

QM - Qualified Mortgages

ResMac

Internal Training Use only July 1, 2014
Form: 100.014

Rules & Terms to Know



- QM
- ATR
- HPML
- High Cost
- Rebuttable Presumption
- Safe Harbor
- Excludable Discount Pts

History of QM & ATR Rules

- The Bureau issued the Ability-to-Repay Final Rule in January of 2013 (& updated throughout the year) to implement provisions required under the Dodd Frank Wall Street Reform and Consumer Protection Act.
- Intent is to protect Consumers from potential abuses in future financial dealings



Effective Date Applications Taken (dated) on or after January 10, 2014

Note: HUD's QM effective date is case numbers assigned on or after
1/10/14

What Loans are Covered?

- The Final Rule applies to a 1-4 family, closed-end, consumer credit transaction (1st lien and/or subordinate lien) secured by a dwelling, including condominiums and co-ops.
- The regulation applies to all primary residences as well as a second or vacation home.
- Regulation does NOT apply to loans for business use (i.e. verified investment properties that borrower does not intend to use for more than 14 days each year) however we and most investors apply it against for investment property

Types of Qualified Mortgages*

Traditional / Standard Qualified Mortgage

- No negative amortization or interest-only periods
- No balloon payments (except for certain portfolio loans by small creditors)
- Loan term may not exceed 30 years
- Monthly debt-to-income ratio cannot exceed 43%
- 3% points & fees cap

Temporary/Agency QM

- Meets all Standard QM items except DTI limit
- Must be eligible for sale to Fannie, Freddie, USDA, FHA or VA

* There are two other categories usually combined into one, which apply only to Small Creditors & allow expanded requirements including Balloon loans. ResMac does not qualify under either so not addressed in this presentation.

Two QM Statuses

Safe Harbor

- Loan satisfies all QM criteria AND
- APR is less than:
 - First liens: APOR + 1.5%
 - Second Liens: APOR + 3.5%
 - OR qualifies under Agency specific rules (i.e. FHA uses APOR + 1.15% + annual MI%)

APOR = Average Prime Offer Rate (in effect on date of rate lock)

Rebuttable Presumption

- Loan satisfies QM criteria but is considered HPML*
- APR equals or exceeds*:
 - First liens: APOR + 1.5%
 - Second Liens: APOR + 3.5%
- Rebuttal limited to insufficient residual income &/or lack of documentation

***HPML (Higher Priced Mortgage Loan) can require additional review and/or conditions.**

- **Both categories provides a ‘presumption of compliance’ with the ability-to-repay requirement which protects Lender and Originator from borrower legal action based on ability to repay debt.**
- **Loans may not be classified as Section 32 High Cost; ResMac does not acceptor close High Cost (section 32) loans.**

Calyx and Doc Magic will evaluate and identify a loan as **one** of **4** combinations of QM loans:

- **Standard QM / Safe Harbor** status. (i.e., DTI not over 43% & does not exceed APOR/hit HPML status)
- **Standard QM / 'Rebuttable Presumption'** status (DTI not over 43% but exceeds APOR /HPML)
- **Temporary (Agency) QM / Safe Harbor** status. (i.e., DTI over 43% but within agency allowable guidelines & does not exceed APOR/hit HPML status)
- **Temporary (Agency) QM / 'Rebuttable Presumption'** status (DTI over 43% but within agency allowable guidelines but exceeds APOR /HPML.) Loan could then require additional evaluation or overlays such as residual income requirements

Residual income standards must be considered and applied to any loan over 43% (or as determined by a specific agency's requirements)

Ability to Repay



- Applies to closed-end transactions secured by a dwelling
- Restricts certain loan features, caps points and fees, and imposes certain underwriting requirements

Ability-to-Repay Requirement

- Creditor must make a reasonable and good faith determination that the consumer will have a 'reasonable ability to repay' the loan according to its terms
- Uses maximum rate in first five years after first payment to qualify using full amortization (note: for 5 year arms, this means max after first change date)

Underwriting Considerations required for all loans

- ✓ Consider and verify income & assets
- ✓ Consider and verify current debt obligations, alimony, and child support
- ✓ Consider monthly DTI or residual income
- ✓ Underwrite the monthly payment using the maximum rate in first five years after first payment and full amortization

