Exhibit A
NAR Dodd-Frank Consumer Financial Protection Bureau Work Group
Final Report on Changes to NAR's Responsible Lending Principles

I. BACKGROUND ON THE DODD-FRANK CFPB WORK GROUP

Background on NAR's Responsible Lending Principles: NAR's Responsible Lending Principles focus on providing flexibility to the consumer seeking access to credit, while at the same ensuring proper protections are taken with regard to underwriting and income verification by the lender. Additionally, the principles oppose lending practices that harm borrowers, such as unwarranted and detrimental refinancing and prepayment penalties that make it too difficult to refinance.

In a credit-driven economy, the legislative and regulatory response to lending abuses can have unintended consequences, excluding or harming potential and existing homeowners from buying or selling their home. With these updated principles, NAR encourages lenders and policy makers to support anti-predatory lending and impose strong underwriting standards that are in the best interest of all consumers and the market economy as a whole.

Background on the Dodd-Frank CFPB Work Group's Policy Updates**:** The Work Group reviewed NAR's Responsible Lending Principles, focusing on the availability of mortgage credit for consumers. Members studied the history of NAR's advocacy efforts on these issues and debated the impact of Dodd-Frank regulations, such as the Qualified Mortgage (QM) rule, which incorporates parts of the Responsible Lending Principles.

A majority of the Responsible Lending Principles were deemed to still be relevant, providing comprehensive guidelines for lenders to ensure accountability, consistency, and flexibility when offering credit. Work Group discussions centered on the practicality of lenders adopting and implementing such guidelines, the consequences on consumers – especially those with unique life circumstances or hard-to-verify income sources, and the resulting effect on liquidity in the market.

The Work Group agreed that only minor changes were necessary to the "**Affordability**" and "**Limited Stated Income/Assets Underwriting**" principles to improve succinctness and simplicity. For example, with the "**Affordability**" principle, the Work Group expanded the definition of loan terms that lenders must verify against the borrower's ability to repay. In addition to "taxes" and "insurance," the Work Group specified homeowners association (HOA) fees, to highlight the importance and potentially expensive nature of such fees when compared to borrower income. The Work Group decided against including "Property Assessed Clean Energy (PACE) loans" as a loan term because these are essentially liens paid back through property tax assessments. Thus, such loans are already assumed in the "taxes" loan term category. In addition, given the lack of national adoption of these loans, the Work Group determined that a specific mention of PACE loans was not necessary at this point in time.

Proposed Composition:

1. Affordability. N~~ar~~AR supports strong underwriting standards that require all mortgage originators to verify the borrower's ability to repay the loan based on all its terms,

including taxes, insurance, and homeowners association (HOA) fees, without having to refinance or sell the home.[1] Lenders should consider all relevant facts, including the borrower's income, credit history, future income potential, and other life circumstances. Lenders should not make loans to borrowers that make loss of the home through sale or foreclosure likely if the borrower is unable to refinance the mortgage or sell.

- Underwriting Subprime Loans with "Teaser Rates." Some subprime loans are structured with a significant jump in monthly payments often resulting in "payment shock" for the borrower. While these mortgages may be a reasonable choice for subprime borrowers who can afford them, a majority of subprime borrowers do not understand the unique terms and conditions of these risky mortgage products that can result in a significant "payment shock." Therefore, lenders (including mortgage brokers) should exercise more caution when underwriting such loans to subprime borrowers to make sure the borrower is able to afford the mortgage. Examples of these risky mortgage products include loans with a short-term interest "teaser" rate for the first two or three years (known as 2/28s and 3/27s), loans with an initial interest only period, and mortgages that negatively amortize.[2]
  NAR will carefully monitor the debate on underwriting standards for subprime loans and will support policies consistent with the goal of assuring that borrowers who have demonstrated the financial capacity to meet their mortgage obligations, taking into account all relevant circumstances, continue to have access to mortgage loans made by responsible lenders.

- Reasonable Debt-to-Income Ratio. NAR supports requiring lenders to make subprime loans that have a reasonable debt-to-income ratio. Borrowers should have enough residual income after making their monthly mortgage payment, including taxes and insurance, to meet their needs for food, utilities, clothing, transportation, work-related expenses, and other essentials. Requiring underwriting at a fully amortizing, fully indexed rate is meaningless if the lender uses such high debt-to-income ratios that the family does not have enough income remaining to pay for other necessities.

