



Ability-to-Repay & Qualified Mortgages

II. The Core Requirement: A Reasonable Determination of Ability to Repay

Covered Transactions

§ **A loan must demonstrate Ability to Repay if it is a COVERED TRANSACTION:**

- Consumer purpose
- Closed-end, and
- Secured by a dwelling

...Unless it is covered by an exemption

Covered Loan Exemptions

§ A partial list of covered loan exemptions:

- Home Equity Lines of Credit
- Bridge loans with a term of 12 months *or less*
- Construction phase of 12 months *or less* of a construction-to-permanent loan
- Business-purpose loans, even if secured by a dwelling
- Loan modifications

Ability-to-Repay Core Requirement

“(A) creditor shall not make a loan that is a covered transaction unless the creditor makes a reasonable good faith determination at or before consummation that the consumer will have a reasonable ability to repay the loan according to its terms.”

12 CFR Part 1026 (§1026.43(c)(1))

How to Demonstrate Compliance with ATR?

§ Consider and verify the 8 underwriting-related factors

- Applied to non-qualified mortgages (non-QM)

- OR -

§ Originate qualified mortgages (QMs)

- Several types available
- (QMs also include underwriting requirements)