CMG FINANCIAL
Correspondent Lending

BULLETIN #2014-18

TO:	Distribution	**DATE:**	June 16, 2014
RE:	ATR/QM Policy Update – VA IRRRLs	**EFFECTIVE DATE:**	June 1, 2014

Correspondent Lending ATR/QM Guidance

The following bulletin pertaining to VA IRRRL QM compliance amends CMG Financial Correspondent Lending's ATR/QM Policy sent via bulletin 2014-02 on January 14, 2014.

CMG Financial Correspondent Lending will only purchase loans that meet the safe harbor Qualified Mortgage requirements. The VA published an Interim Final Rule on May 9, 2014. This Interim Final Rule became effective for all loans with an application date of 6/1/2014 or after. Standard VA loans (non IRRRL's) automatically meet safe harbor QM requirements as long as the loan meets VA's standard requirements. IRRRL's however, are subject to additional requirements to meet the safe harbor QM regulations.

VA IRRRL's must meet a twofold test to be eligible for safe harbor and also eligible for the waiver of the verification of income. The tests are dependent on one another and each loan must meet all of the requirements of each.

Test A: Safe Harbor Test

- The new loan must have a closing date that is at least 6 months from the old note date and the veteran cannot have been 30 days late during that 6 month period.
- All allowable fees and charges that are charged to the borrower (financed or paid) must be recouped through interest savings within 36 months of the closing date of the new loan.
  - This requirement is waived if:
    - Converting from an ARM to a Fixed Rate OR
    - Reducing the duration of the borrowers fixed term (i.e. 30 year fixed to 15 year fixed)
- All conditions of the income verification waiver are met (Test B)

Test B: Income Verification Waiver Test

- Loan being refinanced cannot be more than 0x30 in the last 6 months and 1x30 in the last 12 months – borrower must have made a minimum of 6 payments to be eligible for IRRRL.
- Prior outstanding balance of loan being refinanced cannot increase except for allowable fees and charges being financed
- Total points and fees (other than TILA defined bona fide) payable in connection with the proposed loan cannot exceed 3% of the principal amount of the new loan
- The interest rate on the new loan must be lower than the note rate on the loan being refinanced
  - This condition can be waived if the loan is the refinance from an ARM to a fixed rate
- The new loan must be fully amortizing (no interest only) and must not have a balloon payment at the end of the term

Loans where the Veteran has refinanced twice in the previous 24 months should be considered very carefully with special consideration given to the benefit to the borrower. Such scenarios may be subject to additional conditions and or requirements to insure that the transaction is in the best interest of the Veteran.

The above QM guidance pertaining to VA IRRRL does not amend our Bulletin 2014-13 issued on April 16, 2014, which requires evidence that the VA funding fee has been paid prior to purchase.

For complete details, please refer to VA's May 9, 2014 Final Rule and VA's FAQ.

We will continue to review and update our policies related to the implementation of Dodd-Frank. We appreciate your continued support and welcome any comments or feedback. Please contact Kelly Raymond at kraymond@cmgfi.com with any further questions.

Please contact your Correspondent Regional Manager or your Correspondent Liaison with any questions.