Ability to Repay Basic Eight Underwriting Factors to Consider

1. Current and reasonably expected income or assets
2. Current employment status (if you rely on employment income)
3. Monthly mortgage payment on the loan. (calculated using the introductory or fully-indexed rate, whichever is higher, and monthly, fully-amortizing payments)
4. Monthly payment on any simultaneous loans secured by the same property
5. Monthly payments for property taxes and insurance & other costs related to the property such as home owner's association fees or ground rent.
6. Debts, alimony, and child-support obligations
7. Monthly debt-to-income ratio (DTI) or residual income, that the creditor calculates using the total of obligations listed above, as a ratio of gross monthly income
8. Credit history

In addition, residual income and/or assets, or other underwriting conditions, may be required depending on the individual loan.

Points and Fees (3% rule)

Total “points and fees” (as defined in 1026.32(b)(1)) may not exceed:

- ❖ For loans of \$100,000 or more, 3%* of the total loan amount

There are higher caps for small dollar loans:

- ❖ \$60,000-99,999: \$3,000 maximum

- ❖ \$20,000-59,999: 5%* of total loan amount

*To determine the amount for the percentage based cap, determine the **total loan amount**. Then multiply ‘total loan amount’ by the percentage to determine maximum amount of fees & points.

Total loan amount = ‘amount financed’ minus any points or fees that are rolled into the loan amount. FHA uses a slightly different calculation.

What Fees are Included

Most APR fees, unless excluded; there are a few differences.

- **Real Estate Related Fees** if paid to an affiliate of Lender or if a portion is retained by the Lender, or if the charge is not 'reasonable'
- **Premiums for credit insurance, life & other insurance.** (Not applicable to ResMac as we do not sell these as part of the loan transaction.)
- **Maximum Prepayment Penalty.** (Not applicable to ResMac as we do not offer these currently on any loans.)
- **Broker Compensation** paid by either Lender OR Borrower
- **Prepayment Penalty Paid** if charged on payoff of a refinance

Included Fees, Con't

- **Finance charges (APR Fees.)** All APR fees are included in Points & Fees Calculations, **except** for the following which can be **excluded**:
 - Interest
 - Monthly or Annual mortgage insurance premiums paid after closing, including FHA/VA/USDA
 - Conventional up front mortgage insurance premiums up to the amount of UFMIP for FHA loans (currently 1.75%) **as long as policy meets requirements to be prorated and automatically refundable.**
 - Third party charges not retained by the lender, broker or an affiliate of either
 - **Up to 2 bona fide discount points may be excluded from the test depending on undiscounted rate.**

What is a bona fide discount point? & how much can be excluded?

- Discount points are finance charges, and are therefore included in the QM points and fees. However, the QM Rule does allow the certain exclusions
- Remember....→
- The entire 2% cannot be automatically excluded
- You need to know the closest to PAR price to determine what amount of points can be excluded from points & fees
- CFPB states that you are to take the rate that the borrower "would have received" if they were not paying discount points (i.e., fully adjusted par rate) and compare that to the APOR rate.

What is the formula?

May exclude up to 2%

- up to two bona fide discount points paid by the consumer in connection with the loan if the loan's interest rate, without any discount, does **not** exceed the APOR by **more than 1%**;

May exclude up to 1%

- Up to one bona fide discount points if the loan's interest rate, without any discount, does **not** exceed the APOR by **more than 2%**.
- Note: Most LOS systems are set up to calculate this, assuming the start rate & APOR rate are entered correctly

Example

- Loan amount \$200,000
- Rate closest to par is 4.75% (**start rate**) @ 99.78
- Discount of .22 would be included in QM testing
- $\$200,000 \times .22\% = \440.00 ; (amount to be included in Points & Fees test)
- APOR is 4.35% at time rate is locked
- Borrower wants lower rate & chooses 4.625% rate @99.25%
- Bona Fide discount is 99.78 (closest to par rate) minus 99.25% (discount for rate chosen) = .53
- $\$200,000 \times .53 = \$1,060$.
- **Can exclude this .53% amount so long as APOR test is met**
- (Note: Calyx & other LOS run this as long as you enter Start Rate correctly)

Wholesale Example

- Loan amount of \$272,000 with Lender Paid Comp at 2.75%
- The rate closest to par without going over is 4.750 for a price of 99.51
- The broker has chosen a rate of 4.625 with a price of 98.746
- Therefore, the Bona Fide Discount that can be excluded is (99.51 – 98.746) = .764
- .764 x \$272,000 = \$2078.08 is the EXCLUDED amount.

