New Rules in Mortgage Lending

On January 10, 2014, a new era in mortgage regulation went into effect. Driven by the Consumer Finance Protection Bureau (CFPB) and years in the making, the new rules are aimed at curbing the risky lending practices that lead to the near collapse of the US housing market last decade and place more prominence on the borrower’s ability-to-pay in defining what constitutes a “Qualified Mortgage” or QM. Lenders can still originate non-QM loans, but meeting the standards defined by the CFPB will allow them to sell their loans to government-sponsored entities such as Fannie Mae and Freddie Mac—a critical factor for most lenders. So as lenders adjust their policies to be 100% in alignment with QM, there’s new emphasis being placed on ensuring that every field on the Fannie Mae 1005—the universal Verification of Employment (VOE) form used by nearly all lenders—is completed.

No Question Left Unanswered

For years the Fannie Mae 1005 form has posed “probability” questions to employers, asking for a yes/no indication of whether the employee-applicant will continue to receive overtime pay or if it’s likely that he or she will continue to receive bonuses (box 14). It also asks for the date of the employee’s next pay increase (box 16) and the projected amount of that pay increase (box 17)—all of which are difficult questions for most employers to answer and, in many cases, cannot be answered due to company policy. Prior to the implementation of QM, an employer leaving those boxes blank would not have been overly problematic for the lender, but new efforts to ensure airtight compliance with the new regulation leaves no room for blanks or unanswered questions on the VOE form. Lenders need a response—even if that response is “cannot be completed per company policy.” That input can be the difference between the employee-applicant’s loan moving forward, or being halted until the lender has all the requisite data.

The Bottom Line

Changes in regulation often drive changes in verifier behavior, and that can result in an unprecedented number of inquiries into your HR department almost overnight. Equifax Workforce Solutions is the leading provider of VOE services to lending industries like mortgage, and is therefore at the forefront of the regulatory changes that can impact the type and volume of requests you receive. If you are outsourcing your employment and income verification function to The Work Number®, we can assist you with providing automated responses back to lenders that are in full-compliance with your policies and theirs, and enable you to help your employees secure the credit they desire in the most streamlined manner possible. To learn more, please contact Pete Krieshok of Equifax Workforce Solutions at 314-214-7325 or by email at pete.krieshok@equifax.com.