



Qualified Mortgage Update

January 2014

Quicken Loans
Mortgage Services

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ATR AND QM Rule

- **Ability-to-Repay (ATR) Rule:** Lenders are required to make a reasonable, good-faith determination that the client has a reasonable ability to repay the loan according to its terms.
 - A creditor can satisfy this ability to repay requirement by verifying 8 underwriting factors
- **Qualified Mortgage (QM) Rule:** A loan is a QM loan based on the loan features, points and fees and underwriting requirements.
 - A QM loan will give the creditor a safe harbor (non-higher priced loans) or a rebuttable presumption (higher-priced loans) against a claim that the consumer does have the ability to repay the loan.
 - To preserve access to mortgages in rural and underserved areas, there are special provisions for certain small creditors, including some types of balloon-payment mortgages.
 - Bans most prepayment penalties.
- Rule goes into effect for Applications received on and after **Jan. 10, 2014**

QM Loan Requirements

Standard QM Requirements

Restricted Features:

- No Neg./AM,
- No I/O Payments
- No Balloons*
- No Terms > 30 yrs.

Underwriting:

- Underwrite based on full AM schedule at max rate
- Verify income, assets, debts, etc.
- Max DTI 43%

Pass Points and Fees Test

If loan does not meet above criteria, it does not meet QM

Temporary QM Requirements

Must meet Standard QM requirements except Max 43% DTI requirement

Eligible for purchase by FNMA, FHLMC, FHA, VA, USDA, Rural Housing

Sunset date 1/10/2021

Points & Fees Test Limitations

- Standard QM requirement
- Points and fees will be restricted at certain loan amounts
- Capped at 3% for loan amounts \geq \$100K (Total compensation is still capped at 3%)
- Cap is adjusted upward for loan amounts $<$ \$100K

The table below outlines the points and fees restrictions at different loan amounts.

Loan Amount	Cap
\$100,000 and up	3% of QM total loan amount
\$60,000 up to \$100k	\$3,000
\$20,000 up to \$60k	5% of QM total loan amount
\$12,500 up to \$20k	\$1,000
Less than \$12,500	8% of QM total loan amount

We will run an automated QM Points and Fees Test that will let us know if the total Points and Fees are within limitations.




Points & Fees Test - Included Fees

- Most prepaid finance charges.
 - If a finance charge under §1026.4(a) and (b), unless specifically excluded.
- All direct and indirect compensation paid by the consumer or creditor to a loan originator at the time the interest rate is set.
- Non bona-fide discount points
- Fees listed in §1026.4(c)(7) with the exception of taxes (and probably insurance) unless: (can be exclude if)
 - Fee is reasonable
 - Creditor receives no direct or indirect compensation, and
 - Fee is not paid to the creditor or an affiliate
- Affiliate Fees (title examination, title insurance, survey, appraisals, etc.)
- Credit Life, unemployment or other types of insurances
- Prepayment fee on new loan, or any prepayment penalty on existing loan if refinanced by current loan holder or servicer

Points & Fees Test - Excluded Fees

- Interest (including per diem)
- Government Mortgage Insurance – FHA, VA, USDA etc.
- Borrower paid PMI paid after closing
 - Upfront PMI payable at or before closing may be excluded if amount does not exceed comparable FHA transaction and refundable on pro-rata basis upon early payoff
- Bona-Fide third party fees
 - Fees retained by the creditor, loan originator or affiliate are not bona-fide 3rd party fees.
- Bona-Fide discount points
 - Up to 2 points if non-discounted rate no more than 1 point over average prime offer rate (APOR).
 - Up to 1 point if non-discounted rate no more than 2 points over average prime offer (APOR).
- Escrow accounts – taxes and insurance if no fees paid to creditor or affiliate

5 Steps to Calculating Points & Fees Test

-  1 Determine Loan Amount and Points & Fees Cap
- 2 Determine Max Points & Fees Allowed
-  3 Determine Rate Premium that can Reduce QM Fees
- 4 Calculate QM Fees & Apply Rate Premium
-  5 Determine if Loan Passes or Fails Points & Fees Test

Step 1: Determine Loan Amount and Points & Fees Cap

Look at the Note loan amount and see which points and fees cap tier it falls in.

