Working with Ability-to-Repay (ATR/QM) and HOEPA Regulations

For use with Encompass Broker & Banker Editions Version 21.2 and Later

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Chapter 1

Introduction - Working with Ability-to-Repay (ATR/QM) and HOEPA Regulations

Starting January 10, 2014, lenders were required to document compliance with the Bureau of Consumer Financial Protection’s (CFPB) amendment to Regulation Z that implements sections 1411, 1412, and 1414 of the Dodd-Frank Act (Dodd-Frank Wall Street Reform and Consumer Protection Act) and prohibits creditors from making most residential mortgage loans against a closed-end first or junior lien secured by a 1-4 unit dwelling unless the creditor makes a reasonable, good faith determination of the consumer’s ability-to-repay the loan. In addition, the final rule establishes certain protections for creditors who make a “Qualified Mortgage”.

Creditors must assess the consumer’s ability-to-repay for virtually all closed-end residential mortgage loans and it is now presumed that all Qualified Mortgages (QM) comply with these CFPB requirements. A loan that meets the following product feature requirements can be a QM under any of the three main categories:

1. the General QM definition
2. the “Agency/GSE*-eligible” QM provision
3. the small creditor QM provision

2021 Updates

Effective March 1, 2021, under the Final Rule issued by the CFPB, the general QM loan definition has been amended under Reg Z. The mandatory compliance date for this new definition is October 1, 2022. Lenders have the option to begin using the new definition between the effective date of the new rule and the mandate, but can leverage the prior QM definition during this time.

General QM Final Rule amends the General QM definition as follows:

- Replaces the existing 43% DTI limit with a price-based limit.
- Removes Appendix Q as well as any requirements to use Appendix Q for General QM loans
- Retains the ATR/QM Rule’s consider and verify requirements and clarifies how they apply under the revised General QM definition
- Retains the existing product-feature and underwriting requirements and limits on points and fees.

Agency/GSE Eligible Provision Sunset*

In Lender Letter 2021-09, Fannie Mae announced:

The PSPA requires that we acquire loans that meet the revised General Qualified Mortgage (QM) loan definition in the CFPB’s rule1 that became effective Mar. 1, 2021 (Revised QM Rule). As a result, and in accordance with the dates below, we will no longer acquire loans that are GSE Patch loans that do not meet the Revised QM Rule. To be eligible for purchase, such loans must

- have application dates on or before Jun. 30, 2021, and
- be purchased as whole loans on or before Aug. 31, 2021, or in MBS pools with an issue date on or before Aug. 1, 2021.

Mandatory product feature requirements for all QMs:

- Points and fees do not exceed 3% of the Regulation Z-defined Total Loan Amount (for lower loan amounts, higher percentage thresholds are allowed).
- No risky features like negative amortization, interest-only, or balloon loans.
- Balloon loans originated until January 10, 2016 that meet the other product features are Qualified Mortgages if originated and held in portfolio by small creditors.
- Maximum loan term is less than or equal to 30 years.
Three main categories:

- **General definition category of QMs**
  - Option 1: Current definition, including 43% DTI cap and other product feature requirements. Can be used for loans with an application date on or before 9/30/2022
  - Option 2: Revised definition including price-based test, no DTI cap. Other feature requirements remain the same with Option 1. Can be used for loans with an application date on or after 3/1/2021, but must be used for loans with an application date on or after 10/1/2022.

- **“Agency/GSE-eligible” category of QMs (Sunset 6/30/2021)** - Any loan that meets the product feature requirements and is eligible for purchase, guarantee, or insurance by a GSE, FHA, VA, or USDA is a Qualified Mortgage regardless of the debt to income ratio.

- **Small Creditor category of QMs** - If you have less than two billion dollars in assets and originate 500 or fewer mortgages per year, loans you make and hold in portfolio are Qualified Mortgages as long as you have considered and verified a consumer’s debt-to-income ratio (though no specific debt-to-income ratio limit applies).

For detailed information and answers to specific questions about Ability-to-Repay standards and other related regulations, refer to the Ability-to-Repay and Qualified Mortgage Standards page on the CFPB website.

**Using Encompass to Document Compliance with HOEPA and Ability-to-Repay**

Encompass provides a set of forms and features that support the processing of loans according to these requirements.

- 2015 Itemization input form
- Underwriter Summary
- Section 32 HOEPA and Section 35 HPML input form
- Rural/Underserved Area indicator
- ATR/QM Management tool
- ATR/QM Alerts
- Verification and Documentation Tracking tool
- AUS Tracking Tool

This document provides detailed information about the CFPB’s Ability-to-Repay and Qualified Mortgage standards, the Encompass administrator’s setup requirements for the ATR/QM Management tool and related features, the input forms and tools Encompass provides to help you document ATR/QM compliance, and additional resources available for learning more about ATR/QM:

- Chapter 2, “Setup Requirements”, discusses the settings the administrator must configure in order for your company’s loans to be eligible for Small Creditor Qualified Mortgage and the steps required to set up ATR/QM compliance alerts.
- Chapter 3, “Using Encompass to Document Compliance with HOEPA and Ability-to-Repay”, discusses the ATR/QM Management tool and other forms and tools that all work together to help you document compliance with the HOEPA and Ability-to-Repay regulations.
- Chapter 4, “ATR/QM Management Tool”, provides detailed descriptions of the input forms available in the ATR/QM Management tool, as well as instructions for entering data in, and populating data to, specific sections on the forms.
- Chapter 5, “Support for VA QM Loans”, describes the regulatory guidelines used to classify VA QM loans and the Encompass features that support VA QM loans.
- Chapter 6, “Section 32 HOEPA and Section 35 HPML Input Form”, discusses how to use the Section 32 HOEPA and Section 35 HPML input forms to determine if a loan does or does not exceed high-cost thresholds according to the CFPB High-Cost Mortgage Amendments to the Truth in Lending Act (Regulation Z) effective January 10, 2014.
- Chapter 7, “Working with Points and Fees”, explains how to use the Paid by and Paid to indicators on the 2015 Itemization, how to document finance charges, mortgage insurance premiums, and other fees on the 2015 Itemization, how to indicate bona fide discount points, and the impact of these points and fees on Ability-to-Repay assessments.
- Chapter 8, “Responding to ATR/QM Compliance Alerts”, explains how compliance alerts are triggered any time a loan violates Ability-to-Repay regulations and how to respond to and clear these alerts.
- Chapter 9, “Verification and Documentation Tracking Tool”, provides instructions for recording the employment history, third-party income verifications, asset verifications, and monthly obligation verifications that have been collected to help document compliance with General Ability-to-Repay standards or eligibility for Qualified Mortgage status.
- Chapter 10, “AUS Tracking Tool” provides instructions for documenting and tracking the results received from an Automated Underwriting System (AUS) such as DU and LP and ensuring that the data in the loan file matches the data analyzed by the AUS when it returned its findings.
• Appendix A, “ATR/QM Table”, contains the CFPB’s table on ATR/QM requirements on loan features, loan term, points & fees, payment underwriting, mortgage-related obligations, income or assets, employment status, simultaneous loans, debt, alimony, child support, DTI or Residual Income, and credit history.

• Appendix B, “Bona Fide Discount Point Assessment Quick Entry Field Definitions”, provides field IDs for the fields in the Bona Fide Discount Point Assessment quick entry window and information about how these fields are calculated and what other fields in Encompass are included in the calculations.

• Appendix C, “FAQ and Resources”, answers frequently asked questions about Ability-to-Repay and Qualified Mortgage standards and lists helpful resources that are available to learn more about HOEPA and Ability-to-Repay regulations.

To access all of the features described in the guide, you must be logged in to Encompass as the admin user. In order for loan originators to access all of the features described in this guide, the admin user must set up the required permissions for each user. Some tools and administrative settings are available in Encompass Banker Edition only and are indicated as such throughout this white paper.

Terms to Remember

The following terms occur throughout this white paper, as they are integral to the regulations.

• Annual Percentage Rate (APR) - A measure of the cost of credit, expressed as a yearly rate, that relates the amount and timing of value received by the consumer to the amount and timing of payments made. It is determined in accordance with either the actuarial method or the United States Rule method. Explanations, equations and instructions for determining the APR are found in Regulation Z, Appendix J.

• Annual Percentage Rate (APR) for HOEPA Rate Threshold - For purposes of the APR used in the HOEPA Rate Threshold test only, a creditor shall determine the APR for a closed- or open-end credit transaction using the following as the “interest rate” component of the APR calculation: (1) For a fixed rate transaction, the interest rate in effect as of the date the interest rate for the transaction is set; (2) For a variable rate transaction in which interest rate may vary in accordance with an index, the interest rate that results from adding the maximum margin permitted at any time during the term of the loan or credit plan to the value of the index rate in effect as of the date the interest rate for the transaction is set, or the introductory interest rate, whichever is greater; and (3) For a transaction in which the interest rate may or will vary during the term of the loan or credit plan, but not according to an index, the maximum interest rate that may be imposed during the term of the loan or credit plan.

• QM Annual Percentage Rate (QM APR) - For purposes of calculating APR for comparing to the APOR (plus applicable margin) to determine if the loan is a higher priced covered loan or exceeds the QM price-based threshold, the creditor must determine the annual percentage rate for purposes of § 1026.43(e)(2)(vi) by treating the maximum interest rate that may apply within the first five years after the first periodic payment as the interest rate for the full term of the loan. For fixed rate loans or adjustable loans where the first adjustment occurs after the 61st month, there will be no difference in the calculation of the APR. This calculation applies only to the testing done for General Qualified Mortgage loan purposes and has no impact on the calculation of the disclosed APR associated with the loan.

• Average Prime Offer Rate (APOR) - A rate that is derived from average interest rates, points, and other loan pricing terms currently offered to consumers by a representative sample of creditors for mortgage transactions that have low-risk pricing characteristics. The CFPB publishes average prime offer rates for a broad range of types of transactions in a table updated at least weekly as well as the methodology the CFPB uses to derive these rates.

