of business that has traditionally been the foundation for community banking, home mortgage lending. Community bank leaders consistently tell me that significant regulatory burden related to making home mortgages has been a major reason they have scaled back their mortgage lending activities or exited the market altogether. Along with tightened lending standards, this trend has made it harder for middle- and lower-income borrowers to obtain mortgage credit since the global financial crisis.

Fortunately, work is under way to relieve that burden, and I will highlight one effort in particular. But before I do, let me provide some context by reviewing the current state of the economy and its effect on homeowners and would-be homeowners.

The COVID-19 Pandemic and Homeownership in the U.S.

The COVID-19 pandemic is having a profound effect on individuals and families across the U.S. and throughout the world. While a strong recovery has begun, it is clear that there is still a way to go before we are back to the robust economy we experienced at the beginning of the year. These challenges are affecting homeowners and the lenders that provide credit to support them. Many homeowners who have lost a job or have had their income affected by economic conditions have been able to work with their lenders, but such help may not be a long-term solution for many borrowers.

Fortunately, the housing market as a whole is a bright spot for the economy. Higher home prices are improving the balance sheets of many households, even those that may face income and employment challenges, and new construction activity is generating new job opportunities. While affordability remains an important consideration, it is encouraging that housing has performed well in response to low interest rates.

Mortgage Regulations and Access to Mortgage Credit

However, even during this period of strong performance in the housing market, access to affordable mortgage credit remains a barrier to homeownership for some borrowers, due in part to regulatory burden. Since the last financial crisis more than a decade ago, there have been a number of new mortgage regulations that added requirements for both borrowers and lenders.

While many of these requirements have contributed to a safer and more consumer-friendly mortgage market, they have also introduced significant paperwork and delays that can present roadblocks for many borrowers. These new rules have also made it more difficult and costly for small banks to originate mortgage loans, leading many community banks to scale back on home lending activity or abandon it altogether.

Homeownership is as important to communities as it is to individuals, and access to credit for rural and low-to-moderate income communities often depends on community banks. In many communities, especially rural communities, if the local bank has been forced out of mortgage lending due to burdensome regulation, it means little or no access to mortgage credit, preventing buyers from financing home purchases and homeowners from selling their homes.

Many leaders of small community banks have told me that the compliance costs for originating smaller mortgages are prohibitive, and that the staffing and training required to meet the strict requirements are extraordinary in relation to the limited number of mortgages they originate. As one state banking commissioner said to me recently, "It doesn't make a lot of sense that you can make an \$80,000 truck loan on two sides of a sheet of paper, but that many, many pages of paperwork are required to make a \$40,000 loan on a mobile home or trailer."

In fact, I have been told by community bankers that they are sometimes compelled to make loans for lower-priced home purchases that are backed by other collateral, such as a car or equipment, because of the excessive burden of complying with the many residential home mortgage regulations and time frames for such small transactions. As a result, these consumers may not have the benefit of the important consumer protections that having a home mortgage loan provides.

Reducing mortgage compliance burden would allow community banks to better meet the critical need for home lending in their communities. Because of their local knowledge and strong customer relationships, community banks are often more willing to work with borrowers to get through difficult times. Taking steps to simplify and lower this regulatory burden for small community banks and their customers would help to ensure that homeowners can stay in their homes during times of stress, like the one we are facing currently due to COVID-19.

One Area to Consider in Easing Burden

The TILA-RESPA Integrated Disclosure, or TRID, is one of the real estate regulator requirements that smaller banks cite most frequently as creating a heavy burden. Commissioner Melanie Hall and the Montana Independent Bankers have been particularly helpful in highlighting the importance of this issue. Therefore, I am very pleased that the Independent Community Bankers of America is engaged in ongoing conversations and activities to address the more burdensome aspects of this requirement on community banks while importantly retaining key consumer protections. Efforts like these that aim to reduce the compliance burden for critically important services will enable many community banks to return to doing what they do best: meeting the needs of their communities.

Again, thank you for inviting me to join you today, and I look forward to engaging on this important topic.