- If the cap is a **fixed dollar amount**, this is the max points and fees allowed on the loan. (Ex: \$65,000 loan amount; \$3000 cap applies.)
- If the cap is a **percentage**, you need to calculate the QM total loan amount and then multiply that number by the percentage cap to find the max points and fees allowed. *This is outlined on the next 3 pages.*

QM Total Loan Amount

Total Loan Amount is defined as:

- The Amount financed (as defined in 1026.18(b), less
- Any costs listed in 1026.32(b)(1)(iii), (iv) or (vi) that are also in the points and fees test under 1026.32(b)(1) and financed by the creditor



Loan amount
– Prepaid Finance Charges
+ Rate Premium
= Amount Financed (Ctrl + Z or on TIL)
– QM Affiliate Fees
= **QM Total Loan Amount**

QM Total Loan Amount Example

Note	\$100,000
PPFC	- 3,500
Rate Premium	<u>+ 2,750</u>
Amount Financed	\$ 99,250
QM Affiliate fees	<u>- 500</u>
Total Loan Amount=	\$ 98,750

In this scenario, loan is using an Affiliate title/escrow company. The total Affiliate fees charged is \$500, which is subtracted from the amount financed to get the QM Total Loan Amount.

Step 2: Determining Points & Fees Cap

Example:

Note Loan Amount	\$100,000
Points & Fees Cap	3%
QM Total Loan Amount	\$98,750
Max Points & Fees	\$2,962.50

Loan Amount	Cap
\$100,000 and up	3% of QM total loan amount
\$60,000 up to \$100k	\$3,000
\$20,000 up to \$60k	5% of QM total loan amount
\$12,500 up to \$20k	\$1,000
Less than \$12,500	8% of QM total loan amount

Step 3: Determine Rate Premium That Can Reduce QM Fees

Lender Paid Transactions

- The Rate Premium in excess of Broker Compensation can be used to offset fees included in the Points & Fees Calculation.
- Broker Comp is **always** included in the Points & Fees Test and cannot be offset in the Points & Fees Calculation by any credit, including Rate Premium.
- Keep in mind, this process is different than LO Comp Plan.

How Do We Calculate?

- Subtract out the Broker Comp amount from the Rate Premium. If there is anything left, this amount can be used to offset fees in the Points & Fees Calculation.
- If there is nothing left over or if the amount is negative, nothing happens. However, none of the QM fees are offset and all must be included in the Points & Fees Calculation.

Step 3: Determine Rate Premium That Can Reduce QM Fees

Borrower Paid Transactions

- The full amount of Rate Premium can be used to offset fees included in the Points & Fees Test.
- Origination Fee is **always** included in the Points & Fees Test and cannot be offset in the Points & Fees Calculation by any credit, including Rate Premium.
- Keep in mind this process is different than Lender Paid Transactions.

How to Calculate Points and Fees Test

Example #1: Lender Paid

Step 1: Loan Amount & Cap	Total QM Loan Amount (See definition & example earlier)	\$98,750 with 3% Cap
Step 2: Max Fees Allowed	Max Pts & Fees	\$2,962.50
Step 3: Rate Premium that can offset QM Fees	Lender Paid Comp (Line 801)	\$2,500.00
	Rate Premium	\$2,750.00
	Excess Rate Premium	\$250.00
Step 4: Calculate QM Fees and Apply Excess Rate Premium	<u>QM Fees:</u>	
	Lender Paid Comp	\$2,500.00
	U/W Fee	\$705.00
	Tax Cert Fee	\$18.00
	Life of loan Tax Serv	\$60.00
	Flood Life of Loan	\$5.00
	Affiliate Title Fees	\$500.00
	Total Fees:	\$3,788.00
	Minus Excess Rate Premium *	\$250.00
	Total QM Pts & Fees:	\$3,538.00
*Remember Excess Rate Premium cannot cover any lender paid comp		
Step 5: Pass or Fail	FAIL	\$3,538 > \$2,962.50