• Bona Fide Discount Point - An amount equal to 1% of the loan amount paid by the consumer that reduces the interest rate or time-price differential applicable to the transaction based on a calculation that is consistent with established industry practices for determining the amount of reduction in the interest rate or time-price differential appropriate for the amount of discount points paid by the consumer.

• Covered Transaction - A closed-end loan secured by a 1-4 unit dwelling that is not exempt from 12 CFR § 1026.43.

• Current Rate Set Date - A transaction’s APR is compared to the APOR as of the date the transaction’s interest rate is set (or “locked”) before consummation. Sometimes a creditor sets the interest rate initially and then re-sets it at a different level before consummation. The creditor should use the last date the interest rate is set before consummation.

• FHA Rebuttable Presumption Qualified Mortgage - A single family mortgage that has an APR that exceeds the APOR for a comparable mortgage, as of the date the interest rate is set, by more than the combined annual mortgage insurance premium and 1.15% for a first-lien mortgage.

• FHA Safe Harbor Qualified Mortgage - A single family mortgage that has an APR that does not exceed the APOR for a comparable mortgage, as of the date the interest rate is set, by more than the combined annual mortgage insurance premium and 1.15% for a first-lien mortgage.

• Finance Charge - Includes any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit. It does not include any charge of a type payable in a comparable cash transaction.
• Financed 1026.4(c)(7) Fees Paid to the Lender or an Affiliate - Any of the following fees if they are financed, paid by Borrower and paid to Lender or an affiliate of Lender: Appraisal Fee, Appraisal Review Fee, Desk Review Fee, Field Review Fee, Credit Report Fee, Flood Determination Fee, Inspection Fee, Title Endorsements, Abstract of Title Search, Title Examination, Title Insurance Binder, Title Insurance, Lender's Title Policy, Owner's Title Policy, Title Search, Survey Fee, Pest Inspection Fee, Notary Fees, Document Preparation Fee, Document Redraw Fee, Tax Status Research Fee, Subordination Preparation Fee, Insurance Impound - Hazard, Insurance Impound - Flood, Insurance Impound - Earthquake, and Insurance Impound - Windstorm. The System takes a conservative approach and treats any fee designated as "paid to" affiliate as if paid to an affiliate of the lender or broker.

• Higher-Priced Covered Transaction (HPCT) - A covered transaction with an APR that exceeds the APOR for a comparable transaction as of the date the interest rate is set by 1.5% or more for a first-lien covered transaction, other than a Small Creditor Portfolio QM, Rural Small Creditor Balloon Payment QM, Small Creditor Balloon Payment QM (Temporary); by 3.5% or more for a first-lien covered transaction that is a interest rate is set by 1.5% or more for a first-lien covered transaction, other than a Small Creditor Portfolio QM, Rural Small Creditor Balloon Payment QM, Small Creditor Balloon Payment QM (Temporary); or by 3.5% or more for a junior lien covered transaction.

• HQM Higher Priced Covered Transaction (QM HPCT) - Same test as HPCT, but leverages the QM APR, calculated at the highest rate in the first five years after the first periodic payment for purposes of comparing to the APOR (plus applicable margin). The same HPCT thresholds apply. A loan is considered a QM HPCT under the price based test if the QM APR is more than 1.5% greater than the APOR for a first lien covered transaction, or 3.5% or more for a junior lien covered transaction. Based on this, a loan could have a result where it passes the HPCT test, but does not pass the QM HPCT test due to the higher calculated APR based on the highest rate in the first five years after the first periodic payment.

• Higher-Priced Mortgage Loan (HPML) - Closed-end loan secured by the consumer’s principal 1-4 unit dwelling with an APR that exceeds the APOR for a comparable transaction as of the date the interest rate is set: (i) By 1.5% or more for loans secured by a first lien with a note amount that does not exceed the Freddie Mac conforming loan limit in effect as of the date the transaction's interest rate is set; (ii) By 2.5% or more for loans secured by a first lien with a note amount that exceeds the Freddie Mac conforming loan limit in effect as of the date the transaction's interest rate is set; or (iii) By 3.5% or more for loans secured by a second lien.

• Loan Amount - For a closed-end loan this means the note amount. For an Open-End HELOC, this means the credit limit.

• Prepaid Finance Charge Fee - Any finance charge paid separately in cash or by check before or at consummation of a transaction, or withheld from the proceeds of the credit at any time. A fee/item designated as a finance charge is used to calculate the Regulation Z APR.

• Prepayment Penalty - The maximum prepayment penalty that may be charged or collected under the terms of the transaction.

• Prior Prepayment Penalty Payoff - In a refinance transaction, the total prepayment penalty incurred by a consumer on the payoff of the existing mortgage when a consumer refinances the existing mortgage loan with the current holder of the existing loan, a servicer acting on behalf of the current holder, or an affiliate of either.

• Qualified Mortgage - Safe Harbor - A Qualified Mortgage that is not a Higher-Priced Covered Transaction. Loans evaluated under the QM Price-Based guidelines will be evaluated against QM HPCT test for purposes of determining Safe Harbor.

• Qualified Mortgage - Rebuttable Presumption - A Qualified Mortgage that is a Higher-Priced Covered Transaction. Loans evaluated under the QM Price-Based guidelines will be evaluated against QM HPCT test for purposes of determining Rebuttable Presumption.

• Real Estate-Related Fees - Any of the following fees paid to Lender or an affiliate of Lender: Appraisal Fee, Appraisal Review Fee, Desk Review Fee, Field Review Fee, Credit Report Fee, Flood Determination Fee, Inspection Fee, Title Endorsements, Abstract of Title Search, Title Examination, Title Insurance Binder, Title Insurance, Lender's Title Policy, Owner's Title Policy, Title Search, Survey Fee, Pest Inspection Fee, Notary Fees, Document Preparation Fee, Document Redraw Fee, Tax Status Research Fee, Subordination Preparation Fee, Insurance Impound - Hazard, Insurance Impound - Flood, Insurance Impound - Earthquake, and Insurance Impound - Windstorm. The System takes a conservative approach and treats any fee designated as “paid to” affiliate as if paid to an affiliate of the lender or broker.

• Reg Z Total Loan Amount - For closed-end loans it means: Federal Amount Financed (1026.18(b)) - Financed 1026.4(c)(7) Fees Paid to Creditor or Affiliate (1026.32(b)(1)(iii)) - Financed Credit Insurance Premiums (1026.32(b)(1)(iv)) - Prior Loan's Financed Prepayment Penalty Payoff (if applicable) (1026.32(b)(1)(v)). For open-End HELOC it means: Credit limit for the plan when the account is opened.

• VA Rebuttable Presumption Qualified Mortgage - A single family IRRRL (Interest Rate Reduction Refinance Loan) mortgage that does not conclusively meet Ability-to-Repay requirements. These loans are not classified as Safe Harbor loans, but are still considered VA Qualified Mortgages that are presumed to meet the ATR requirements of the Dodd-Frank Act. However, borrowers can potentially argue that the lender did not make a good faith determination of a reasonable ability to repay the loan.
• **VA Safe Harbor Qualified Mortgage** - All single family purchase money origination and refinance loans guaranteed or insured by the VA, with the exception of VA IRRRLs (Interest Rate Reduction Refinance Loans) that do not conclusively meet Ability-to-Repay requirements.
Chapter 2

Setup Requirements

Prior to using the ATR/QM Management tool, the Encompass administrator must make selections for the following items in Encompass Settings:

- In order for a transaction to be eligible for the Small Creditor category of Qualified Mortgages, you must indicate your company is recognized as a Small Creditor according to CFPB requirements.
- Indicate your company qualifies for exemption from the CFPB's Ability-to-Repay rule.
- Which of the ATR/QM compliance alerts you want to use and how you want to use them.

Small Creditor Settings

Using the Small Creditor indicator included in the ATR/QM section of the Organization Details setting in Encompass Settings, the administrator can indicate if their company is a small creditor or rural small creditor. If the administrator selects Small Creditor, Encompass assumes the company is “small creditor” as defined under 12 CFR §§ 1026.35(b)(2)(iii)(B) and (C); § 1026.43(e)(5)(i)(D). If the administrator selects Rural Small Creditor, Encompass assumes the company is a “small creditor” as defined under 12 CFR §§ 1026.35(b)(2)(iii)(A), (B) and (C); 1026.43(f).

To Indicate Your Company is a Small Creditor:
1. On the menu bar, click Encompass, and then click Settings.
2. Click Company/User Setup, and then click Organization/Users.
3. Select the organization folder in the Organization section, and then click the Edit icon.
4. In the License section, select a Lender Type from the drop-down list, and then indicate the states in which your company is licensed.
5. In the ATR/QM section, select an option from the Small Creditor drop-down list.

6. Click the Save icon.

NOTE: If you have more than one organization in your Organization/Users folder hierarchy, and you do not select the Use Parent Info check box on the topmost organization, repeat these steps for each applicable organization.

The CFPB created specific exemptions and modifications to their Ability-to-Repay rule for community development lenders and housing stabilization programs. Using the Exempt Creditor indicator included in the ATR/QM section of the Organization Details setting in Encompass Settings, the administrator can indicate if their company is a community development financial institution, community housing development organization, down payment assistance provider, or nonprofit organization and thereby qualifies for exemption from the ATR/QM rule.
To Indicate Your Company is an Exempt Creditor:
1. On the menu bar, click **Encompass**, and then click **Settings**.
2. Click **Company/User Setup**, and then click **Organization/Users**.
3. Select the organization folder in the Organization section, and then click the **Edit** icon.
4. Select an option from the **Exempt Creditor** list in the ATR/QM section.
5. Click the **Save** icon.

**NOTE:** If you have more than one organization in your Organization/Users folder hierarchy, and you do not select the **Use Parent Info** check box on the topmost organization, repeat these steps for each applicable organization.

**NOTE:** You also can make both of these ATR/QM small creditor indications on the License tab on the Company Information setting (Encompass Settings > Company/User Setup > Company Information) however this is not required.