INCLUDED QM POINTS & FEES

HUD#	Fee Type	Affiliate	Paid To	PFC	POC	Fin	Paid By	Amount
801.15	Other (Compensation from Rebate)	-	Broker	-	-	-	Lender	\$7,480.00
802	Required Points at Start Rate	-	Lender	X	-	-	Borrower	\$1,332.80
Total QM Points & Fees:								\$8,812.80

EXCLUDED POINTS & FEES

HUD#	Fee Type	Affiliate	Paid To	PFC	POC	Fin	Paid By	Amount
802.3	Eligible Discount Points (up to 2%)	-	Lender	X	-	-	Borrower	\$2,078.08
804	Appraisal Fee	-		-	X	-	Borrower	\$550.00
805	Credit Report Fee	-		-	-	-	Borrower	\$57.50

Don't Forget Points & Fees Caps

- Same loan parameters: fees for QM are Compensation & Discount Fee totaling \$8812.80
- TIL Amount Financed = \$267,494.12 – max fees is 3% of this figure of \$8,024.82
- Compensation or Fees would have to be reduced by \$787.98 for loan to be QM (Remember if Wholesale loan Lender Paid comp cannot be reduced, only borrower paid may be lowered.)

POINTS AND FEES ANALYSIS

TOTAL LOAN AMOUNT		POINTS & FEES CAP		DISCOUNT POINTS EXCLUSION	
TIL Amount Financed:	\$267,494.12	Note Loan Amount:	\$272,000.00	Starting Adjusted Rate:	4.750%
Fin QM Points and Fees:	\$0.00	QM Points & Fees Cap:	3.00%	APOR:	4.250%
Total Loan Amount:	\$267,494.12	Total Loan Amount:	\$267,494.12	Percentage Above APOR:	0.500%
		Max QM Points & Fees:	\$8,024.82	Allowable Exclusion:	2.000%
		Total QM Points & Fees:	\$8,812.80	Starting Adjusted Rate:	4.750%
		Cap Exceeded By:	\$787.98	Note Rate:	4.625%
				Interest Rate Reduction:	0.125%
				Discount Points Charged:	1.254%
				Discount/Rebate at Start Rate:	0.490%
				Eligible Discount Points:	0.764%

Mortgage Insurance & QM

- Portion of up front MI premium that exceeds the current FHA UFMIP (currently 1.75%) is included in Points & Fees; anything under 1.75% is excluded provided the MI policy is refundable & meets CFPB defined guidelines
- Consider impact of type of MI selected
- Access information about types of MI & impact on each MI company site

Excluded from Points & Fees

- Borrower paid monthly MI
- LPMI (Lender paid) as factored in rate
- Split Premium (monthly portion)

Included in Points & Fees

- Borrower paid single premium
- Split Premium (upfront portion)

QM Testing

- Calyx and other LOS systems provide testing and results to identify the QM Type & Status.
- **TEST EARLY AND OFTEN** - Run anytime a loan changes!
- Sample shown on next slide is from Calyx, as we know many brokers use them, but all LOS tests look fairly similar.