Example #1: Borrower Paid

Step 1:	Total QM Loan Amount (See definition & example earlier)	\$98,750 with 3% Cap	
Step 2:	Max Pts & Fees	\$2,962.50	
Step 3:	Rate Premium	\$2,750.00	
	<u>QM Fees:</u>		
	Origination Fee	\$2,500.00	
Step 4:	U/W Fee	\$705.00	
	Tax Cert Fee	\$18.00	
	Life of loan Tax Serv	\$60.00	
	Flood Life of Loan	\$5.00	
	Affiliate Title Fees	\$500.00	
	Total Fees:	\$3,788.00	
	Minus Rate Premium *	\$1,288.00	
	Total QM Pts & Fees:	\$2,500.00	
	*Remember Rate Premium cannot cover any Broker Origination Fee, hence the reason full amount of rate premium is not being applied ...only \$1,288 of the \$2,750		
	Step 5:	PASS	\$2500 < \$2,962.50

Safe Harbor

In addition to the Points and Fees Test, lenders of Qualified Mortgages are eligible for additional protections depending on whether the loan is a higher-priced covered transaction. If it is not higher-priced, then the loan is eligible for a safe harbor.

Safe Harbor Loan Satisfies QM criteria, Points & Fees Test and:

- $APR \leq APOR + 1.50\%$ for Conforming loans (including VA)
- For FHA loans, $APR \leq APOR + 1.50\% + 1.15$ for FHA UFMIP + Annual MI
- This test applies to all property types secured by a dwelling.

Note: The QM Safe Harbor Higher-Priced Covered Transaction Test is not the same as the HPML Test.

Frequently Asked Questions

- **Is the appraisal fee part of the QM points & fees calculation?**
 - Only if the AMC is an Affiliate of QLMS or the Partner, the AMC service fee is included. If appraiser is staff of an Affiliate AMC, the full appraisal fee will be included.
- **Does the QM Rule apply to FHA?**
 - Yes. Though the higher priced calculation to receive Safe Harbor is slightly different as covered earlier.
- **Will 43% DTI be the standard for QLMS in 2014?**
 - No. We are operating under the Temporary QM Rule, which can allow loans to exceed 43% DTI based on the scenarios covered under Temporary QM earlier. Jumbo products are not included in this exemption and will still have a max 43% DTI.
- **Will there be any exceptions?**
 - No. QLMS will only originate QM Safe Harbor loans at this time.
- **Can you determine if a loan is QM qualifying at Registration?**
 - We don't have fees at registration to verify. You can submit an Early TIL to provide us with your most accurate fees and once posted call our SOS team to provide you with our Points and Fees Test.
- **Will Investment properties will be bound by the same comp plan max?**
 - Yes, but they will need to follow either your Lender Paid compensation plan or Borrower Paid.

Frequently Asked Questions

- **How do I know if we have an Affiliate Relationship?**
 - Every Partner should have completed an Affiliate Agreement form. We have taken this and set up our system to recognize the Affiliate Relationship if there is one. We will be able to check our Affiliate Database to see whether we have a particular company on file, but you should always verify with the owner of your company as well. You can use the following link to update your list of Affiliates, <http://www.qlmortgageservices.com/affiliate-renewal>
- **How does the process of an Affiliate work with regards to QM?**
 - The main Affiliates that we are concerned about are AMC, and closing agents. At Submit Full Package you will be asked if you are using an Affiliate or if you are using another 3rd party agent. If using an Affiliate, the fees charged to the Client will carry over into our system and be included in the Points & Fees Test.
- **Why does QLMS include some fees in the Points & Fees Test that do not need to be included if charged by an Affiliate of the ‘originator’?**
 - We are evaluating several fees based on evolving interpretations, and at this time we are including these fees. We expect to make changes in the next few weeks and will keep our Partners informed as they are implemented.
- **What if I want to ask a question about QM or an affiliated business before I submit a loan?**
 - Please continue to reach out to our SOS Team at SOS@quickenloans.com. We have put a set a QM Experts in place to help get your questions answered as quickly as possible.

QLMS Process

- Details on whether loan is Qualified Mortgage or not provided once an UW completes initial underwrite
- Points and Fees breakdown available from SOS@quickenloans.com once Early TIL is posted
- Visibility through Client Conditions on Portal
- Prompt communication from Ops Team Members whenever loan is failing tests
- Additional Resources:
 - Your QLMS Account Executive
 - SOS@quickenloans.com
 - Your Client Care Specialist/Senior Purchase Specialist
 - qlmortgageservices.com/qualified-mortgage
 - quniversity@quickenloans.com