### ATR/QM Compliance Alerts

Several alerts are provided in Encompass specifically to help notify users when required information is missing from the ATR/QM Management tool and when a loan does not meet ATR/QM standards.

- Ability-to-Repay Loan Type Not Determined
- Qualified Mortgage Type Not Determined
- QM Safe Harbor Eligibility Not Determined
- Residual Income Assessment Recommended
- General QM DTI Exceeded
- General QM Loan Feature Violation
- Ability-to-Repay Exemption Reason Not Determined
- AUS Discrepancy Alert

Refer to the Chapter 8, “Responding to ATR/QM Compliance Alerts” for detailed instructions about the ATR/QM violations that trigger alerts and how to respond to them and clear the violations.

These alerts are automatically enabled to be triggered at any point in the loan workflow. You may specify the milestones at which this alert can be triggered. You also may disable an alert if needed.

To Specify Milestones at Which an Alert May be Triggered:
1. On the menu bar, click **Encompass**, and then click **Settings**.
2. Click **Loan Setup**, and then click **Alerts**.
3. Select an alert in the Alerts list, and then click the **Edit** icon.
4. Select **Yes** to enable the alert, and then click the **Select Milestones** button.
5. Select the milestones at which to enable the alert.
6. Click **OK**, and then click the **Save** button.

To Disable an ATR/QM Compliance Alert:
1. On the menu bar, click **Encompass**, and then click **Settings**.
2. Click **Loan Setup**, and then click **Alerts**.
3. Select an alert in the Alerts list, and then click the **Edit** icon.
4. Select **No** to disable the alert.
5. Click the **Save** button.
Application Date Requirements
The HOEPA and Ability-to-Repay requirements discussed in this guide apply to all applications started on or after January 10, 2014. In order for Ability-to-Repay and Qualified Mortgage rules and triggers to be enforced in Encompass via the ATR/QM Management tool and other related forms and tools, ensure the Application Date (field ID 745) on the Borrower Summary - Origination input form is set to 01/10/2014 or later.

Support for FHA QM Loans
Users may indicate that a loan with an application date and case assignment date on or after January 10, 2014 is an FHA/QM loan. For the most part, the FHA QM decision making process is the same as the Agency/GSE QM, except the FHA has a unique threshold for Safe Harbor.

- An FHA QM option is available on the Qualified Mortgage Loan Type drop-down list (field ID QM.X24) on the ATR/QM Eligibility tab on the ATR/QM Management tool.
- The FHA QM option described above is automatically selected when FHA is selected for the Loan Type (field ID 1172), the Case Assignment Date (field ID 3042) is on or after January 10, 2014 (or blank), and a green check mark displays above the header on the Agency/GSE Qualified Mortgage column (field ID QM.X62).

Support for VA QM Loans
In May 2014, the VA issued the Qualified Mortgage Interim Final Rule to define the criteria for VA Qualified Mortgages, including Safe Harbor QMs and Rebuttable Presumption QMs. These guidelines are enforced for loan applications taken on or after June 1, 2014. Encompass includes logic that indicates whether VA mortgages that were originated on or after June 1, 2014 meet these guidelines.

- When a VA loan meets QM guidelines, the VA QM option is automatically selected on the Qualified Mortgage Loan Type drop-down list (field ID QM.X24) on the ATR/QM Eligibility tab on the ATR/QM Management tool.
- When a VA loan meets Safe Harbor QM guidelines, the Is Loan Eligible for Safe Harbor? field (field ID QM.X24) on the ATR/QM Eligibility tab on the ATR/QM Management tool automatically displays the Yes option.

For detailed information about the logic behind these selections, refer to “Support for VA QM Loans” on page 43.

Support of Sunset for GSE QM Definition
Fannie Mae Lender Letter on new General QM Rule and Sunset of GSE QM Patch
The PSPA requires that Fannie Mae and Freddie Mac acquire loans that meet the revised General Qualified Mortgage (QM) loan definition in the CFPB’s rule that became effective Mar. 1, 2021 (Revised QM Rule). As a result, and in accordance
with the dates below, Fannie Mae and Freddie Mac will no longer acquire loans that are GSE Patch loans that do not meet the Revised QM Rule. To be eligible for purchase, such loans must:

- Have application dates on or before Jun. 30, 2021, AND
- Be purchased as whole loans on or before Aug. 31, 2021, or in MBS pools with an issue date on or before Aug. 1, 2021.

**Exception for government (agency) loans (FHA, VA, USDA/RHS)**

Government loans are referenced in the CFPB’s Revised QM Rule; however, the PSPA prohibits Fannie Mae’s and Freddie Mac’s acquisition of them. FHFA is granting an exception so that the GSEs may continue acquiring government loans. This means that HUD Section 184 loans and Rural Development Section 502 loans will remain eligible for sale to the GSEs per their Selling Guides. FHA and VA loans will continue to remain eligible on a negotiated basis (though the GSEs are not actively negotiating the purchase of these loans at this time).

Encompass includes a policy setting for handling the expiration of the GSE Patch. As of April 15, 2021, all Encompass instances were updated to default this expiration date to 7/1/2021. Loans with application dates on or after the expiration date will no longer be evaluated for Agency/GSE Qualified Mortgage.

**Support for New Price Based Evaluation**

A new policy setting (Use Price Based QM General Definition) has been added to Encompass Admin settings.

This date should be configured to the earliest date when the lender wishes to start evaluating all loans under the revised definition. This setting will drive the default value of a loan level field (QM.X383). The value of this field will be set based on the policy setting at the point of loan creation, but can be later updated to turn the price based evaluation test on or off during the optional period (until 10/1/2022). Loans evaluated under the new QM Price Based rule will not be reviewed against the current 43% DTI cap as part of the General QM evaluation.

A new field (field ID QM.X380) will indicate on the loan level whether the Agency/GSE guidelines were available for the loan.
Chapter 3

Using Encompass to Document Compliance with HOEPA and Ability-to-Repay

The following pages discuss the use of the ATR/QM Management tool and other forms and tools that all work together to help you document compliance with the HOEPA and Ability-to-Repay rules.

2015 Itemization Form

**NOTE:** This section discusses the general guidelines you should follow when entering data on the 2015 Itemization and provides an overview of how fees entered here affect Ability-to-Repay results. For more detailed information about managing *Paid to* and *Paid by* fees on this form, refer to the Chapter 7, “Working with Points and Fees”.

The 2015 Itemization form is a detailed estimate of closing costs and other charges that must be satisfied before the loan closes. Information entered on the 2015 Itemization also is used to populate the 2010 GFE form, which provides consumers with a summary of estimated closing costs and other required disclosure information.

**General Guidelines**

- Type the costs and fees assigned to the borrower, seller, or both.
- All fees should indicate who they are being paid to using the Paid to column:
  - B (Broker), L (Lender), S (Seller), I (Investor), A (Affiliate), O (Other unaffiliated provider)
- If your administrator has created predefined descriptions for miscellaneous closing costs, select a description from the drop-down list. If your administrator has granted you permission, you can also type a description in the space provided.
- For calculated fields, the value is placed in the Borrower field. If you type a value in the associated Seller field, that amount is deducted from the Borrower value.
- If the Address Book icon displays next to a field, click the icon to select the provider's name from your business contacts. Or type the name in the field and, optionally, right-click to add a new contact to your business contacts.
- Use the Edit icons to open a calculator to determine the associated field value.

**Cost and Fee Designations Section**

When you record costs and fees:

- Type the amount of the fee in the Borrower or Seller columns (or both).
- Select one or more check boxes as appropriate in sections 800 through 1300.

**P** *(Paid outside closing/Paid through closing)* - Use the 2015 Itemization to record a non-seller-paid fee as paid outside closing (POC) or paid through closing (PTC). By default, the borrower pays the fee, unless a different payer is selected in the Paid To column. To Enter POC/PTC Fees, select the **P** check box. A pop-up window allows you to indicate how much of the fee is being paid POC or PTC. The pop-up includes the information below:
  - POC - The portion of the fee to be paid outside closing and the payer.
  - PTC - The portion of the fee to be paid through closing and the payer.
  - Borrower to Pay – The portion of the fee to be paid by the borrower, if any.
  - Total – The total non-seller-paid fee.
  - APR – The fee is included in the APR.
  - NOTE: By default, for a broker-originated loan, fees paid by the borrower, broker, or other third-parties are included in the loan’s current APR (field ID 799). For a broker-originated loan that is table funded, select the Table Funded Transactions check box (field ID NEWHUD.X1068) at the top of the 2015 Itemization form to exclude the broker-paid prepaid finance charge fees marked as PTC from the APR.
  - Financed – The fee is financed as part of the loan (i.e., the amount of the fee included in the Note Amount).

**B** *(Borrower select)* - The borrower will locate a provider for this service.

**A** *(APR fees)* - Borrower costs that are used to calculate the APR.

- Use the Paid by column in sections 800 through 1300 to indicate who pays the fee: Broker (B), Lender (L), Other (O), Seller (S), or Investor (I).
• Use the Paid to column in sections 800 through 1300 to indicate to whom the fee will be paid.

  B (Broker) - The fee is paid to the broker. The value is placed in the Paid To Broker column on the MLDS.

  L (Lender) - The fee is paid to the lender (creditor).

  A (Affiliate) - The fee is paid to an affiliate of the lender or the broker.

  O (Other) - The fee is paid to someone other than the broker, lender, affiliate, seller or investor. The value is placed in the Paid To Others column on the MLDS.

  S (Seller) - The fee is paid to the seller. The value is placed in the From GFE Seller column on the MLDS.

  I (Investor) - The fee is paid to the investor.

For any fee entered in sections 700 through 1300, you must select a Paid to option to indicate to whom the fee is being paid. This includes any prepaid interest payments.

**Sections 800 through 1400**

**800**

Fees paid in connection with the loan, typically paid by the borrower. If a buydown mortgage program is being used, the total buydown fund amount is included in the calculations on line 802 and the Origination Credit and Origination Points check boxes will be disabled.

