



# Ability-to-Repay & Qualified Mortgages

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## V. Establishing QM Status

# Reg. Z QMs

- § **“General” or “standard” QM**
- § **Temporary “government patch” QM**
- § **Small creditor portfolio QM**
- § **Rural / underserved small creditor balloon payment portfolio QM**

# General QM Requirements

## Loan Feature Limitations

1. **Substantially equal** payments
  - No interest only, balloons or negative amortization
  - Regular ARM adjustments okay
2. Maximum **30 year term**
3. Points and fees cap of **3% for \$100,000 or more**
  - Adjusted annually

# General QM Requirements

## Underwriting Standards

4. Underwrite to the **monthly payment**
  - Include all “mortgage related obligations” and simultaneous seconds
  - Rule specifies rate assumptions
5. Consider **and verify** current or reasonably expected income and assets and current debt obligations
  - **Must use Appendix Q**
6. Maximum debt-to-income ratio **43%**

# General QM vs. Small Creditor Portfolio QM

GENERAL QM
<b>Loan Feature limitations</b>
1. Substantially equal payments; no IO, balloons or negative amortiz. (Regular ARM adjustments OK)
2. Max 30 year term
3. Points and fees cap (3% for $\geq$ \$100,000)
<b>Underwriting standards</b>
4. Underwrite to payment at max rate in first 5 years (include all "mortgage related obligations")
5. Consider <b>and verify</b> current or reasonably expected income & assets and current debt obligations; must use Appendix Q
6. DTI $\leq$ 43%

SMALL CREDITOR PORTFOLIO QM
<b>Loan Feature Limitations</b>
1. Same
2. Same
3. Same
<b>Underwriting standards</b>
4. Same
5. & 6. Consider DTI or residual income and verify income and debt info used, but <ul style="list-style-type: none"><li>· <b>no specified DTI limitation</b>, and</li><li>· <b>Appendix Q use not required</b></li></ul>

# General QM vs. Rural /Underserved Small Creditor Portfolio Balloon QM

GENERAL QM
<b>Loan Feature limitations</b>
1. Substantially equal payments; no IO, balloons or negative amortiz. (Regular ARM adjustments OK)
2. Max 30 year term
3. Points and fees cap (3% for $\geq$ \$100,000)
<b>Underwriting standards</b>
4. Underwrite to payment at max rate in first 5 years (include all "mortgage related obligations")
5. Consider <b>and verify</b> current or reasonably expected income & assets and current debt obligations; must use Appendix Q
6. DTI $\leq$ 43%

SMALL CREDITOR PORTFOLIO BALLOON QM
<b>Loan Feature limitations</b>
1. Substantially equal payments; no interest only or negatively amortizing features; <b>fixed rate only</b>
2. <b>Minimum 5 year term</b> , maximum 30 years
3. Same
<b>Underwriting standards</b>
4. Underwrite to the maximum amount of the periodic P&I payments, not to the balloon payment
5. & 6. Consider DTI or residual income and verify income and debt info used, but <ul style="list-style-type: none"> <li>• <b>no specified DTI limitation</b>, and</li> <li>• <b>Appendix Q use not required</b></li> </ul>

# Who Can Originate Small Creditor Portfolio Balloon QMs?

## § Qualifying Small Creditors Operating in Rural or Underserved Areas

- Origination of one first lien covered loan in a rural or underserved area in the preceding calendar year satisfies the requirement to operate in a rural or underserved area.

*\* As always, monitor for any updates to these qualifications.*

# Definition of “Rural”

## § “Rural” is defined as any:

- County that is not in a metropolitan statistical area (MSA) or in a micropolitan statistical area that is next to a MSA (terms based in part on USDA-designated “urban influence codes”);
- Census block that is not deemed “urban” as defined by the Census Bureau; or
- County or census block designated by the CFPB as rural pursuant to the application process which was established under its Final Rule published on March 3, 2016, and will sunset on December 4, 2017.



# Tools to Identify Rural Properties

## § CFPB's List of Rural or Underserved Counties

[www.consumerfinance.gov/guidance/](http://www.consumerfinance.gov/guidance/)

## § CFPB's Rural and Underserved Areas Tool

<http://www.consumerfinance.gov/rural-or-underserved-tool/>

# General QM vs. Government Patch QM

GENERAL QM
<b>Loan Feature limitations</b>
1. Substantially equal payments; no IO, balloons or negative amortiz. (Regular ARM adjustments OK)
2. Max 30 year term
3. Points and fees cap (3% for $\geq \$100,000$ )
<b>Underwriting standards</b>
4. Underwrite to payment at max rate in first 5 years (include all "mortgage related obligations")
5. Consider <b>and verify</b> current or reasonably expected income & assets and current debt obligations; must use Appendix Q
6. DTI $\leq 43\%$

GOVERNMENT PATCH QM
<b>Loan Feature Limitations</b>
1. Same
2. Same
3. Same
<b>Underwriting standards</b>
Look to the relevant federal agency's standards

# FHA, HUD, VA, and RHS QMs

## § For FHA & HUD Loans:

- Look to HUD's QM rules
- 78 Federal Register 75215 (December 11, 2013)

## § For Veterans Affairs Loans:

- Look to VA's QM rules
- 79 Federal Register 26620 (May 9, 2014)

## § For Rural Housing Services Single Family Housing Guarantee Program Loans:

- Look to USDA's QM rules
- 81 Federal Register 26461 (May 3, 2016)