- Escrow/Reserve for Payment of Taxes and Insurance. Lenders that make subprime mortgage loans should generally require that the monthly payment include an amount to be held by the mortgage service in an escrow/reserve/impound account for the payment of the borrower's periodic payments, such as taxes and insurance. Similar to the exception for prime loans in some jurisdictions, borrowers that make at least a 20 percent ~~downpayment~~ down payment should have the option to budget for these payments independently.

2. Limit Stated Income/Stated Assets Underwriting. Because mortgages underwritten based on "stated income" and/or "stated assets" (also known as "no income verification" or

[1] The limited exceptions to this general principle would include prime borrowers with sufficient verifiable assets to handle a balloon mortgage or a significant jump in mortgage payment.
[2] Negative amortization ordinarily results if the mortgage permits a borrower to pay less than the interest on the mortgage for a limited time, in which case the difference is added to the total amount of the loan the borrower must repay.

"no doc" loans) typically have higher rates, lenders making subprime loans should, as a general rule, underwrite loans based on verified income and assets~~.~~, ~~The main exception should be~~ with adequate provisions for borrowers whose incomes derive from hard-to-verify sources (such as self-employed borrowers ~~and borrowers in the "cash economy"~~).

The Work Group eliminated language in the "**Bar Prepayment Penalties**" principle. Previously, NAR opposed prepayment penalties, but in the cases where that was not possible, the principle advocated for the penalties to be for the shortest time and lowest amount possible. Rather than allowing for such a negotiation, the Work Group made it clear that NAR opposes prepayment penalties with no exceptions, striking the language to the contrary.

Proposed Composition:

5. Bar Prepayment Penalties. ~~Under the 2005 policy,~~ NAR opposes prepayment penalties for all mortgages. Prepayment penalties often work to trap borrowers in loans they cannot afford by making it too expensive to refinance. ~~If complete prohibition of prepayment penalties is not feasible, NAR supports permitting prepayment penalties for the shortest time and the lowest amount possible. For example, a borrower in a 2/28 mortgage should be able to refinance by the end of the initial two-year "teaser" rate period without having to pay a prepayment penalty.~~

The "**Improvements to Assessing Creditworthiness**" principle was slightly altered to update the language regarding the government regulators involved with credit scoring and to remove language detailing problematic subprime lenders purposefully withholding timely mortgage payment information from credit bureaus. The Work Group determined this detail was outdated and irrelevant for purposes of this responsible lending principle.

Proposed Composition:

6. Improvements for Assessing Creditworthiness. Borrowers with little or no credit history, as traditionally measured, usually have lower credit scores and must pay more every month for their mortgage than those with higher scores. NAR supports ongoing efforts to take into account consumer payment history not typically considered, such as rent, utility, telephone, and other regular payments and urges ~~HUD, the~~ regulators, the Consumer Financial Protection Bureau (CFPB), the Government-Sponsored Enterprises (GSEs), and lenders to work to strengthen these efforts. Use of alternative credit approaches will be especially beneficial for low- and moderate-income first-time homebuyers and borrowers with problematic loans that need to refinance their mortgage to avoid foreclosure. ~~Another public policy issue associated with credit histories is the failure of furnishers to report good payment histories to the consumer reporting agencies. NAR has heard reports that many problematic subprime lenders purposefully withhold information on timely mortgage payments from the credit bureaus in order to prevent their customer from refinancing with another lender. The result is obvious – the borrowers with no positive payment histories for their subprime loan keep treading the waters of high interest rates and expensive credit products.~~ NAR supports requiring all institutional mortgage lenders, or the mortgage servicers acting on their behalf, to report payment history of all borrowers to at least the three national credit bureaus on a ~~monthly~~ timely basis.

The Work Group changed the "**Mortgage Choice for Borrowers**" principle, improving the language to make it more straightforward. NAR supports mortgage originators to offer a choice of mortgage products to consumers and the Work Group wanted to ensure there were important considerations made when these choices were being presented. By making the principle more concise, as to what an originator should inform the consumer of, the Work Group's updates provide necessary guidance to lenders and information to consumers looking for nontraditional mortgage products. The Work Group made clear that if the borrower qualifies for at least one traditional loan or any federally insured mortgage (FHA or VA), the products should be included in the borrower's options.

