

LENDERS UPDATE™

ALT & ASSOCIATES NEWSLETTER

A COMPLIMENTARY SERVICE TO THE MORTGAGE LENDING INDUSTRY

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ONLY QUALIFIED MORTGAGES FOR FANNIE MAE AND FREDDIE MAC

In its news release of May 6th, the Federal Housing Finance Agency (FHFA) announced that it was directing Fannie Mae and Freddie Mac to limit purchases of mortgage loans to those that meet the requirements for a “qualified mortgage”. This will include those loans that meet the *special or temporary qualified mortgage* definition and loans that are exempt from the *ability to repay* requirements. As we have discussed, The Consumer Financial Protection Bureau (CFPB) has issued a final rule implementing “ability to repay” provisions which include protections from liability for loans that meet the criteria of a qualified mortgage.

Beginning January 10, 2014 Fannie Mae and Freddie Mac will no longer purchase a loan that is subject to the “ability to repay” rule if the loan;

- a term is not fully amortizing,
- has longer than 30 years, or

- includes points and fees in excess of 3% of the total loan amount, or such other limits for low balance loans as set forth in the rule.

This effectively means that Fannie Mae and Freddie Mac will not purchase “interest only” loans, loans with forty-year terms, loans with fees and points exceeding the specified threshold and loans with a debt to income ratio of greater than 43%.

Both Fannie Mae and Freddie Mac have indicated that for loans with application dates on or after January 10, 2014, they will rely upon lender representations and warranties that the loans are qualified mortgages. After collection and assessment of data, the long-term goal is to validate whether loans meet certain specified qualified mortgage criteria.

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ALT & ASSOCIATES provides regulatory, compliance, operational advice and transactional assistance, as well as litigation representation, to the financial services industry. Over the past three decades, members of the firm have represented Institutional Lenders and Mortgage Bankers and Brokers in all aspects of their operations.

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