US unveils tougher rules on lending

By Daniel Wagner
Associated Press

WASHINGTON—Federal regulators for the first time are laying out rules aimed at ensuring that mortgage borrowers can afford to repay the loans they take out.

The rules being unveiled Thursday by the Consumer Financial Protection Bureau impose a range of obligations and restrictions on lenders, including bans on the risky "interest-only" and "no documentation" loans that helped inflate the housing bubble.

Lenders will be required to verify and inspect borrowers' financial records.

They generally will be prohibited from saddling borrowers with loan payments totaling 43 percent of the person's annual income.

CFPB Director Richard Cordray called the rules "the true essence of 'responsible lending.'"

The rules, which take effect next year, aim to "make sure that people who work hard to buy their own home can be assured of not only greater consumer protections but also reasonable access to credit," he said.

Cordray noted that in years leading up to the 2008 financial crisis, consumers could easily obtain mortgages that they could not afford to repay. In contrast, in subsequent years banks tightened lending so much that few could qualify for a home loan.

The new rules seek out a middle ground by protecting consumers from bad loans while giving banks the legal assurances they need to increase lending, he said.