Proposed Composition:

7. Mortgage Choice for Borrowers. NAR supports requiring mortgage originators to offer borrowers ~~one or more~~ mortgages with interest rates and other fees that appropriately reflect the borrower's credit risk. It remains the responsibility of borrowers to decide which is the best mortgage for their needs and circumstances, but they may only do so if they understand all the facts so they can make an informed decision. The following are suggested principles for consideration of Congress and the regulators for originators who offer nontraditional mortgage products. The originator should:

- Advise borrower that they may want to seek housing counseling to better understand their options;
- Offer all borrowers a choice of several significantly different mortgage options;
- If a borrower qualifies, at least one traditional loan or any federally insured mortgage (i.e. FHA, VA, USDA loan) product should be included in the borrower's options; ~~include at least one traditional loan product as one of the options for the borrower to consider, if the borrower qualifies for such a product offered by the originator;~~ and
- Before application acceptance, disclose information about the terms of the loan including but not limited to the maximum potential payment over the life of the loan and the date the initial payment will increase ~~to a fully amortizing, fully indexed payment income~~.

- ~~For subprime borrowers, originators that offer FHA-insured mortgages or VA home loan guaranty mortgages should consider whether these types of mortgages should be offered as an appropriate option.~~

- ~~If the originator does not offer mortgages with rates and fees appropriate for the borrower's credit risk, the originator should inform the borrower a lower interest rate may be available from another originator or that the borrower may wish to seek housing counseling, to allow the borrower an opportunity to shop elsewhere or receive counseling before proceeding. For example, a prime borrower that applies for a loan to a lender that only makes subprime loans should be advised that other options may be available.~~

- ~~For loans originated by a mortgage broker, the broker should offer mortgage options that are among the lowest-cost products appropriate for the borrower.~~

For the "**Enforcement/Remedies**" principle, the Work Group included CFPB enforcement actions as an additional option for consideration as a strong remedy or penalty for abusive acts by mortgage originators.

Proposed Composition:

8. Enforcement/Remedies. NAR supports enactment of strong remedies and penalties for abusive acts by mortgage originators. Among the options for consideration are:

- Enforcement actions by the CFPB.
- Criminal penalties similar to those under RESPA.
- Civil penalties similar to those under RESPA.
- Assignee liability that balances the need to protect innocent borrowers with problematic loans against the risk that increasing the liability of innocent holders of mortgages in the secondary market could reduce the availability of mortgage credit.
- Prohibition of mandatory arbitration clauses that bar victims' access to court.

The Work Group added essential updates to the principle on "**Improved Consumer Mortgage Disclosures**." The existing language was drafted before the enactment of the CFPB's "Know Before You Owe" (KBYO or TRID) mortgage initiative that reformed the settlement disclosure process in an effort to improve transparency for consumers at the closing table. With the Work Group's changes, the principle now plainly supports of the CFPB's new disclosure process that helps consumers easily compare their loan estimate to their closing disclosure and enhances the understanding of services and costs of each service when getting a mortgage.

Proposed Composition:

9. Improved Consumer Mortgage Disclosures. Lenders have a responsibility to ensure that consumers understand the loans they receive, including their terms and all costs. Consistent with this principle, NAR ~~recommends that HUD improve consumer disclosures under the Real Estate Settlement Procedures Act (RESPA). In particular, NAR believes that consumers should receive a Summary GFE, accompanied by a detailed GFE with explanations of each subcategory of fees to help consumers more fully understand the services they are receiving and the cost of each service. The revised GFE should closely parallel the HUD-1 settlement form so consumers can compare the GFE they receive when they apply for the loan to their closing documents at settlement. S~~ supports the Consumer Finance Protection Bureau's (CFPB's) "Know Before You Owe" (KBYO or TRID) mortgage initiative that improves consumer disclosures under *the Real Estate Settlement Procedures Act* (RESPA) and the *Truth in Lending Act* (TILA) that help consumers more fully understand the services they are receiving and the cost of each service when getting a mortgage. NAR supports the ability of consumers to easily compare their loan estimate they receive when they apply for the loan to their closing disclosure at settlement.

