

## Qualified Mortgage (QM) and Ability to Repay (ATR)

**OVERVIEW:** The Consumer Financial Protection Bureau (CFPB) adopted rules amending Regulation Z (TILA) that implement ATR/QM provisions of the Dodd Frank Act. The rules, effective January 10, 2014, require the Creditor/Lender to make a reasonable, good faith determination of an applicant(s) ability to repay based on reasonably reliable third party records before consummation of a loan covered by the new rules. They also provided QM rules that, when properly followed; provide a safe harbor to the Creditor/Lender from borrower claims of violations of the ATR rule. HUD also issued its own QM rule for FHA loans in December 2013.

Important Definitions:

**APOR:** The Average Prime Offer Rate published weekly by FHLMC. Separate indices are provided for fixed rate and adjustable rates based on the loan maturity. The index in effect for the appropriate term on the day you lock the loan will be the index used for the QM rule tests. The APOR will be visible in the new loan compliance alerts in our online system. You can also find it by going to the FFEIC website at: <http://www.ffeic.gov/ratespread/aportables.htm>

If your loan is not yet locked, the most recent APOR values will be used for testing purposes, to assist in identifying issues prior to the lock.

**Total Loan Amount:** This amount is determined by taking the general loan amount and subtracting Prepaid Finance Charges and any affiliate fees paid to an affiliate of the Creditor/Lender. Affiliate fees already counted as Prepaid Finance Charges will not be double counted.

**Rate Lock Date:** Your rate lock date will be defined for APOR testing purposes as:

The initial date of the lock for all loans, including loans with rate locks extensions. EXCEPT for:  
For any loan that is re-locked, then the re-lock date will be used.

**Total Points and Fees:** Include the following **REGARDLESS OF WHO PAYS THEM:**

- Lender or borrower paid compensation to a loan originator organization
- Borrower paid Conventional upfront mortgage insurance premiums
- All finance charges unless excluded below
- Any origination charges paid by the borrower (includes origination, processing, underwriting, etc.)
- Discount points

Excluded Finance charges

- Interest
- FHA up front mortgage insurance premium
- VA & RD Funding fees
- Bona fide 3<sup>rd</sup> party fees not paid to an affiliate (currently TOWNE has no affiliates)
- Limited bona fide discount points (TOWNE is currently NOT excluding bona fide discount points from the points and fees test)

<b>Qualified Mortgage And Ability to Repay- What you need to know</b>	
<b>What loans are included?</b>	Any federally regulated closed-end mortgage loan issued to a consumer for the purchase, refinance, or home equity on a primary, secondary or investment property. (excludes: HELOCS, timeshares, reverse mortgages, temporary or bridge loans, new construction loans with terms of 12 months or less, and loan modifications not processed as a refinance)
<b>Effective Dates</b>	All Non-FHA Loans: New rules apply to applications taken on or after January 10, 2014 FHA Loans: All applications with case numbers assigned on or after January 10, 2014 Pre-Approvals: New rules apply based on the date the property address is received
<b>Conventional Loans</b>	All conventional loans must receive a FNMA Approve/Eligible or Freddie Mac Accept. Towne Mortgage will not be accepting any Refer or Manual underwrites. *Manually underwritten Refi Plus loans will be eligible through our retail channel only.
<b>FHA and VA Loans</b>	All FHA and VA loans must receive a FNMA Approve/Eligible or Refer/Eligible or Freddie Mac Accept.
<b>Non-Agency Loans</b>	All Non-Agency loans will be limited to a 43% total debt to income ratio.
<b>APR Ranges</b>	The APR on the loan must be within the following ranges: Conventional, VA and USDA: APOR Index + 1.50% FHA Loans: APOR Index + (1.15 + 1.35*) or 2.50% Non-Agency Loans: APOR Index + 1.50% *The 1.35 is the current annual renewal premium for 30 year FHA loans. Other annual renewals will apply based on program selected
<b>Total Points and Fee Limits</b>	FOR ALL APPLICATIONS Dated January 10, 2014- December 31, 2014 The total points and fees must be within the following ranges based on the Loan Amount: ≥ \$100,000 = 3% of the Total Loan Amount (see definition) \$60,000-\$99,999 = \$3,000 \$20,000-\$59,999 = 5% of the Total Loan Amount (see definition) \$12,500-\$19,999 = \$1,000 \$12,499 and below = 8% of the Total Loan Amount (see definition)  FOR ALL APPLICATIONS Dated January 1, 2015 or later The total points and fees must be within the following ranges based on the Loan Amount: ≥ \$101,953 = 3% of the Total Loan Amount (see definition) \$61,172-\$101,952 = \$3,059 \$20,391-\$61,171 = 5% of the Total Loan Amount (see definition) \$12,744-\$20,390 = \$1,020 \$12,743 and below = 8% of the Total Loan Amount (see definition)
<b>Lender Paid Compensation Limits</b>	Based on the total points and fees limitations our Lender Paid Compensation limits will be set to 2.75%.
<b>Disclosure Requirements</b>	The Ability to Repay disclosure will be required to be signed by all borrowers prior to a clear to close being issued. See the Resource Center for a copy of the disclosure.

The QM Points and Fees Test in our online system will be available once all of the fees have been appropriately entered into the GFE screen and a TIL has been saved. This process is completed by our set up team; however for all third party originators if you enter your fees in the GFE screen and save a TIL you will be able to view the points and fees test prior to submission. (You can contact your account executive or our support team for training on the GFE and TIL screens)

For all partners submitting closed loan packages we will require the following to be provided:

Test Results for the following:

- HOEPA
- HPML
- State High Cost
- QM Points and Fees
- Fannie/Freddie High Cost

Further guidance will be provided to our correspondent partners on other requirements.