



MEGA CAPITAL FUNDING, INC.

QM Quick Reference Guide

Introduction:

- The Consumer Financial Protection Bureau adopted a rule that implements the Ability to Repay and Qualified Mortgage (“ATR/QM”) provisions of the Dodd-Frank Act. The effective date of the ATR/QM rule is with initial applications taken on or after January 10, 2014.

Overview:

- Investment properties (purchase and refinance r/t only) which are for business purposes (borrower does not intend to occupy for greater than 14 days in the year) are exempt from ATR/QM. However, such loans must meet agency eligibility requirements and are subject to the applicable points and fees threshold.
 - Mega Capital Funding’s policy is that cashout transactions on investment properties are still subject to standard ATR/QM rules.
- Correspondent brokers are responsible for providing evidence of compliance with ATR/QM rules. This may include a discount form and/or a rate sheet/rate stack to verify the undiscounted (par) rate.
- The CFPB has no cure provision for loans closed with QM points and fees violations. Mega Capital will be unable to purchase loans with violations.

Calculation:

- QM Points and Fees are limited to 3% of the QM Total Loan Amount
 - Note: Points and fees on loan amounts between Mega Capital’s \$75,000 minimum loan amount and \$124,330 are capped at \$3,730.
- QM Total Loan Amount = Amount Financed minus any prepaid finance charges.
 - Prepaid finance charges are any points and fees that are included in the loan amount

What is included in QM Points and Fees?

- Compensation paid to broker- Borrower paid or Lender paid
 - Borrower paid compensation is included in the calculation, even if paid by a third-party
- Origination fees:
 - Underwriting Fee
 - Tax Service Fee
 - Admin Fee
 - Processing fee
- Single Premium Borrower Paid Mortgage Insurance
- Discount Points
 - Note: Seller’s Points can be excluded from the calculation if the purchase contract specifies the seller is paying for those fees

What is not included in QM Points and Fees?

- Any third party charge not retained by Mega Capital Funding, the loan originator, or an affiliate of either
 - 3rd Party Processing Fees
- Government Mortgage Insurance Premiums
- Bona Fide Discount Points
 - Up to 2% discount points can be excluded if the undiscounted (par) rate does not exceed the Average Prime Offer Rate (APOR) by more than 1%.
 - Up to 1% discount points can be excluded if the undiscounted (par) rate does not exceed the APOR by more than 2%.
 - No discount points may be excluded if the undiscounted (par) rate exceeds the APOR by more than 2%, or if there is no evidence of a par rate.

Price-Based QM APR Rate Spread Test

- In December 2020, the CFPB issued a revision to the General QM Rule, removing the DTI limit and Appendix Q, and replacing it with limits on the loan's pricing. Under the amended rule, a loan will meet the General QM definition if the Annual Percentage Rate (APR) exceeds the Average Prime Offer Rate (APOR) for a comparable transaction by less than 2.25% (or up to 6.5% depending on the loan amount and transaction type) at the time the interest rate is set.

Loan Amount	First-Lien Non-MH	First-Lien MH	Subordinate Lien
Greater than \$110,260	2.25% + APOR	2.25% + APOR	3.5% + APOR
Less than \$110,260 but greater than or equal to \$66,156	3.5% + APOR	6.5% + APOR	3.5% + APOR

- APR Used In Determination
 - For fixed-rate loans, the loan's actual APR will be used in the comparison for the audit as described above.
 - For variable-rate loans, the APR used in the audit may be either the loan's actual APR or an APR calculated based on the worst-case rate achieved in the first five years. If the rate may change in the loan's first five years, the APR will be recalculated using the highest rate achieved in that five year period. For all other variable-rate loans, the loan's actual APR will be used in the comparison.



FAQ

- **Why is lender paid compensation being double-counted in the QM Points and Fees calculation?**
 - Discount points are a finance charge and are included in the QM Points and Fees calculation under 12 CFR 1026.32(b)(1)(i), while the compensation to the broker is covered under 12 CFR 1026.32(b)(1)(ii). There is not an exclusion under either section that allows the compensation being paid to the broker to be deducted or excluded from the discount points or other finance charges to the lender, even though the lender may be paying the compensation using the funds from the discount points.
 - Concerns regarding the double-counting can be alleviated by electing the borrower paid compensation option.
- **What is a lender fee buyout, and how does it affect QM?**
 - When a Lender Fee Buyout is applied, the Underwriting Fee (amount varies per program and state) that Mega Capital charges on every file can be applied as an LLPA (pricing adjustment). By doing so, this removes the fee from Box A, and can be excluded from the calculation as long as it is covered by rebate (yxp) or bona fide discount points.
 - Note: a lender fee buyout may not resolve a QM issue in scenarios where bona fide discount points do not apply, or when not all discount points can be excluded as bona fide.
- **Do seller credits offset the QM fees?**
 - No. General seller credit does not offset the QM fees. Seller's Points (discount points specifically marked as paid by seller) can be excluded from the QM calculation.