
LoanScoreCard QM White Paper

Introduction

During 2013 CFPB published thousands of pages of rules on Ability-to-Repay (ATR) and Qualified Mortgage (QM). The industry struggled to understand the complexity and nuance exacerbated by the CFPB's release of "final rules," followed by even more updated "final rules." After wrestling with the rules for most of the year, lenders came to realize the next critical step was implementation – how to capture and ensure within their systems and processes that every loan complies with the new CFPB rules. Lenders recognized they had tremendous dependency on the vendors of their LOS, compliance, other systems, and the vendors simply were not ready.

Automating QM Assessments

On August 8, 2013 LoanScoreCard released its QM solution, the first to market, to rave reviews. Finally, the industry had a tangible assessment tool to ensure loans meet QM guidelines captured in a detailed QM Findings Report. Not only was it the first to market but the manner in which it documents and demonstrates QM compliance was ground-breaking. Kevin Marconi, chief operating officer of United Fidelity Funding, called it "not just a tool but a standard by which other QM tools are measured." Wells Fargo accepted LoanScoreCard QM as the first vendor alternative that can be used in lieu of its Fee Details Form.

Since its release, LoanScoreCard QM Findings has gained considerable momentum rendering over 80,000 reports even before the mandatory January 10th date for CFPB rules implementation. On January 9th alone, LoanScoreCard generated 4,980 QM Findings Reports for loans from a wide range of different financial institutions on various platforms.

An AUS for Compliance

Traditionally lenders have had access to both automated underwriting engines and compliance checks but as separate services, employing different technologies. LoanScoreCard is an AUS engine historically used to address the non-agency underwriting requirements of various investors. In 2013 LoanScoreCard made the decision to apply this proprietary AUS technology toward solving the QM compliance problem. The result was something the industry did not expect.

The LoanScoreCard QM Findings Report is laid out in familiar fashion similar to what users are accustomed to seeing in a DU or LP findings. However, the contents are all geared toward analyzing the loan file based on CFPB definitions and requirements for QM. In a single report, LoanScoreCard QM summarizes the entire loan file in terms of 1003 and fees data, and details how they build toward the final QM assessment. Unlike a traditional compliance check, which flags the remaining compliance issues to clear, LoanScoreCard QM serves as a quantification of how exactly the loan meets QM guidelines from top to bottom, supporting the assessment in both numbers and messaging. As a self-contained report the QM Findings serve as part of the CFPB-required “evidence of compliance” that must be retained for 3 years.

LoanScoreCard QM covers the guidelines of all 4 QM Types as defined by the CFPB – General QM, Temporary Agency QM, Small Creditor QM, and Balloon QM. Furthermore the QM Findings Report also assesses the loan for the Safe Harbor that applies for the given loan type including the recent rule from HUD that governs QM Safe Harbor for FHA loans.

Visibility for All Stakeholders

Thousands of organizations large and small have already deployed the LoanScoreCard QM solution, many well before the mandatory January 10th deadline. By getting it to market early, LoanScoreCard enabled its clients to be well prepared for CFPB’s QM requirements, while many of their counterparts in the industry scrambled to put something in place at the last minute, with or without their vendor’s support. The QM Findings Report provides an easy way for all stakeholders in the loan to see and confirm that the loan meets QM guidelines.

After the subprime meltdown, “transparency” became the recurring theme as the industry sought to rebuild processes and regain investor confidence. Regulatory change is often implemented as “rules” within the lender’s system, which can be a black box that users must simply trust has captured those guidelines fully. Instead, LoanScoreCard QM Findings fully quantifies each point of assessment, including the calculations that support each rule down to the source data points that feed into each calculation. The Findings Report stands by itself as a way to document QM compliance external to the particulars of the system of the originating lender. This provides universal visibility to all participants. Not only can internal users from different departments rely on the QM Findings – from the originator and processor, through underwriting and closing – but external stakeholders can independently review it for QM compliance as well. Whether that’s a wholesaler, investor, auditor or court of law, the LoanScoreCard QM Findings Report serves as a self-contained full assessment of the loan against QM guidelines.

Early Assessment of Loan Viability

Clients of LoanScoreCard QM are able to quickly assess in seconds whether a loan meets QM guidelines enabling them to review QM Findings early and often ensuring the loan starts as a QM loan, remains as a QM loan as the loan figures get finalized and closes as a QM loan as there is no cure for non-QM loans after loan consummation.

As in any customer service industry the consumer's expectation must be properly set from the beginning. When the loan officer is able to easily make that QM assessment upfront he is able to avoid having to manage borrower disappointment with a loan denial or having to restructure the loan offering due to QM non-compliance typically discovered after underwriting or QC. The underwriter also therefore doesn't have to waste time underwriting files that may ultimately fall outside of QM. For the wholesaler, receiving loan packages from third-party brokers by having the broker make that QM assessment upfront the wholesaler can avoid having to spend the resources associated with handling a non-QM loan including potential re-disclosures, adverse action letters and HMDA reporting.

And finally, there is the tail risk that keeps many a mortgage executive up at night, wondering whether they will get a massive buyback tomorrow, how they will survive the next CFPB exam and what might happen when a past borrower files an ATR violation claim against their institution.

By having a singular document that outlines how the loan meets QM compliance, not only is the risk mitigated stemming from buybacks, audits and lawsuits but the time and stress associated with the defense can be greatly reduced by streamlining the resolution process with this "evidence of compliance" retained with every file.