The final principle related to "**Appraiser Independence**" was deleted and rewritten to better clarify the intention to support this policy. The Work Group reasoned that updates were needed for this principle to ensure the health of the overall real estate industry through credible, independent valuations. As experts on the matter, the Real Property Valuation Committee will be examining this particular principle and reporting their assessment to the Conventional Finance and Policy Committee.

Proposed Composition:

10. Clarify ~~Strengthen~~ Appraiser Independence. ~~NAR believes that the independence of appraisers should be strengthened to ensure that appraisals are based on sound and fair appraisal principles and are accurate. There are reports that appraisers have been pressured to meet targeted values or risk losing business. Appraisal pressure undermines the integrity of the mortgage lending process if the result is a mortgage loan made based on an inaccurate property valuation. NAR recommends the following measure to strengthen the appraisal process:~~

- ~~Require lenders to inform each borrower of the method used to value the property in connection with the mortgage application, and give the borrower the right to receive a copy of each appraisal.~~
- ~~Establish enhanced penalties against those who improperly influence the appraisal process. Those with an interest in the outcome of an appraisal should only request the appraiser to (1) consider additional information about the property; (2) provide further detail, substantiation, or explanation for the appraisal; and (3) correct errors.~~
- ~~Provide federal assistance to states to strengthen regulatory and enforcement activities related to appraisals.~~
- ~~Support enhanced education and qualifications for appraisers.~~

NAR supports credible, independent valuations of real property, which are a critical component to the mortgage transaction and help ensure the health of the overall real estate industry. NAR understands lender use of Appraisal Management Companies (AMCs) is one means to ensure appraiser independence rules are met under the requirements of Dodd-Frank, but also supports alternatives to AMCs, which achieve the same result. NAR encourages lenders to engage only with individuals that comply with the Uniform Standards of Professional Appraisal Practice (USPAP).

The Responsible Lending Principles are primarily focused on what is best for the consumer with regard to prudent lending practices. Throughout the Work Group discussions of these principles, there was an interest in exploring regulatory relief for community banks – as another avenue to support consumers seeking access to credit. Attention by policymakers to create an exemption for community banks from the Qualified Mortgage (QM) rule amplified Work Group deliberations on this issue.[3] While there is an existing exemption for banks already established by the CFPB,[4] the Work Group questioned whether expanding that exemption would benefit NAR members' businesses. Debate centered on the effect of NAR weighing into a specific lending issue, which was problematic for some members given the history of how real estate professionals avoided regulation under Dodd-Frank previously. The decision of whether to formally move on such a policy was ultimately tabled due to time constraints.

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[3] The QM rule stems from the "ability to repay" anti-predatory lending provisions of the Dodd-Frank Act. Loans are generally considered "qualified" if the borrower's debt-to-income (DTI) ratio is 43 percent, among other things.
[4] The current exemption from the QM established by the CFPB is for banks that originate 2000 or fewer loans a year, excluding portfolio loans, *or* have a total value of $2 billion or less.

The Responsible Lending Policy updates detailed above and in ***Appendix A*** were drafted, edited, and finalized by the Work Group for consideration by the Conventional Finance and Policy Committee and the Real Property Valuation Committee.

II. 2017 NAR DODD-FRANK CFPB WORK GROUP STRUCTURE

The purpose of the Work Group was to review NAR's Responsible Lending Principles and current Dodd-Frank legislation and regulation impacting the availability of mortgage credit. Additionally, members of the Work Group were tasked with evaluating reforms to the current single director structure of the CFPB and potential regulatory compliance concerns to determine any necessary policy.

Chair: Anthony Lamacchia (MA)
Liaison: Brenda Small (DC)
Staff Executives: Christie DeSanctis, Vijay Yadlapati, Charlie Dawson, and Marcia Salkin (DC)

Members:

1. Bill Arnold (AZ)
2. Scott Caballero (TX)
3. Otto Catrina (CA)
4. John Kmiecik (IL)
5. Kenneth Libby (VT)
6. Cliff Long (AL)
7. Jenny Pakula (OR)
8. Barbara Palmer (CA)
9. Seth Task (OH)
10. Marty Wagar (MI)
11. Jeannette Way (CA)
12. Steve White (CA)
13. Dave Wluka (MA)
14. Jack Woodcock (NV)