Qualified Mortgage Rulemaking:

Protecting Borrowers from the Next Lending Crisis.

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"Qualified Mortgage" Rules Address Irresponsible Mortgage Lending
The Dodd-Frank Wall Street Reform and Consumer Protection Act includes a common sense reform that requires lenders to determine whether borrowers could actually repay a mortgage before that transaction takes place. The law also includes a streamlined way to meet this new requirement, which is making loans that meet a "Qualified Mortgage" standard. QM loans also have benefits for borrowers, because QMs are restricted from having harmful loan terms such as balloon payments, teaser rates and high fees.

These reforms zero in on one of the major causes of the housing crisis: During the subprime lending boom, lenders made loans to borrowers that weren't sustainable and that borrowers could not afford. In many cases, these loans were refinances where homeowners lost thousands of dollars in home equity, ended up with higher and unaffordable mortgage payments, and ultimately lost their homes and savings.

The CFPB's Role in Defining Qualified Mortgage
Dodd-Frank charged the CFPB with writing rules to define which loans qualify as a QM loan. Before the CFPB opened its doors in July 2011, the Federal Reserve began this rulemaking process with a proposed rule in April 2011. The CFPB issued a supplemental request for comment in June 2012 and issued a final rule on January 10, 2013.

Highlights from the CFPB's Qualified Mortgage Rulemaking:

- **Broad Definition:** On the whole, the CFPB's final rule broadly defines the kind of mortgages that will count as a Qualified Mortgage. The good news is that this broad definition will not further restrict access to credit and will not needlessly limit the number of borrowers benefitting from QM's protections.

- **Clear Standards:** The CFPB's final rule benefits both borrowers and lenders by having lending standards that both sides can understand. As a result, all parties will know upfront whether a mortgage counts as a QM loan or not.

    - **Debt-to-Income Ratios:** The standards used in the definition of QM include the vast majority of the mortgage market. For example, all loans eligible for purchase by Fannie and Freddie –with debt-to-income ratios both above and below 43 percent – would be QM loans.

    - **Yield-Spread-Premiums:** There is still uncertainty about how yield spread premiums will be counted in "points and fees," which is significant because limited points and fees is one of the hallmark borrower protections for QM loans. The CFPB should not create a loophole that allows high fee loans to count as a QM loan. This must be addressed before the rule is implemented.

- **Vulnerable Borrowers & Holding Lenders Accountable:** The final rule allows the most vulnerable borrowers (i.e., households with subprime mortgages) to hold lenders accountable if they receive an unaffordable QM loan. This falls short of allowing all borrowers to raise these challenges, but it does provide the most vulnerable borrowers with a so-called "rebuttable presumption" to challenge unaffordable loans.