**900**

Fees for items which the Lender requires to be paid at the time of settlement, but which are not necessarily paid to the lender (e.g., FHA mortgage insurance premium for the upcoming year), other than reserves collected by the Lender and recorded in the 1000-series.

**1000**

Amounts collected by the Lender from the Borrower and held in an account for the future payment of the obligations listed as they fall due. This may be referred to as an "escrow", "impound", or "trust" account. In addition to the property taxes and insurance, some Lenders may require reserves for flood insurance, condominium owners' association assessments, etc.

**1100**

Fees collected by the lender for title charges and charges by attorneys and closing or settlement agents, and then distributed to outside service providers.

**1200**

Fees collected by the lender for government recording and transfer charges, and then distributed to local and state agencies. For lines 1202, 1204, and 1205, click an **Edit** icon to itemize an entry. For lines 1206 through 1208, click a **Find** icon to select predefined formulas to calculate the associated field.

**1300**

Charges and other miscellaneous fees not already recorded in sections 800 through 1200.

**1400**

The total of all the estimated settlement charges for the borrower and seller.

**Underwriter Summary**

Use the Underwriter Summary to assemble the key information needed to determine the creditworthiness of the consumer(s), the value of the subject property, and if the loan should be approved. Most of the information on the form will already be completed using data entered on other loan input forms.
Underwriters may indicate that a specific factor has been evaluated on this input form. The Debt-to-Income Ratio assessment in the ATR/QM Management tool’s ATR/QM Eligibility matrix is based partly on the underwriter’s sign off of debt-to-income factors on the Underwriter Summary. The indicators for the Monthly Payment and Consider and Verify factors on the ATR/QM Eligibility matrix also are triggered by the factors on the Underwriter Summary. If one or more of the factors have not been evaluated, blue flag indicators will display in the ATR/QM Eligibility matrix to indicate that data required for the Monthly Payment or Consider and Verify assessment is missing.

To open this form, open a loan file, click the Tools tab, and then click Underwriter Summary.

Refer to Chapter 4, “ATR/QM Management Tool” for detailed information about how the factors on the Underwriter Summary affect a loan’s eligibility for General ATR or Qualified Mortgage status.

NOTE: The Underwriter Summary is available in Encompass Banker Edition only. Encompass Broker Edition is unable to provide an automated assessment of the ATR and QM types on the ATR/QM Management tool’s ATR/QM Eligibility form due to the absence of the Underwriter Summary, however all other ATR/QM functionality is available.

Section 32 HOEPA and Section 35 HPML

The CFPB issued High-Cost Mortgage Amendments to the Truth in Lending Act (Regulation Z) effective January 10, 2014. The final rule amends section 1026.32 of Regulation Z by expanding the types of mortgage loans subject to the protections of the Home Ownership and Equity Protections Act of 1994 (HOEPA), revising and expanding the tests for HOEPA coverage, and imposing a new prepayment penalty threshold test on mortgages that are covered by HOEPA.

For transactions not exempt from HOEPA coverage, you must apply the HOEPA coverage tests to determine if the transaction is a Federal high-cost mortgage. There are three separate HOEPA threshold tests based on:

- The transaction’s annual percentage rate (APR)
- The amount of points and fees paid in connection with the transaction
- The prepayment penalties you may charge under the loan or credit agreement

Use the Section 32 HOEPA form to determine if a loan is a “High-Cost Mortgage” as defined by the CFPB. If you have completed the 1003 Loan Application and the Good Faith Estimate, the borrower fields and the fees in sections 800, 1100, 1200, and 1300 already will be filled.

Use the Section 35 HPML form to determine whether a loan exceeds the threshold for higher priced mortgage loans. The fields in the top section of the form should already be completed based on entries in other forms, but you can change the dates or select a new loan program as needed.

Refer to Chapter 6, “Section 32 HOEPA and Section 35 HPML Input Form” for detailed information about the information that is required on this form for ATR/QM assessments.
Rural/Underserved Area Indicator

Starting in Encompass 9.0, the **Subject Property is in a Rural/Underserved Area** check box (field ID 3850) is available on the Property Information input form. Select this field to indicate the subject property is in either a rural or underserved area. This field is mapped to its corresponding field on the Basic Information form in the ATR/QM Management tool to help determine the consumer's ability-to-repay the loan and to help small creditors document if the loan meets Small Creditor Qualified Mortgage standards.

According to Regulation Z, 12 CFR § 1026.35(b)(2)(vi):

(A) A county is 'rural' during a calendar year if it is neither in a metropolitan statistical area nor in a micropolitan statistical area that is adjacent to a metropolitan statistical area, as those terms are defined by the U.S. Office of Management and Budget and as they are applied under currently applicable Urban Influence Codes (UICs), established by the United States Department of Agriculture's Economic Research Service (USDA-ERS). A creditor may rely as a safe harbor on the list of counties published by the [CFPB] to determine whether a county qualifies as 'rural' for a particular calendar year.

(B) A county is 'underserved' during a calendar year if, according to Home Mortgage Disclosure Act (HMDA) data for the preceding calendar year, no more than two creditors extended covered transactions, as defined in § 1026.43(b)(1), secured by a first lien, five or more times in the county. A creditor may rely as a safe harbor on the list of counties published by the [CFPB] to determine whether a county qualifies as 'underserved' for a particular calendar year.
**ATR/QM Management Tool**

Consisting of five separate input forms, the ATR/QM Management tool provides a convenient, central location for recording the information you obtain to determine the consumer’s ability-to-repay the loan and to help you document compliance with general Ability-to-Repay standards or eligibility for Qualified Mortgage status.

- **Basic Info** - Provide borrower, loan, and property information that is relevant to ATR/QM loans.
- **Qualification** - Identify factors necessary to make an ATR/QM assessment (loan term, lien position, note amount, points and fees, monthly payments, underwriting factors considered for loan).
- **ATR/QM Eligibility** - This form provides a checklist to help identify the factors and eligibility used to determine compliance with general ability-to-repay standards, eligibility for Qualified Mortgage status, or exemption from the CFPB ATR/QM requirements. In addition, the checklist assesses Qualified Mortgage Safe Harbor eligibility and also provides a section to document the reasons a loan may be exempt from ATR/QM requirements.
- **Non-Standard to Standard Refi** - Use this form to determine if the loan meets the exemption from the Regulation Z Ability-to-Repay requirements for refinancing. Based on the data you enter into this form, you can determine if the existing loan is a non-standard mortgage, if the new loan is a standard mortgage, and whether or not the transaction qualifies as a non-standard to standard refinance.
- **Appendix Q** - This form has been removed from the ATR/QM Management tool but is available as a standalone form to assist underwriters in documenting how debt-to-income ratio is determined when calculating General Qualified Mortgage qualification standards consistent with instructions and requirements provided in Regulation Z’s Appendix Q.

Refer to Chapter 4, "ATR/QM Management Tool", for an easy-to-follow description of the tool.

Most of the information that Encompass relies on to make an ATR/QM assessment on the ATR/QM Eligibility form comes from data entered on the following input forms:

- ATR/QM Management tool’s Basic Info and Qualification forms
- Borrower Summary - Origination
- Assets and liabilities from the 1003
- Transmittal Summary
- 2015 Itemization
- RegZ-LE

Before you open the ATR/QM Management form, complete the Borrower Summary, Section 32 HOEPA, and 1003 Loan Application. As you begin working in the ATR/QM Management tool, complete any fields that are not already populated from the Borrower Summary and the 1003. Click the links on the title bar on the upper-right to access information from related forms such as the 1003 Loan Application, 2015 Itemization, and RegZ-LE.
Verification and Documentation Tracking Tool

Verification and documentation is required for all covered transactions. Use the Verification and Documentation Tracking tool to review and edit the employment history, third-party income verifications, asset verifications, and monthly obligation verifications that have been collected to help ensure you are making a reasonable, good faith determination of the consumer’s ability-to-repay the loan. Documenting this employment and income information helps ensure compliance with the CFPB Ability-to-Repay and Qualified Mortgage requirements.

Refer to Chapter 9, “Verification and Documentation Tracking Tool”, for an easy-to-follow description of the tool.

To Open the Verification and Documentation Tracking Tool:

1. Open a loan and then click the Tools tab.
2. Click Verification and Documentation Tracking.

AUS Tracking Tool

Use the AUS Tracking tool to document and track the results received from an Automated Underwriting System (AUS), i.e., Desktop Underwriter (DU) and Loan Prospector (LP), and ensure that the data in the loan file matches the data analyzed by the AUS when it returned its findings. Once an underwriting review is complete, authorized loan team members may add an entry to the Underwriting Decision History table. This entry is a snapshot of the data analyzed by the AUS or underwriter. Keeping records of the underwriting decisions for the loan file is another step in helping document if you are making an Agency/GSE Qualified Mortgage.

Refer to Chapter 10, “AUS Tracking Tool” for an easy-to-follow description of the tool.

Encompass Compliance Service (ECS)

When an Encompass Compliance Service (ECS) review is run for a loan, you can open the report and click the Fee Details button provided on the Compliance Review screen to view a list of all of the loan fees contained in the 800-1300 section of the HUD-1/Itemization, along with the indication of whether the APR check box was selected on each HUD line, and whether the fee is treated as an APR/finance charge affecting fee in ECS. A HOEPA/QM column is included in this list. This column indicates whether or not the fee is included in the Qualified Mortgage/2014 HOEPA High Cost points and fees assessment. The Qualified Mortgage and 2014 HOEPA rules treat fees identically, therefore the column indicates whether each fee is a point and fee in both tests (True) or neither test (False). A blank column indicates that the Qualified Mortgage and 2014 HOEPA rules did not apply to the loan file.
Understanding ECS Review Results

The Ability-to-Repay/Qualified Mortgage compliance review will apply tests described below, based on the ATR and QM Type which can be selected in Encompass multiple ways (and will be applied in the following order):

- The Ability-to-Repay Loan Type (Field QM.23) and Qualified Mortgage Loan Type (QM.24) selected on the ATR/QM Management tool’s ATR/QM Eligibility matrix.

