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CAI Studying qualified mortgage (ability to repay) guidelines

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Community Associations Institute (CAI) is studying the long-awaited federal Qualified Mortgage (QM) standards issued in January by the Consumer Financial Protection Bureau (CFPB). The new guidelines, required by the Wall Street Reform and Consumer Protection Act (commonly known as the Dodd Frank Act), establish minimum requirements for all mortgage loans.

As anticipated, the QM standards consider association assessments a key factor when determining if a borrower is qualified for a mortgage. Ensuring borrowers can afford to pay association assessments will strengthen common-interest communities and help prevent foreclosures.

"The ability-to-repay standard will ensure home buyers are able to fulfill all financial obligations related to owning their homeâ€”including their association assessments," said CAI chief executive officer Thomas Skiba, CAE. "This will create a greater degree of financial stability for community associations, while helping to ensure fairness and equity for all owners in a community."

Under the QM standard, lenders are required to prove borrowers have the financial resources to pay mortgage principal and interest, insurance premiums, property taxes and association assessments. Lenders that extend mortgage credit without fully documenting a borrower's income and assets and ensuring the borrower has the ability to make all monthly mortgage payments will face stiff penalties and fines.

Lender documentation of association assessments and special assessments required to meet the new ability-to-repay standard will be a key issue for CAI members. CAI will continue to work with CFPB and the banking industry to ensure that all parties understand the role played by community associations to provide lenders with assessment information in a reasonable and cost-effective manner.

Key features of the QM standards include:

* Ability to repay. Lenders must document that borrowers have sufficient assets and income to make monthly mortgage payments and pay other mortgage-related obligations such as community association assessments.

* Borrower debt-to-income ratio. Borrowers may not spend more than 43 percent of their monthly income for payment of mortgages and mortgage-related obligations such as association assessments.

* Legal safe harbor for lenders. Except in the case of high-cost mortgages, lenders that comply with the ability-to-repay standard will be offered protection from borrower litigation.

* High-risk loan terms. Lenders are no longer permitted to offer mortgages that allow loan balances to increase (negative amortization) or interest-only payments. Mortgages may not have terms of more than 30 years.

* Transitional standard. All loans eligible for Fannie Mae and Freddie Mac guarantees or for Federal Housing Administration insurance will be granted QM status during a transitional period.

* Delayed effective date. Lenders will have one year to comply with the QM standards, which take effect Jan. 10, 2014.

CAI is reviewing the final QM standards and will provide additional perspective once a full analysis has been completed.