CFPB REPORTS STEEP DROP IN MORTGAGE APPLICATIONS, REFINANCES

The Consumer Financial Protection Bureau's (CFPB) report on 2022 trends in residential lending reveals a notable drop in mortgage applications and originations from the year prior. This drop coincided with an increase in rates, fees, discount points and other costs, according to the bureau's analysis of Home Mortgage Disclosure Act (HMDA) data recorded during that timeframe.

The report points to a notable decrease in general affordability in the residential mortgage marketplace, leading borrowers to allocate more of their earnings toward mortgage obligations, and lenders are rejecting more applications due to insufficient borrower income.

"The significant changes in the rate environment in 2022 are having considerable impacts on the mortgage market," CFPB Director Rohit Chopra said in a statement referring to the report. "I expect these trends will continue in 2023 given further increases in average mortgage interest rates. In response, the CFPB will be devoting more attention to ensure that borrowers can sufficiently navigate alternatives to foreclosure when faced with financial distress.

"For example, we are currently exploring some amendments to mortgage servicing standards. We will also continue to look for ways that the refinancing process can be simpler for borrowers, which will be particularly important if the rate environment becomes less restrictive," Chopra added.

Borrowers paid 22 percent more in costs and fees ($5,954) in 2022 compared with 2021, the report shows. About half of borrowers (50.2 percent) paid discount points in 2022 – more than in any other year since this data began being collected in 2018, including 2021 when only 32.1 percent of borrowers paid discount points. The median borrower paid $2,370 for discount points in 2022.

The majority of refinancing activity in 2022 involved cash-out refinances originated by independent lenders, marking a departure from recent trends. Notably, the median credit score for refinance applicants has fallen below that of prospective homebuyers, in contrast to the prevailing pattern.

Approximately 8.3 million in refinances were recorded in 2021, indicating a 73.2 percent drop to 2.2 million in 2022. Cash-out refinances can increase the risk of foreclosure as they typically come with higher interest rates, higher monthly payments and larger balances than other refinances. They also can result in unsecured debt becoming secured by the home, such as credit card debt.

Consistent with years past, independent lenders have maintained their stronghold in the home mortgage lending sector, with the exception being home equity lines of credit (HELOCs), the report's findings indicate.

HELOCs represented the only type of refinancing activity to see an increase year-over-year, according to the HMDA data. Depository institutions accounted for the majority of the 1.27 million HELOCs issued in 2022, beating out the total recorded by independent lenders. Inversely to cash-out refinances, HELOCs tend to have lower interest rates, lower monthly payments, and fewer foreclosure risks than cash-out refinances.

The average monthly mortgage payment shot up by 46.1 percent, driven by soaring mortgage interest rates. The average monthly payment for borrowers purchasing conventional conforming 30-year fixed-rate mortgages (excluding taxes and insurance) increased from $1,400 in December 2021 to $2,045 in December 2022, according to the report. The median interest rate for a 30-year fixed-rate mortgage was 6.5 percent at year's end.

The HMDA data indicates black and Hispanic borrowers were denied loans at higher rates, received smaller loans, were charged higher interest rates and paid more in upfront fees than white and Asian borrowers. For example, in 2022, the report notes the median interest rate for black and Hispanic borrowers was higher than 5 percent but it was below 5 percent for white and Asian borrowers.

Denials due to insufficient income were recorded at higher rates than at any point since this data was first collected and reported in 2018, according to the report. This accounted for more than half of mortgage denials for Asian applicants and same was true for approximately 45 percent of denials for black and Hispanic applicants. Roughly 40 percent of denials for white applicants were due to insufficient income. In 2018, such denials were below 40 percent for all four groups.

The CFPB noted this is the fifth year HMDA data has reflected changes implemented by the 2015 HMDA collection rule, which implemented statutory changes in the Consumer Financial Protection Act and made more home mortgage lending information available to the public.

Source: https://www.doddfrankupdate.com/DFU/ArticlesDFU/CFPB