- The default Ability-to-Repay Loan Type and default Qualified Mortgage Loan Type indicated on the Report tab in the Compliance Review Setup (in Encompass Settings > Additional Services).

- The system default of General Qualified Mortgage.

The details of each individual test will appear under the ATR/QM Summary Worksheet. The ATR/QM Summary Worksheet will reflect the overall QM eligibility as well as the status of each individual test as shown here:

General Qualified Mortgage

Applies to closed-end loans secured by 1-4 unit dwellings with application dates on or after 1/10/2014, an ATR Type of “Qualified Mortgage” and a QM Type of “General Qualified Mortgage”:

1 Higher Priced Covered Transaction - See Mavent Alert: Federal: Section 43 Higher-Priced Covered Transaction, Safe Harbor and Presumption of Compliance (FederalSection43HigherPricedCoveredTransactionSafeHarborandPresumptionofCompliance-ECSUsers.pdf). For General Qualified Mortgage loans with an application date on or after July 1, 2021, ECS will calculate ARM APRs (for the HPCT Threshold Test) using the maximum interest rate that could apply at any time during the first five years after the date on which the first regular periodic payment will be due as the interest rate for the loan. A user may opt into this (QM APR) for loans with an application date on or after March 1, 2021 by selecting 2021 General QM Rule in the ECS Setup Ability to Repay/Qualified Mortgage Review Run Conditions as follows:

Any test (for example, QM Agency/GSE Eligibility), that does not apply to the ATR/QM Type selected for the specific loan will reflect a status of NA in the worksheet.

Any test that would be applicable based on the ATR/QM Loan Type but does not have any rules that apply to that specific loan will have an NA* status in the worksheet.

2 Loan Terms and Features

- The compliance review will fail the loan if the Amortization Term (field ID 325) is greater than the loan term (field ID 4).

- The compliance review will fail the loan if the Interest Only Term (field ID 1177) is greater than 0.

- The compliance review will fail the loan if it contains a negative amortization feature.

- The compliance review will fail the loan if the Loan Term (field ID 4) is greater than 360 months.

4 Underwriting Factors

- **Debt to Income** - For loans with an application date before July 1, 2021, the compliance review will fail the loan if the DTI exceeds 43%. The DTI is calculated as Debts and Expenses / Gross Income. For loans with an application date on or after July 1, 2021, the compliance review will no longer apply a DTI Threshold Test and will instead apply the QM Price-Based Threshold test (described below in more detail). A user may opt into the new QM Price-Based Threshold test for loans with an application date on or after March 1, 2021 by selecting 2021 General QM Rule in the ECS Setup Ability to Repay/Qualified Mortgage Review Run Conditions.

- **Debts and Expenses** -
  - Covered Loan Highest Payment Amount
  - Simultaneous Loan Payment Amount
    - If loan is first lien, simultaneous payment = field 1725 [Second Mtg P & I]
    - If loan is a junior lien, First Mtg P&I (field ID 1724)
  - VOL Liabilities - where Exclude and Will be paid off = N
  - Proposed/Present Housing Amounts
    - field ID 1726 [Hazard Insurance]
    - field ID 1727 [Taxes]
    - field ID 1728 [Mtg Insurance]
    - field ID 233 [HOA Dues]
    - field ID 1723 [Rent]
    - field ID 1730 [Other]
    - field ID 1379 [Co-Mort Set]
  - Negative Subject Property Cash Flow field ID 462 [Neg Cash Flow (Sub Property)]
  - Negative Real Estate LOANSUB.X1 [Neg RE] and field ID 1476 [2nd/Vac Home]
  - Contingent Liabilities
    - field ID QM.X192 [Assumed Mortgage Payment]
    - field ID QM.X194 [Assumed Mortgage Payment]
    - field ID QM.X196 [Assumed Mortgage Payment]
    - field ID QM.X198 [Car Loan Payment - Amount]
  - field ID QM.X199 [Student Loan Payment - Amount]
  - field ID QM.X200 [Mortgage Payment - Amount]
  - field ID QM.X202 [Other Payment - Amount]

- **Gross Income** - The income consists of the greater of the income from the 1003 - Page 2, the 1003 URLA Part 2, or the Appendix Q input form
  - 1003 Page 2:
    - Base [field IDs 101 and 110]
    - Overtime [field IDs 102 and 111]
    - Bonuses [field IDs 103 and 112]
    - Commissions [field IDs 104 and 113]
    - Div. / Interest [field IDs 105 and 114]
    - Net Rent Inc. [field IDs 106 and 115]
    - Other [field IDs 107 and 116]
    - Other [field IDs 108 and 117]
  - 1003 URLA Part 2 - For applications on URLA 2020, these fields are calculated as the sum of all current employment for each borrower as documented on the 1003 URLA Part 2.
  - Appendix Q Fields
    - field IDs QM.X137 [Base-Borrower] and QM.X145 [Base-Co-Borrower]
    - field IDs QM.X138 [Overtime-Borrower] and QM.X146 [Overtime-Co-Borrower]
    - field IDs QM.X139 [Bonuses-Borrower and QM.X147 [Bonuses-Co-Borrower]
    - field IDs QM.X140 [Commissions-Borrower] and QM.X148 [Commissions-Co-Borrower]
    - field IDs QM.X141 [Div./Interest-Borrower] and QM.X149 [Div./Interest-Co-Borrower]
    - field IDs QM.X142 [Other-Borrower] and QM.X150 [Other-Co-Borrower]
    - field IDs QM.X143 [Other-Borrower] and QM.X151 [Other-Co-Borrower]
    - field IDs QM.X163 [Military-Borrower] and QM.X168 [Military- Co-Borrower]
    - field IDs QM.X164 [VA Benefit-Borrower] and QM.X169 [VA Benefit- Co-Borrower]
    - field IDs QM.X165 [Gov’t Assit. Program-Borrower] and QM.X170 [Gov’t Assit. Program- Co-Borrower]
• field IDs QM.X166 [Mtg. Credit Certificate-Borrower] and QM.X171 [Mtg. Credit Certificate-Co-Borrower] (Note that field QM.X335 does not affect the ECS Income or DTI calculation)
• field IDs QM.X167 [Homeown.Subsidy-Borrower] and QM.X172 [Homeown.Subsidy-Co-Borrower] (Note that field QM.X336 does not affect the ECS Income or DTI calculation)
• field IDs QM.X155 [Cost-of-living Adj.-Borrower] and QM.X159 [Cost-of-living Adj.-Co-Borrower]
• field IDs QM.X156 [Performance Raises-Borrower] and QM.X160 [Performance Raises-Co-Borrower]
• field IDs QM.X157 [Bonuses-Borrower] and QM.X161 [Bonuses-Co-Borrower]
• field IDs QM.X158 [New Job-Borrower] and QM.X162 [New Job-Co-Borrower]

• **Residual Income** - If the loan is a higher-priced covered transaction, the compliance review will apply a residual income test, applying the VA threshold. If Effective Income minus Total Expenses is less than the residual income threshold (as defined in the following chart), the compliance review will fail the loan.

Effective Income = income (as defined previously) minus:
• field ID 1156 [Income Borr Federal Income Tax]
• field ID 1158 [Income Deductions Borr State Income Tax]
• field ID 1159 [Income Deductions Borr SSN]
• field ID VALA.X19 [VA Loan Analysis Deductions Other Borr]
• field ID 1306 [Income Deductions Spouse Federal Income Tax]
• field ID 1307 [Income Deductions Spouse State Income Tax]
• field ID 1308 [Income Deductions Spouse SSN]
• field ID 1309 [Income Deductions Spouse Other]

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Over 5
Add $75 for each additional member up to a family of seven

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Over 5
Add $50 for each additional member up to a family of seven

5 **Price-Based Threshold**

For loans with an application date on or after July 1, 2021, the compliance review will apply a Price-Based Threshold to a QM Type of General Qualified Mortgage. A loan meets the General QM Price-Based limit only if the APR exceeds the APOR for a comparable transaction by less than the applicable threshold as of the date the interest rate is set. The thresholds are:

- For a first-lien covered transaction with a loan amount greater than or equal to $110,260*, 2.25%;
- For a first-lien covered transaction with a loan amount greater than or equal to $66,156* but less than $110,260*, 3.5%;

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* Price-Based Threshold

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**Table of Residual Incomes by Region for Loan Amounts of $78,000 and below**

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Over 5
Add $75 for each additional member up to a family of seven

**Table of Residual Incomes by Region for Loan Amounts of $80,000 and above**

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Over 5
Add $50 for each additional member up to a family of seven

**Key Geographic Regions Used in the Proceeding Tables**

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<td>New Mexico</td>
</tr>
</tbody>
</table>

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**Chapter 3: Using Encompass to Document Compliance with HOEPA and Ability-to-Repay 18**
For a first-lien covered transaction with a loan amount less than $66,156*, 6.5%;

For a first-lien covered transaction secured by a manufactured home with a loan amount less than $110,260*, 6.5%;

For a subordinate-lien covered transaction with a loan amount greater than or equal to $66,156*, 3.5%; and

For a subordinate-lien covered transaction with a loan amount less than $66,156*, 6.5%.

*The loan amounts are subject to change every year.

ECS calculates the QM APR on an ARM loan by treating the maximum interest rate that may apply within the first five years after the date on which the first regular periodic payment will be due as the interest rate for the full term of the loan. All other inputs to the APR calculation (loan term, prepaid finance charges, monthly mortgage insurance, etc.) remain the same.

A user may opt into the new QM Price-Based Threshold test for loans with an application date on or after March 1, 2021 by selecting 2021 General QM Rule in the ECS Setup Ability to Repay/Qualified Mortgage Review Run Conditions.

