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P2P, Mortgage Market Messiah?

Posted on December 31, 2015 by David Reiss

As this is my last post of 2015, let me make a prediction about the 2016 mortgage market. Money's Edge quoted me in Can P2P Lending Revive the Home Mortgage Market? It opens,

> You just got turned down for a home mortgage – join the club. At one point the Mortgage Bankers Association estimated that about half of all applications were given the thumbs down. That was in the darkest housing days of 2008 but many still whisper that rejections remain plentiful as tougher qualifying rules – requiring more proof of income – stymie a lot of would be buyers.
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> And then there are the many millions who may not apply at all, out of fear of rejection.
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> Here's the money question: is new-style P2P lending the solution for these would-be homeowners?
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> The question is easy, the answers are harder.
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> CPA Ravi Ramnarain pinpoints what's going on: "Although it is well documented that banks and traditional mortgage lenders are extremely risk-averse in offering the average consumer an opportunity for a home loan, one must also consider that the recent Great Recession is still very fresh in the minds of a lot of people. Thus the fact that banks and traditional lenders are requiring regular customers to provide impeccable credit scores, low debt-to-income (DTI) ratios, and, in many cases, 20 percent down payments is not surprising. Person-to-person lending does indeed provide these potential customers with an alternate avenue to realize the ultimate dream of owning a home."

Read that again: the CPA is saying that for some on whom traditional mortgage doors slammed shut there may be hope in the P2P, non-traditional route.

Meantime, **David Reiss**, a professor at Brooklyn Law, sounded a downer note: "I am pretty skeptical of the ability of P2P lending to bring lots of new capital to residential real estate market in the short term. As opposed to sharing economy leaders Uber and Airbnb which ignore and fight local and state regulation of their businesses, residential lending is heavily regulated by the federal government. It is hard to imagine that an innovative and large stream of capital can just flow into this market without complying with the many, many federal regulations that govern residential mortgage lending. These regulations will increase costs and slow the rate of growth of such a new stream of capital. That being said, as the P2P industry matures, it may figure out a cost-effective way down the line to compete with traditional lenders."

From the Consumer Financial Protection Bureau (CFPB) to Fannie and Freddie, even the U.S. Treasury and the FDIC, a lot of federal fingers wrap around traditional mortgages. Much of it is well intended – the aims are heightened consumer protections while also controlling losses from defaults and foreclosures – but an upshot is a marketplace that is slow to embrace change.

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