Proposal for the Replacement of the QM Patch
June 20, 2019

1. QM and ATR should represent a variety of underwriting characteristics beyond DTI.
   a. Safe harbor should continue to be available for loans with certain characteristics, including low DTI, that conform to the rules of Appendix Q. These rules could be expanded and clarified.
   b. Limitations on loan types, and upfront fees should remain in place.

2. For other loans (such as those currently covered by the patch), QM should be determined based upon expected 60+ delinquencies during the first few years of loans being not more than 90% of a set of benchmark ATR loans. (For example, 40-43% DTI, 80-90% LTV, 660-700 FICO loans.)
   a. Some overlays such as maximum LTV of 100%, maximum DTI of 65% or maximum spread to prime mortgage rate, could be established.
   b. The maximum expected delinquency rate should reflect some degree of economic stress.
   c. The QM determination should be adjusted over time based on the performance of loans and changes in underwriting technology.
   d. The QM standard should be national and not vary by institution or location.
   e. The QM determination should include documentation requirements as well as numerical underwriting inputs.

3. QM status should be conferred by a regulated entity to remove uncertainty as to whether or not constructive presumption has been achieved.
   a. Establish a consortium to develop and implement a QM process with oversight by CFPB. Fannie Mae and Freddie Mac, as well as other lenders and consumer advocates, can participate in the process.
   b. The consortium can be established as not-for-profit membership organization, or under the umbrella of an association such as SFIG.
   c. Access to the QM determination may be linked to GSE and other AUS systems.
   d. The consortium would charge a nominal fee to offset the cost of QM determination.
   e. The consortium would track delinquency levels on QM loans and recommend changes to the determination process from time to time.
Managing multiple credit characteristics can lead to comparable ATR for higher DTI loans.

**Freddie Mac Loan Level Data, Balances vs. Roll Rate to 60 Days Delinquent**

**Composition by Credit Score**

**Performance through Mid-2018: Roll Rate to 60 Days Delinquent**