QM Agency/GSE Eligibility - Not applicable

Non-standard to Standard Refinance - Not applicable

Agency/GSE Qualified Mortgage - Conventional Loan
Applies to closed end loans secured by 1-4 unit dwellings with application dates on or after 1/10/2014 and before 07/01/2021, with an ATR Type of “Qualified Mortgage”, a QM Type of “Agency/GSE Qualified Mortgage”, and a Loan Type of “Conv”:


Loan Terms and Features
• The compliance review will fail the loan if the Amortization Term (field ID 325) is greater than the loan term (field ID 4).
• The compliance review will fail the loan if the Interest Only Term (field 1177) is greater than 0.
• The compliance review will fail the loan if it contains a negative amortization feature.
• The compliance review will fail the loan if the Loan Term (field ID 4) is greater than 360 months.

QM Points and Fees Limit - See Mavent Alert: Federal: Qualified Mortgage and High-Cost Mortgage Threshold Tests - Updates to the Definition of Points and Fees (FederalQualifiedMortgageandHighCostMortgageThresholdTests-UpdatesToTheDefinitionOfPointsandFees-ECSUsers.pdf)

Underwriting Factors - Not applicable

QM Agency/GSE Eligibility - If an Agency/GSE Qualified Mortgage is submitted to the compliance review with a Loan Type of “Conv”, the compliance review will apply the GSE eligibility rules, requiring that the loan have either:
• A Desktop Underwriter AUS Recommendation of Approve, Approve/Eligible, ApproveEligible, or Approve Eligible, as well as a DU Case ID; or
• A Loan Prospector AUS Recommendation of Accept, Approve, ApproveEligible, Approve Eligible, AcceptEligible, Accept Eligible, or Accept Eligible; or
• An Underwriting Type of “Manual Underwriting” and at least one of the following check boxes on the Underwriter Summary selected:
  • Underwritten According to Contractual Agreement with Agency/GSE (field ID 3878)
  • Received Waver for Agency/GSE Guidelines (field ID 3879)
  • Manually Underwritten according to Agency/GSE Guidelines (field ID 3880)

NOTE: If Manual Underwriting is used, the compliance review will return a warning message.
The Desktop Underwriter AUS Recommendation will come from one of the following fields (in order):
- field ID ULDD.FNM.AutoUWDec [Fannie Automatic Underwriting Decision]
- field ID 1544 [AUS Recommendation] (if field 1543 = “DU”)
- field ID AUSF.X3 [AUS Recommendation] (If AUSF.X1 = “DU”)
The DU Case ID will come from one of the following fields (in order):
- field ID DU.LP.ID [DU Case ID/LP AUS Key #]
- field ID AUSF.X4 [DU Case ID/LP AUS Key #]
The Loan Prospector AUS Recommendation will come from one of the following fields (in order):
- field ID ULDD.FRE.AutoUWDec [Freddie Automatic Underwriting Decision]
- field ID 1544 [AUS Recommendation] (if field 1543 = “LP”)
- field ID AUSF.X3 [AUS Recommendation] (If AUSF.X1 = “LP”)
The LP AUS Key will come from one of the following fields (in order):
- field ID DU.LP.ID [DU Case ID/LP AUS Key #]
- field ID AUSF.X4 [DU Case ID/LP AUS Key #]
Manual/Other Underwriting information will come from the following fields (in order):
- Underwriting System Type
  - field ID 1556
- field ID AUSF.X2 [If “Other” specify]
- Underwriting Recommendation:
  - field ID ULDD.FNM.AutoUWDec
  - field ID 1544 [AUS Recommendation]
  - field ID AUSF.X3 [AUS Recommendation]
6 Non-standard to Standard Refinance - Not applicable
Agency/GSE Qualified Mortgage (or FHA QM) - FHA Loan
Applies to all closed-end FHA loans secured by a 1-4 unit dwelling, with an application date or FHA case number assignment date on or after 01/10/2014:
1 Higher Priced Covered Transaction - if a loan is an FHA loan, the compliance review will treat the loan as eligible for FHA Safe Harbor if it has an APR that does not exceed the average prime offer rate for a comparable mortgage, as of the date the interest rate is set, by more than the combined annual mortgage insurance premium and 1.15 percentage points for a first-lien mortgage.

2 Loan Terms and Features
- The compliance review will fail the loan if the Amortization Term (field ID 325) is greater than the loan term (field ID 4).
- The compliance review will fail the loan if the Interest Only Term (field ID 1177) is greater than 0.
- The compliance review will fail the loan if it contains a negative amortization feature.
- The compliance review will fail the loan if the Loan Term (field ID 4) is greater than 360 months.
4 Underwriting Factors - Not applicable
5 QM Agency/GSE Eligibility
- The compliance review will fail the loan if the FHA Total Scorecard Risk Class (field ID 3029 [Risk Class]) is not one of the following values - accept/approve, accept approve, accept/approve, Accept/Approve, AcceptApprove, Accept Approve, Accept, or Approve or the FHA Total Scorecard Eligibility Assessment (field ID 3631 [Eligibility Assessment]) is not one of the following values - eligible or Eligible unless the loan was manually underwritten and one of the following check boxes is selected:
  - Underwritten According to Contractual Agreement with Agency/GSE (field ID 3878)
  - Received Waver for Agency/GSE Guidelines (field ID 3879)
  - Manually Underwritten according to Agency/GSE Guidelines (field ID 3880)
- The compliance review will return a warning if an FHA Case Assignment Date is not provided
- If no AUS Type is supplied, or if an Other Underwriting System Type other than “Manual Underwriting” is provided, the compliance review will fail the loan.

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Manual/Other Underwriting information will come from the following fields (in order):

• Underwriting System Type
  • field ID 1556
  • field ID AUSF.X2 [If “Other” specify]
• Underwriting Recommendation:
  • field ID ULDD.FNM.AutoUWDec
  • field ID 1544 [AUS Recommendation]
  • field ID AUSF.X3 [AUS Recommendation]

6 Non-standard to Standard Refinance - Not applicable

Agency/GSE Qualified Mortgage (or USDA QM) - USDA Loan
Applies to closed-end loans secured by 1-4 unit dwellings with application dates on or after 1/10/2014, an ATR Type of “Qualified Mortgage”, a QM Type of “Agency/GSE Qualified Mortgage”, and a Loan Type of “USDA-RHS”:

1 Higher Priced Covered Transaction - See Mavent Alert: Federal: Section 43 Higher-Priced Covered Transaction, Safe Harbor and Presumption of Compliance (FederalSection43Higher-PricedCoveredTransaction,SafeHarborandPresumptionofCompliance-ECSUsers.pdf)

2 Loan Terms and Features
• The compliance review will fail the loan if the Amortization Term (field ID 325) is greater than the loan term (field ID 4).
• The compliance review will fail the loan if the Interest Only Term (field ID 1177) is greater than 0.
• The compliance review will fail the loan if it contains a negative amortization feature.
• The compliance review will fail the loan if the Loan Term (field ID 4) is greater than 360 months.

3 QM Points and Fees Limit - See Mavent Alert: Federal: Qualified Mortgage and High-Cost Mortgage Threshold Tests - Updates to the Definition of Points and Fees (FederalQualifiedMortgageandHigh-CostMortgageThresholdTests-UpdatedtotheDefinitionofPointsandFees-ECSUsers.pdf)

4 Underwriting Factors - Not applicable

5 QM Agency/GSE Eligibility
• The compliance review will fail the loan if the AUS Type is not one of the following values - GUS, GuaranteedUnderwritingSystem, Guaranteed Underwriting System, guaranteed underwriting system, gus, guaranteedunderwritingsystem, GUARANTEEDUNDERWRITINGSYSTEM, GUARANTEED UNDERWRITING SYSTEM or Manual Underwriting.

1 Higher Priced Covered Transaction - See Mavent Alert: Federal: Section 43 Higher-Priced Covered Transaction, Safe Harbor and Presumption of Compliance (FederalSection43Higher-PricedCoveredTransaction,SafeHarborandPresumptionofCompliance-ECSUsers.pdf)

2 Loan Terms and Features
• The compliance review will fail the loan if the Amortization Term (field ID 325) is greater than the loan term (field ID 4).
• The compliance review will fail the loan if the Interest Only Term (field ID 1177) is greater than 0.
• The compliance review will fail the loan if it contains a negative amortization feature.
• The compliance review will fail the loan if the Loan Term (field ID 4) is greater than 360 months.

3 QM Points and Fees Limit - See Mavent Alert: Federal: Qualified Mortgage and High-Cost Mortgage Threshold Tests - Updates to the Definition of Points and Fees (FederalQualifiedMortgageandHigh-CostMortgageThresholdTests-UpdatedtotheDefinitionofPointsandFees-ECSUsers.pdf)

4 Underwriting Factors - Not applicable
5 QM Agency/GSE Eligibility - The compliance review will fail the loan if it does not contain one of the following:

- A Desktop Underwriter AUS Recommendation of Accept, Approve/Eligible, Approve Eligible, or Approve Eligible; or
- A Loan Prospector AUS Recommendation of Accept, Approve, Approve/Eligible, Accept, Approve, Approve Eligible, Approve Eligible, Approve/Eligible, Accept/Eligible, or Accept Eligible; or
- “PMI Aura” selected as the AUS Type and an AUS Recommendation of Approve/Eligible, Accept, Approve, Approve Eligible, Approve Eligible, Approve/Eligible, Accept/Eligible, Accept Eligible, or Accept Eligible; or
- An Other Underwriting Type of “Manual Underwriting” and at least one of the following check boxes selected:
  - Underwritten According to Contractual Agreement with Agency/GSE (field ID 3878)
  - Received Waver for Agency/GSE Guidelines (field ID 3879)
  - Manually Underwritten according to Agency/GSE Guidelines (field ID 3880)

NOTE: If Manual Underwriting is used, the compliance review will return a warning message.