Calyx Screen before test run

- Notice below “update status” there is no QM status:

The screenshot displays the Calyx software interface for a borrower named David B. Sample. The interface is divided into two main sections: Borrower Information and Co-Borrower information. The Borrower Information section includes fields for Name (First: David, Middle: B, Last: Sample, Suffix:), SSN (000-00-0000), and DOB (02/22/1982). It also has sections for Best Contact (Cell, Nickname: Dave), Home Phone (386-228-5494), B Phone (407-869-8085), Cell/Alt (386-228-5494), Fax, and E-Mail (davebastek@gmail.com). The Present Address section is partially visible, showing 'Own' selected and 'No of Yrs' as 1.50. The Co-Borrower section has a 'Copy from Borrower' button and empty fields for Name, SSN, and DOB. On the right side, there is a 'Current Status' section with a button labeled 'Update Status' and a link 'Sent to Processing (01/12/2014)'. Below this is a 'QM Finding' report with the following data: QM Date T..., Lien (First), Top/Bottom (16.143 / 47.673%), LTV/CLTV (76.142 / 76.142%), Gross LTV (77%), Rounded... (77%), Est. Close (03/05/2014), and Lock Exp. At the bottom of the QM Finding report, there is a 'Loan Chec' section with a button 'Open Detail' and a table with columns 'Due' and 'Item'.

- Click on QM button at bottom to run report

Sample, David B | Prospect Information

Borrower Information

Borrower

Name First Middle Last Suffix
David B Sample

SSN 000-00-0000 DOB 02/22/1982

Best Contact Cell Nickname Dave

H Phone 386-228-5494 B Phone 407-869-8085

Cell/Alt 386-228-5494 Fax

E-Mail davebastek@gmail.com

Present Address Own Rent No of Yrs 1.50

Street 1234

City Ackley State IA Zip 50601

Country United States

Subject Property

Copy From Present Address

Street 506 bird rd

City Ackley State IA Zip 50601

Co-Borrower

Copy from Borrower

Name First Middle Last

SSN DOB

Best Contact Nickname

H Phone B Phone

Cell/Alt Fax

E-Mail

Present Address Own Rent

Street

City State

Country United States

Credit Scores

	Brw	Co-Brw
Experian/FICO	655	
Trans Union/Empirica	660	

Personal Info

Contact Info

Mtg Insurance

Sub Financing

QM

Keep open

Calyx Screen after Test is Run

- Test status appears in upper right corner
- Click QM button at bottom to pull report

The screenshot displays the Calyx software interface. On the left, a form contains borrower details: a 'Copy from Borrower' button, fields for First (Mary), Middle (Jane), and Last (Sample) names, a phone number (123-54-9999), a Date of Birth (DOB) of 02/03/1972, a Nickname field, and a Business Phone (B Phone) of 561-222-3333. On the right, a sidebar shows the 'Current Status: Jupdate Status' and 'Docs Drawn (12/23/2013)'. Below this is a table of QM findings:

QM Finding	General QM /
QM Date T...	01/13/2014 10:4
Lien	First
Top/Bottom	27.327 / 30.660%
LTV/CLTV	95.000 / 95.000%
Gross LTV	96%
Rounded ...	95%
Est. Close	02/17/2014
Lock Exp.	

Sample Calyx Report

QM Findings

LoanScoreCard™

Issued: 01/13/2014 07:41 AM

Result: **General QM / Safe Harbor**

REQUESTED BY	BORROWER / COBORROWER	REQUESTED TERMS
ResMac, Inc. 6501 Congress Avenue, Second Floor Boca Raton, FL 33487 NMLS #153098 User Name: Mary Ann Harse	John J Sample Mary Jane Sample Lender Loan No: 20131119000 LSC Casefile ID: 1518754 SUBJECT PROPERTY 456 Seaside Ln Jupiter, FL 09999 Type: SFR Status: Owner Occ	Base Loan Amt: \$380,000.00 Note Loan Amt: \$381,976.00 LTV/CLTV: 95.49% / 95.49% Note Rate: 3.500% Loan Type: Conventional Amort Type: Fixed Amort Term: 360 months Maturity Term: 360 months Purpose: Purchase Purpose of Refi: Lien Pos: First Mortgage
QM ASSESSMENT (Version 5.2)		

This loan was evaluated against QM Type: **General QM**

QM REQUIREMENTS

ACTUAL LOAN DATA

RESULT

DocMagic

- ResMac uses Doc Magic for all our document orders
- QM tests runs automatically as part of document order as a final test for the file

Questions?

Please remember to always review all alerts on QM reports and address (not ignore) them!

Contact your Account Executive with any questions.

For a non-file specific QM question, you may also contact Compliance@resmac.us