

The Fair Mortgage Collaborative's “Fair and Safe” Standards?

What are the Fair Mortgage Collaborative's “Fair and Safe” Standards?

The Fair Mortgage Collaborative was created to provide borrowers with reliable information about how to find a fairly-priced mortgage loan. The Standards list the principles that lenders and brokers should follow, the practices they should employ when making loans, and the products that they should and should not offer.

The full text of the Fair Mortgage Collaborative's Standards can be found *here*.

How are the Standards Used?

The Standards are a useful tool for determining whether a lender or broker offers fair loans. Lenders or brokers that offer products that are prohibited by the Standards should be avoided or treated with extreme caution. On the other hand, lenders and brokers that work to qualify a borrower for a prime thirty-year fixed loan may well be attempting to serve the consumer's best interests.

However, it is difficult for a consumer to determine whether a lender or broker is *really* following the standards. Accordingly, the Fair Mortgage Collaborative has created a subsidiary testing organization to certify lenders and brokers who agree to adhere to the Standards. The testing process consists of a rigorous initial audit and monitoring of all loans made by the broker or lender through the Fair Mortgage Collaborative's Automated Transaction Review System. Lenders and Brokers that pass these tests receive the Fair Mortgage Collaborative's “Fair and Safe” certification — a sign that they can be trusted by consumers.

Who Created the Fair Mortgage Collaborative Standards?

The Fair Mortgage Collaborative's Standards were created by a group of the nation's most respected non-profit lenders, fair lending advocates, and charitable foundations, including:

- The Calvert Foundation
- The Center for Responsible Lending
- The Federation of Appalachian Housing Enterprises
- The Ford Foundation
- National Council of La Raza
- The National Federation of Community Development Credit Unions
- NeighborWorks
- Neighborhood Housing Services of America

What Principles are the Standards Based on?

The standards are based on the idea that a lender or broker should act in the customer's best interests. Lenders and brokers do *not* have a legal obligation to uphold the consumer's interests, so a lender or broker who agrees to follow the Standards is doing so voluntarily.

The principle that the consumer's interests must be upheld by the lender or broker is clear in the first Standard, which states that a certified lender "will show the customer the loan products for which the customer is eligible without regard to the revenues that would accrue to the member making the loan." In other words, the lender must provide the customer with full information about his or her choices, rather than trying to "steer" the customer to a product that is particularly profitable for the lender or broker.

Why Do the Standards Emphasize the Benefits of the "Prime Thirty Year Fixed" Loan?

Lenders and economists generally agree that the prime thirty-year fixed loan has many consumer benefits. "Prime" means that the loan meets certain criteria that allow the lender to give you a good (low) interest rate. "Fixed" means that the loan payment stays the same for the life of the loan, so that you don't have to worry about your payment amount increasing later on. And a thirty-year loan term can bring your monthly payment down to a manageable size.

There are some cases in which a thirty-year fixed loan isn't the best product for you. If you have enough income, you may want to try to pay off the loan in fifteen years, which will reduce the amount you pay in interest over the life of the loan. Or if you are certain that you're going to sell your home in a few years, you may want to consider another type of loan.

But in most cases, a prime thirty-year fixed loan is the safest and most inexpensive product you can get — and you should know whether you are eligible for one, and what it would cost you, before you consider other types of loans

What are "Prohibited Products?"

The FMC Standards prohibit a number of mortgage loan products that offer relatively few consumer benefits and have been badly abused by unethical lenders in the recent past. The Fair Mortgage Collaborative has determined that the potential risk to consumers from these products is so much greater than the potential reward that they should not be offered by responsible lenders. Examples of "prohibited products" include loans with prepayment penalties and "stated income" loans. If a lender tries to offer you any loans on the prohibited list, be very careful, and make sure that you get quotes from other lenders.

What are "Non-Standard Products?"

A number of mortgage loan products and loan features have potential consumer benefits, but can also be dangerous or costly to borrowers if not used appropriately. The Fair Mortgage Collaborative terms these “Non-Standard Products.” Fair and Safe-certified lenders and brokers are not prohibited from using these products, but they must document why the products benefit the consumer.

For example, loans where the borrower pays more than 35% of his or her income on housing costs are “non-standard.” These loans are risky for the lender and the consumer because the consumer has fewer financial resources in the event of unexpected problems. However, some lenders have created carefully designed loan products to help first-time or low-income borrowers purchase a home. If these programs have enough documented features to make the loan safe for both borrower and lender, the FMC can approve them.