6 Non-standard to Standard Refinance - Not applicable

Seasoned Qualified Mortgage Loan

A closed-end loan secured by 1-4 unit dwelling with an application date on or after 3/1/2021 may be eligible to be a Seasoned QM loan. A Seasoned QM receives a safe harbor from liability under the ATR/QM Rule if the loan satisfies certain product restrictions, does not exceed a points-and-fees limit, satisfies underwriting requirements, is held in portfolio until the end of the seasoning period (subject to certain enumerated exceptions), and meets certain performance standards at the end of the seasoning period. Loans that satisfy another QM definition at consummation also can be Seasoned QM loans, as long as the requirements for Seasoned QMs are met. A "FAIL" or other message status under the Seasoned Qualified Mortgage Loan rules will not affect the overall ATR/QM Review Status, and will be limited to the Seasoned Qualified Mortgage Eligible row response in the ATR/QM Summary Worksheet on the ECS PDF Compliance Report.

A loan has to meet the following product restrictions to be eligible to become a Seasoned QM:

- The loan is secured by a first lien
- The loan has a fixed rate
- The loan has regular, substantially equal periodic payments that are fully amortizing, does not allow negative amortization, and does not have a balloon payment. A loan has fully amortizing payments if periodic payments of principal and interest will fully repay the loan over the loan term
- The loan term does not exceed 30 years
- The loan is not a Federal high-cost mortgage (12 CFR 1026.32(a))
- The total points and fees cannot exceed the QM Points and Fees limit; and
- Additional seasoning requirements

If a user wants to run the ECS Seasoned QM rules in addition to the other ATR/QM rules, the user would select “QM Seasoning Rules” in the ECS Setup Ability to Repay/Qualified Mortgage Review Run Conditions (as seen in this snapshot):
Chapter 4

ATR/QM Management Tool

The following section provides detailed descriptions of the input forms in the ATR/QM Management tool, as well as instructions for entering data in, and populating data to, specific sections on the forms.

ATR/QM Management Tool

Use the ATR/QM Management tool to help document compliance with the CFPB’s amendment to Regulation Z (taking effect on applications on or after January 10, 2014) that implements sections 1411, 1412, and 1414 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and prohibits creditors from making most residential mortgage loans against a closed end first or junior lien secured by a 1-4 unit dwelling unless the creditor makes a reasonable, good faith determination of the consumer’s ability to repay the loan. In addition, the rule establishes certain protections for creditors who make a “Qualified Mortgage”.

The ATR/QM Management tool provides a convenient, central location to help you document compliance with general ability-to-repay standards or eligibility for Qualified Mortgage status.

Before you open the ATR/QM Management tool, complete the Borrower Summary and the 1003 Loan Application. As you begin working in the ATR/QM Management tool, complete any fields that are not already populated from the Borrower Summary and the 1003. Click the links on the title bar on the upper-right to access information from related forms such as the 1003 Loan Application, 2015 Itemization, and RegZ-LE.

Access to ATR/QM Management Tool

In Encompass Banker Edition, use the Personas setting to grant individual users access to the ATR/QM Management tool.

To Grant a User Access to ATR/QM Management Tool:

1. On the menu bar, click Encompass, and then click Settings.
2. On the left panel, click Company/User Setup, and then click Personas.
3. In the Create a persona panel, select a persona.
4. Click the Forms/Tools tab.
5. In the Input Forms panel, select the ATR/QM Management check box.

6. Click the Save icon.

Basic Info Tab

Use the Basic Info tab to record information about the consumer, subject property, and loan. Most fields in the Borrower Information, Property Information, and Loan Information sections should already be completed based on entries in the Borrower Summary and 1003 Loan Application. Complete any missing information in these sections.

- Select the Subject Property is in a Rural/Underserved Area check box (field ID 3850) to indicate that the property is in either a rural or underserved area. This field is used as part of the Small Creditor Qualified Mortgage assessment. According to Regulation Z, 12 CFR § 1026.35(b)(2)(vi):

(A) A county is 'rural' during a calendar year if it is neither in a metropolitan statistical area nor in a micropolitan statistical area that is adjacent to a metropolitan statistical area, as those terms are defined by the U.S. Office of Management and Budget and as they are applied under currently applicable Urban Influence Codes (UICs), established by the United States Department
of Agriculture's Economic Research Service (USDA-ERS). A creditor may rely as a safe harbor on the list of counties published by the [CFPB] to determine whether a county qualifies as 'rural' for a particular calendar year.

(B) A county is 'underserved' during a calendar year if, according to Home Mortgage Disclosure Act (HMDA) data for the preceding calendar year, no more than two creditors extended covered transactions, as defined in § 1026.43(b)(1), secured by a first lien, five or more times in the county. A creditor may rely as a safe harbor on the list of counties published by the [CFPB] to determine whether a county qualifies as 'underserved' for a particular calendar year.

Qualification Tab
Identify factors necessary to make an Ability-to-Repay/Qualified Mortgage (ATR/QM) assessment based on the loan term, lien position, note amount, points and fees, monthly payments, and underwriting factors considered for the loan.

Monthly Payment - First Lien/Total
Part of making an ATR or QM assessment is quantifying the monthly mortgage payment while taking into account not only the subject loan, but also any known subordinate liens and all mortgage-related obligations. The ATR/QM Monthly Payment ratios sections are populated based on your entries on the Transmittal Summary and can be analyzed when making an ATR or QM assessment.

The actual payment ratio used in making the assessment varies between the General ATR standard and across the different QM types. For example:

When originating a General QM, lenders want to use the Total Debt Ratio payment that reflects the maximum rate that would apply during the first five years of the loan (field ID QM.X119). Yet, when originating a General ATR loan, that does not contain an interest only payment feature, balloon payment, or negative amortization, lenders are advised to assess debt to income ratios based on either the initial rate (field ID 742) or fully indexed rate (field ID QM.X116), using the higher rate of the two.

Please note that using the higher rate of the two does not apply to all types of ATR Standard loans.

- When originating a General ATR with an interest only payment period, lenders are advised to assess a DTI ratio based on the maximum payment amount using substantially equal, monthly payments of principal and interest based on the fully indexed rate or the introductory rate, whichever is greater, that will repay the maximum loan amount over the term of the loan that remains as of the date the loan is recast.

- When originating a General ATR non-Higher-Priced Covered Transaction with a balloon payment, lenders are advised to assess a DTI ratio based on the maximum payment amount scheduled during the first 60 months after the date on which the first regular periodic payment will be due. When originating a General ATR Higher-Priced Covered Transaction with a balloon payment, lenders are advised to assess a DTI ratio based on the maximum payment in the payment schedule, including any balloon payment.

Loan Summary
The left column of the Loan Summary is the general loan terms. Complete any loan details that are not already populated from the Borrower Summary - Origination and 2015 Itemization input forms. The right column provides the loan features and most of these fields are populated based on the entries you provided on the Transmittal Summary (form 1008) and RegZ-LE forms.
• When originating a General ATR Higher-Priced Covered Transaction with negative amortization, lenders are advised to assess DTI ratios based on the maximum payment amount using substantially equal, monthly payments of principal and interest based on the fully indexed rate or the introductory rate, whichever is greater, that will repay the maximum loan amount over the term of the loan that remains as of the date the loan is recast.

NOTE: There is no specific DTI ratio threshold for General ATR or Small Creditor QM loans. Agency/GSE QM loan DTI limits are based on each specific agency’s or investor’s guidelines.

Monthly Payment - Second Lien/Monthly Housing Obligations

The fields in this section are calculated based on values entered on Page 2 of the 1003 Loan Application.

• If the Occupancy Status of the loan is Secondary Home or Investment Property, the values in the Proposed Monthly Payment section are derived from the Present expenses on Page 2 of the 1003 Loan Application.

• If the Occupancy Status is Primary Residence, the values are derived from the Proposed expenses on the 1003 Loan Application.

Risk Assessment

Many of these fields are already completed based on data on the 1003 Loan Application and the Risk Assessment section of the Transmittal Summary input form.

The CFPB’s final rule states that lenders can rely upon an automated underwriting system (AUS) response of Approve/Eligible, Accept/Eligible, Approve Eligible, or Accept Eligible (for DU) or Accept, Approve, Approve/Eligible, ApproveEligible, Approve Eligible, AcceptEligible, Accept/Eligible, or Accept Eligible (for LP) as evidence that the loan conforms to Agency/GSE standards so long as the information relied upon in making the AUS decision is accurate.

NOTE: Ensure that an Approve/Eligible, Accept/Eligible, Approve Eligible, or Accept Eligible for DU or Accept, Approve, Approve/Eligible, ApproveEligible, Approve Eligible, AcceptEligible, Accept/Eligible, or Accept Eligible for LP or the Manual Underwriting type is selected here.

APR/APOR

• The APOR section uses fields from the Section 32 HOEPA and Section 35 HPML input forms to show the loan’s annual percentage, QM annual percentage rate, and average prime offer rates.

• When applicable, you can click the blue Lock icon to lock a field, enabling you to enter a value that will not be overridden by data pulled from the other input forms.

To Determine the Average Prime Offer Rate (APOR):

1 To find the APOR (field ID 3134), open the Section 35 HPML input form, and then click the View Rate button.

2 When the FFIEC APOR tables screen displays, click the appropriate link to view the Average Prime Offer Rates table provided by the FFIEC. (Based on the loan’s amortization type, click the link for the Fixed Rate or Adjustable Rate tables.)

3 In the top row of the table (Term of Loan in Years), locate the applicable loan term column header.

4 Notice the dates (xx/xx/xxxx) listed in the far-left column in the table. Locate the row with the date that matches (or directly precedes) the loan’s rate set date (i.e., the rate lock date (field ID 2089) or the last rate set date (field ID 3254)).

5 The APOR is the value where the applicable loan term and rate set date intersect. Enter this value in the APOR field (field ID 3134).

• Any time an Encompass Compliance Service (ECS) review or preview is run, the Average Prime Offer Rate value (field ID 3134) is automatically calculated and updated in the loan file based on the ECS calculation. The APOR also will change if loan factors, rate set or rate lock dates change.

