

Basic guide for lenders

What is a Qualified Mortgage?

Starting January 10, 2014, you must assess the borrower's ability to repay for virtually all closed-end residential mortgage loans. All Qualified Mortgages (QM) are presumed to comply with this requirement. As described below, a loan that meets the product feature requirements can be a QM under any of three main categories: (1) the general definition; (2) the "GSE-eligible" provision; or (3) the small creditor provision.

Mandatory product feature requirements for all QMs

- Points and fees are less than or equal to 3% of the loan amount (for loan amounts less than \$100k, higher percentage thresholds are allowed);
- No risky features like negative amortization, interest-only, or balloon loans (BUT NOTE: balloon loans originated until January 10, 2016 that meet the other product features are QMs if originated and held in portfolio by small creditors);
- Maximum loan term is less than or equal to 30 years.

Three main categories

1. General definition category of QMs

Any loan that meets the product feature requirements with a debt-to-income ratio of 43% or less is a QM.

2. "GSE-eligible" category of QMs

Any loan that meets the product feature requirements and is eligible for purchase, guarantee, or insurance by a GSE, FHA, VA, or USDA is QM regardless of the debt-to-income ratio (this QM category applies for GSE loans as long as the GSEs are in FHFA conservatorship and for federal agency loans until an agency issues its own QM rules, or January 10, 2021, whichever occurs first).

3. Small creditor category of QMs

If you have less than \$2B in assets and originate 500 or fewer first mortgages per year, any loan you make that meets the product feature requirements and that you hold in portfolio is a QM as long as you have considered and verified a borrower's debt-to-income ratio (though no specific DTI limit applies).

EXTRA NOTE: Even if a loan is not a qualified mortgage, it can still be an appropriate loan.

You can originate any mortgage (whether or not it is a QM) as long as you make a reasonable, good-faith determination that the consumer is able to repay the loan based on common underwriting factors. You can continue to rely on your sound, tested underwriting guidelines that you have used in the past to make loans that have generally performed well, as long as you document the information you consider.