# News From the FAMP Government Affairs Committee

**The emerging 'non-QM' market**

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Oct 3, 2014

WASHINGTON - If you're thinking about buying a house, you probably know the sobering realities in the mortgage market. Thanks to strict federal rule changes in the wake of the housing bust, it can be tough to qualify for a loan.

That's especially true if you don't quite fit the mold - you don't conform to all the underwriting mandates on credit, income, debt-to-income ratio and other criteria. You can handle the payments but issues in your application push you outside the box.

But here's some good news- A small but growing number of lenders has begun offering mortgages with more flexible terms designed for borrowers like you. Say you have solid credit scores and money in the bank but because of student loans or uninsured medical bills, your debt-to-income ratio exceeds the maximum that federal rules generally prescribe.

Or maybe you are self-employed and find it difficult to assemble the documentation most lenders require on income - even though one glance at your bank statements would show that you earn enough to qualify. Perhaps you did a short sale on your underwater home a couple of years ago, too recently to meet the four-year minimum wait time prescribed by giant investor Fannie Mae before you are allowed to obtain a new mortgage.

You are not alone. Some industry estimates on the numbers of "near-miss" applicants or potential applicants nationwide range well into the millions. To serve them, a new segment of the mortgage market has begun taking shape- "non-Qualified Mortgage" or non-QM lending. Interest rates are higher than the standard market by three quarters of a percent to 1.5 percent or more, depending on the lender and the application specifics.

QM refers to the federal Qualified Mortgage rules that are designed to foster safe lending. They ban certain loan features such as negative amortization and interest-only payments; set a 43 percent ceiling for debt-to-income ratios; and impose a 3 percent limit on total loan fees, among other requirements.

Lenders jumping into the non-QM space emphasize that they have no interest in funding subprime applicants who lack the ability to repay their mortgages. Bill Dallas, president and CEO of Skyline Home Loans of Agoura Hills, Calif., says "we want good credit risks, but we don't think the Ozzie and Harriet one-size-fits-all underwriting" is the only way to go. Skyline is readying loan offerings that allow debt ratios of 50 percent and depart from other QM standards for applicants who have strong compensating factors such as substantial down payment and reserves.

Impac Mortgage Corp., a New York Stock Exchange-traded public company based in Irvine, Calif., already has begun making loans nationwide - $30 million in the past couple of months - on what it calls "Alternative QM" mortgages to several categories of creditworthy borrowers with special needs-

- Near-miss buyers, who almost qualify under standard rules, but not quite. Say they have solid credit scores, good jobs, but have a debt-to-income ratio of 49 percent. They're likely to have difficulty making it through Fannie Mae's or Freddie Mac's underwriting systems, but Impac may fund them after taking a hard look at their bank reserves and assets.

- Self-employed professionals and business owners. They generally can't show IRS W-2 forms and may have irregular income flows, complex tax situations and periodically high debt levels. Impac allows them to document their income using 12 months of recent bank statements and to have debt-to-income ratios as high as 50 percent.

- Investors with multiple properties who face significant hurdles when they apply for mortgages. Investors who own 10 or more rental homes or commercial properties and seek to refinance and pull money out are frequently turned down by conventional lenders. Impac evaluates borrowers' incomes based on the properties' cash flows and has no limit on total properties owned.

New Penn Financial, based in Plymouth Meeting, Pa., is another early entrant to the non-QM arena. It recently began offering its "Home Buyer Power" loans through retail branches and brokers in 47 states. Brian Simon, chief operating officer, told me the company's initial target is "prime" credit borrowers who seek high balance mortgages but have debt loads that put them out of reach for most banks.

Bottom line- If you assume you can't qualify for a mortgage because you depart from federal guidelines in some way, go shopping. The emerging non-QM mortgage market wants to hear from you.