

Some banks face CFPB scrutiny after offering problematic mortgage discounts

Article

The news: The Consumer Financial Protection Bureau (CFPB) is [cracking down](#) on mortgage rate discounts, citing “statistically significant disparities” in the groups who were granted

exceptions.

How we got here: Many financial institutions (FIs) have exited the small mortgage space, leaving room for nonbanks to dominate.

- The service has become unprofitable for some FIs, given their rising overhead costs.
- Lenders that remain in the market must now compete with nonbanks, including the mortgage giant, **Rocket Mortgage**, which holds 9.2% of the market share.
- Plus, mortgage rates have more than doubled since 2021, decreasing consumer demand by 57% over the same period.

The mortgage discount strategy: That's where discounts and deals come in. Lenders that offer them aim to stand out from competitors and reignite demand.

- These deals, also known as pricing exceptions, translate into a lower rate, usually for a certain period, and usually directed at a subset of customers.
- Examples of this strategy include competitor price matching and first-time homebuyer specials.
- While such discounts are legal, they still must meet fair lending requirements—or risk attracting regulators' scrutiny.

Where discount strategies can go awry: In its 2021 examination of such discounts, the CFPB found that Black and female borrowers were offered these deals less frequently than other customers.

- According to compliance expert Ken Perry, “[These deals] are the easiest way to discriminate against a client.”
- **Wells Fargo** received an official notice from the CFPB calling into question its discount practices, and it has decided to step away from the mortgage market. While it cited the expensive mortgage rates as a prime motivator, its repeated mortgage-related run-ins with the CFPB could have aided in its decision.
- Wells Fargo wasn't the only FI to receive notices about potentially problematic mortgage discounts last year, but the CFPB hasn't named the others.

Where exactly did these FIs go wrong? After its original findings, the CFPB conducted further examinations—and again found the lenders in question violated multiple laws.

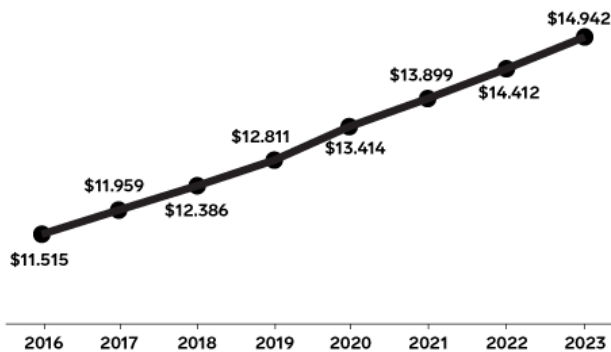
- Specifically, by granting pricing exceptions across protected categories such as age and race, lenders violate Equal Credit Opportunity Act (ECOA) and Regulation B.
- According to the CFPB's 2023 report, “Some policies permitted mortgage loan officers to request a pricing exception by submitting a request into the loan origination system without requiring that the request be substantiated by documentation.”
- In other words, although these exceptions were subject to managerial review, **these discounts could have been approved or denied without regard to the FI’s guidelines.**

Key takeaways: While mortgage discounts can be a valid and legal way to draw business from potential homebuyers, FIs that offer them should ensure their exceptions never deviate from procedures ensuring fair lending practices.

- That means FIs must conduct internal audits, train staff on these procedures, and include the discounts in their fair lending reviews.

US Mortgage Debt Balance, 2016-2023

trillions



Note: includes all mortgage installment loans, including first mortgages and home equity installment loans (HEIs), both of which are closed-end loans; excludes nonresidential and farm loans

Source: Insider Intelligence, Jan 2022

272273

eMarketer | InsiderIntelligence.com