



**HOMEXPRESS**  
— MORTGAGE CORP. —

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NON-QM 101

# SUBPRIME VS. NON-QM

## Subprime 2006

- ▶ No down payment required (80/20) or 100% LTV
- ▶ Average 580 credit score
- ▶ Income - stated
- ▶ No reserves
- ▶ Negative Amortization and balloon payments
- ▶ No appraisal requirements
- ▶ Prepayment penalties
- ▶ Exceptions rampant- layered exceptions the norm
- ▶ Conditions were light and most sent prior to close in dry states

## Non-QM 2018

- ▶ Minimum 10% down payment sourced and seasoned. Gift funds accepted
- ▶ Average 680 credit score
- ▶ Full Doc, Alt Doc, DSCR
- ▶ Reserves required on some products
- ▶ No negative amortization or balloon payment
- ▶ Appraisal independence requirements (AIR)
- ▶ No prepayment penalties except for business purpose loans
- ▶ No Exceptions to guidelines
- ▶ Conditions are heavy and must be satisfied prior to Doc in dry states



# QUALIFIED MORTGAGES VS. NON-QM

## Qualified Mortgages

- ▶ General QMs
  - ▶ Points & Fees  $\leq$  3% of the loan amount
  - ▶ Max Loan Term 30 years
  - ▶ No risky features (neg-am, int-only, balloon)
  - ▶ DTI  $\leq$  43%
- ▶ GSE QMs
  - ▶ Any loan eligible for purchase by:
    - ▶ Fannie Mae
    - ▶ Freddie Mac
- ▶ Agency QMs
  - ▶ Any loan eligible for guarantee or insurance by:
    - ▶ VA
    - ▶ FHA
    - ▶ USDA

## Non-QM

- ▶ Points & Fees  $\leq$  5%
- ▶ Loan Term may exceed 30 Years
- ▶ Loan may feature Interest-Only Payments
- ▶ DTI ratio may exceed 43%
- ▶ CFPB allows origination of Non-QM loans as long as a reasonable, good-faith determination that the consumer is able to repay the loan is based on common underwriting factors.
- ▶ We satisfy CFPB requirements by relying on sound, tested underwriting guidelines we've used in the past to make loans that have generally performed well, and we document the information we consider.

# ABILITY-TO-REPAY (ATR)

- ▶ The ATR rule requires that we make a reasonable, good-faith determination before or when we consummate a mortgage loan that the consumer has a reasonable ability to repay the loan, considering such factors as the consumer's income or assets and employment status
- ▶ Eight ATR underwriting factors:
  1. Current or reasonably expected income or assets
  2. Current employment status
  3. Monthly mortgage payment for this loan. You calculate this using the introductory or fully-indexed rate, whichever is higher
  4. Monthly payment on any simultaneous loans secured by the same property
  5. Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property
  6. Debts, alimony, and child support obligations
  7. Monthly debt-to-income ratio or residual income
  8. Credit history

# MARKET GROWTH OPPORTUNITIES

- ▶ 2014: A fraction of the overall loan production
- ▶ 2017: \$15 Billion (estimated)
- ▶ 2018: S&P predicts \$30-45 Billion
- ▶ Factors contributing to increase in Non-QM
  - ▶ Rising interest rates - less conventional rate & term business
  - ▶ Confidence in Non-QM performance continues to grow - low delinquencies
  - ▶ Non-QM continues to evolve and become more liquid - more investors entering the market
  - ▶ Awareness - brokers and borrowers alike are more aware that programs are available to fit their needs



# WHO ARE NON-QM BORROWERS?

- ▶ Self-employed borrowers that have a lot of write-offs on their tax returns
- ▶ Borrowers with assets that do not show much monthly income
- ▶ Borrowers that have multiple rental properties with large write-offs on Schedule E
- ▶ Borrowers with recent or past credit issues
- ▶ Investors: Business purpose loans
  - ▶ Loan based on debt service coverage ratio (DSCR)
  - ▶ 100% of rents used
- ▶ Unique circumstances

# SOURCING NON-QM LOANS

- ▶ Realtors
- ▶ Bank MLOs (turndowns)
- ▶ Accountants/Financial Planners
- ▶ Attorney's: Tax and Bankruptcy
- ▶ Social Media

# THANK YOU FOR ATTENDING!

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