



## Ability-to-Repay & Qualified Mortgages

---

### VIII. Building an Effective Compliance Management System for ATR-QM

# Board and Management Oversight

## Has management or Board decided...

- § What mix of QM or non-QM products to offer?
  - Non-QM only? QM only? A mix?
  
- § Who will be in charge of compliance with ATR-QM?

# Program - Policies and Procedures

- § **Update** existing policies and procedures, or **establish** new ones as needed
- § Allow bank to distinguish between **ATR covered transactions** vs. **exempt transactions**
- § If offering **QMs and non-QMs**, have clear and consistent guidance for when each is appropriate

# Program - Policies and Procedures

- § Specify how to **consider and verify** information for underwriting
  - See rule and commentary for examples
  
- § Define a system for **records retention** - 3 years

# Program - Policies and Procedures

## § Consistent method of calculating DTI ratios:

- Non-QM & Small Creditor QM loans - Specify how to determine threshold
  - Document reasons for exceptions

## § QM loans - System for points and fees calculation

- Document conditions for any exclusions

# Program - Training

- § Designate an individual to be responsible, and a timeline for training
- § Internal or external training
- § Training program for:
  - Board and management -- sufficient for management oversight
  - Senior lender
  - Loan officers and loan processors
  - Monitoring personnel and internal auditors

# Program - Monitoring

- § Identify who will be responsible
- § Timely monitoring schedule
- § Test your policies, procedures, and training to make sure they are effective
- § Document and report findings to management

## § **For institutions that do audits:**

- Include loans made since the effective date for the new rules
- Use to help evaluate training and procedures

## § **Not required for all institutions**

## § **Not required to be done by outside parties**



# Tips: Embed Underwriting Assumptions

- § **Embed underwriting assumptions into policies**, tailored to each product
  
- § **Worksheets or software** may help to ensure consistent calculations
  - Must reflect applicable requirements and assumptions for each type of loan

# Tips: Calculating DTI and Points & Fees

## § Provide **clear written procedures** for calculating DTI

- Especially with discretionary practices
  - *Examples: grossing up income, accounting for short-term obligations*
- For residual income or compensating factors:
  - Consider specifying what, when and how they may be considered

## § **For points and fees worksheets:**

- Build in reminders of exclusions and conditions on exclusions

# Tips: Credit Determination Checklist

## § For both QM and non-QM loans:

- Use policies and procedures and a companion **checklist** to:
  - Specify acceptable “third-party records”
  - Identify the verifying documents used in each loan

## § Remember:

- Your own records are acceptable, reasonably reliable third-party records for certain other accounts the customer has

# Tips: Final Checklists

- § **Consider creating a final checklist to be used for each option, whether non-QM or QM**
- ***Example: Non-QM***
    - a loan file checklist listing the 8 factors and verifying information for each
  - ***Example: Small Creditor Balloon QM***
    - a loan file checklist listing the underwriting factors and verifying information, and
    - a loan file checklist for the other required small creditor balloon conditions