• ECS reviews the loan terms (loan amount, lien position, etc.) and then selects an appropriate APOR based on the Rate Set Date. To determine the Rate Set Date, the ECS requires the following fields to be populated:

  • The Amortization Type (field ID 608)
  • The Loan Term (field ID 4)

In addition, ECS determines which APOR to apply based on the following fields:

  • The Last Rate Set Date field (field ID 3253)

  • If empty, it uses the Rate Lock Rate (field ID 761).

  • If both previous fields are empty, it uses the Closing Date (field ID 748) if the Closing Date is prior to the date the loan is submitted to ECS for review.
• If the Closing Date occurs in the future or if all previous fields are blank, it uses the most recently published Index based on the Amortization Type and Loan Term.

**NOTE:** The APOR value in field 3134 is not recalculated when a loan team member clicks the **Lock and Confirm** button on the Secondary Registration tool to lock the loan rate and confirm the lock with the lock requestor. The APOR will automatically update if a subsequent ECS review is run.

**Points and Fees**

- Click the **Fee Details** button to open the Quick Entry - 2015 Itemization window and update the 2015 Itemization form as needed.

- The **Reg Z Total Loan Amount** (field ID QM.X120) is automatically calculated based on the loan terms and finance charges. This value can be set up to be validated or overwritten by using ECS.

- When applicable, you can click the blue **Lock** icon to manually lock the field, enabling you to enter a value that will not be overridden by data pulled from the other input forms. The system administrator may control access to this Lock icon via a Persona Access to Fields business rule.

- The **Current Qualified Mortgage Fee Threshold** amount (field IDs QM.X121) is automatically calculated. This calculation is based on the Note Amount (field ID 2) to determine which threshold to apply. The threshold is then multiplied against the Reg Z Total Loan Amount (field ID QM.X120) to determine the Current Qualified Mortgage Fee Threshold amount. Based on the Note Amount, the Current QM Fee Threshold is calculated as follows:

<table>
<thead>
<tr>
<th>Note Amount</th>
<th>Current QM Fee Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>$114,847 or greater</td>
<td>3% x QM.X120 (rounded to two decimal places)</td>
</tr>
<tr>
<td>$68,908–$114,846.99</td>
<td>$3,445.00</td>
</tr>
<tr>
<td>$22,969–$68,907.99</td>
<td>5% x QM.X120 (rounded to two decimal places)</td>
</tr>
<tr>
<td>$14,356–$22,968.99</td>
<td>$1,148.00</td>
</tr>
<tr>
<td>$14,355.99 or less</td>
<td>8% x QM.X120 (rounded to two decimal places)</td>
</tr>
</tbody>
</table>

**Current QM Fee Threshold (field QM.X121) Calculation (2022 Limits)**

**Note:** Field QM.X120 = Reg Z Total Loan Amount (i.e., Reg Z Amount Financed - Financed Real Estate Related Fees Paid to Lender or Affiliate - Financed Credit Insurance Premiums - Financed Prior Prepayment Penalty Payoff (if applicable))

- The **Total points and fees applicable under section 32** (field ID S32DISC.X48) is calculated by pulling information from various sources in Encompass including the following items.

**NOTE:** The calculation for this field is date-specific and will vary between loan applications taken before January 10, 2014 versus on or after January 10, 2014. Encompass uses the value in the Application Date field (field ID 745) to trigger the appropriate points and fees calculation. For purposes of the Qualified Mortgage and Federal High Cost threshold tests for loans on or after January 10, 2014, Encompass uses the Application Date to apply new calculations that are expected based on the new rules’ effective date. HOEPA Section 32 and ATR/QM Section 43 rules use the same methodology to calculate Reg Z total loan amount and total points and fees but each rule applies its own threshold. Files with application dates prior to January 10, 2014 will be calculated in a way that is consistent with HOEPA Section 32 calculations that were in effect for loan applications taken prior to January 10, 2014. For Encompass clients who utilize the Encompass Compliance Service (ECS), ECS compares the Application Date(s) entered in fields 745, 3142 and 3292 and runs its calculations based on the earliest date entered in those three fields.
- **2015 Itemization** - Use this input form to:
  - Identify the description and amount of fees being charged
  - Identify who they are being paid by, and to whom (including if they are being paid to broker, lender, affiliate, unaffiliated provider (other), etc.)
  - Show which fees are being paid by the borrower, seller, lender, etc.
  - Identify if the item is a Prepaid Finance Charge (i.e., the APR check box is selected for the fee)
  - Identify if certain charges have special handling (i.e., discount points, daily interest charges, and mortgage insurance premiums)
  - You can also use the 2015 Itemization or click the **Manage Details** button to open the Manage Adjusted Origination Charge Details window and indicate if you claim Discount Points as bona fide. Under the Section 32 points and fees calculation, up to two bona fide discount points may be excluded from the total points and fees if specific conditions are met.

Under the Section 32 Total Points and Fees calculation, all fees paid to a lender, broker, or affiliate are included in the Points & Fees test. This also includes compensation paid to mortgage brokers.

**NOTE:** For detailed information about using the **Paid by** and **Paid to** indicators on the 2015 Itemization, how to indicate bona fide discount points, and an explanation about which fees are or are not included in the **Total Points and Fees under section 32** field, refer to Chapter 7, “Working with Points and Fees” on page 50.

- **Prepayment Penalty Quick Entry** - On the RegZ-LE, click the **Prepayment Penalty** button to display the Prepayment Penalty Quick Entry screen which provides the terms of the prepayment penalty (if any) that will be included in the total Points & Fees calculation.

- **MIP/PMI/Guarantee Fee Calculation window (Conventional UPMI)** - Use this window to review the amount of up front MI premium (or guarantee fee) being charged to the borrower.
• If the **Refund prorated unearned Up Front** check box is selected, Encompass calculates the difference between the comparable amount of FHA Up Front MIP (currently 1.75%) and the MIP/Funding/Guarantee percentage and only includes the amount of up front MI premium that exceeds this threshold in the total Points & Fees calculation.

• If the **Refund prorated unearned Up Front** check box is not selected, the total MIP/Funding/Guarantee dollar amount (field ID 1826) is included in the total Points & Fees calculation.

• **Net Tangible Benefit tool** - On refinancees being made by the current lender, the amount of prepayment penalty payoff reflected in field NTB.X16 on the Net Tangible Benefit form will be included in the total Points & Fees calculation.

• **Discount Point Exclusion** - Under the new Points & Fees calculation, Encompass will exclude up to two bona fide discount points if specific conditions are met. For detailed information about indicating bona fide discount points, refer to Chapter 7, “Working with Points and Fees” on page 56.

• The **result of Points & Fees Test** (field ID QM.X124) indicator is calculated by comparing the total points and fees against the points and fees threshold. This calculation is dynamic and will be automatically updated as the loan amount, points and fees or points and fees financed in the transaction change.

• Fields in the **Fees from 2015 Itemization** section are calculated based on values entered on the 2015 Itemization form.

• Fields in the **Fees included in Points and Fees Test** section are populated based on Encompass Compliance Service (ECS) reviews or you can manually enter data accordingly.

• These values are intended to show how fees were categorized for inclusion in the total Points & Fees calculation based on the ATR/QM rules.
Residual Income Guidelines

- The Total Loan Amount is auto-populated from entries in the 1003 and Borrower Summary forms.
- Select the Yes or No check box to indicate if the veteran has been more than 30 days late on a payment in the last 6 months.
- Enter a Family size.
- Select a Country Region from the drop-down menu.
- Next, click the Country Region field's Lookup icon (magnifying glass) to view the residual income by region tables.
  - Using the residual income by region tables provided, locate the appropriate table based on the loan amount ($79,999 and below or $80,000 and above), and then locate the region and family size of the borrower.
- Manually enter the dollar amount from the table in the Residual Income Guidelines field

OR

- Click the Get Residential Income button to populate this field automatically.

**NOTE:** According to the interim final rule defining a qualified mortgage for VA loans, in order for a VA IRRRL to be considered a safe harbor QM the loan must meet several conditions including the veteran has not been more than 30 days past due during the 6 months preceding the new loan’s closing date and is not currently 30 days past due. For detailed information, refer to “Support for VA QM Loans” on page 43.

ATR/QM Eligibility Tab
This tab provides a matrix to help identify the factors and eligibility used to determine compliance with general ability-to-repay standards, eligibility for Qualified Mortgage status, or exemption from the CFPB ATR/QM requirements. In addition, the matrix assesses Qualified Mortgage Safe Harbor eligibility and also provides a section to document the reasons a loan may be exempt from ATR/QM requirements.

ATR/QM Recommendation and ATR/QM Eligibility Matrix
The ATR/QM Recommendation indicates the type of ATR/QM loan the current loan is eligible for. The values populated here are based on the total assessment made in the ATR/QM Eligibility matrix. This section supports both QM and Non-QM loan types. Non-QM loans are those that meet general ability-to-repay requirements or are exempt from ATR/QM regulations. Feedback on Safe Harbor eligibility for QM loans also is provided.
Based on the loan file’s data and calculations provided in the Qualification form, the ATR/QM Eligibility matrix provides indicators to show the ATR/QM requirements that have or have not been met.

<table>
<thead>
<tr>
<th>ATR/QM Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meets ATR/QM Standard</td>
</tr>
<tr>
<td>Does not meet ATR/QM</td>
</tr>
<tr>
<td>Needs to be reviewed</td>
</tr>
</tbody>
</table>

- A **green check mark** indicates that the factor is consistent with ATR/QM expectations.
- A **red flag** indicates that the factor is not consistent with ATR/QM expectations.
- A **blue flag** indicates that the data relied upon in making the ATR/QM assessment is missing from the loan file.

**Ability-to-Repay Loan Type options:**

- **Exempt** - You would select this option if the loan is exempt from ATR/QM requirements. You would indicate this by selecting the Transaction is exempt from Reg. Z Ability to Repay requirements based on check box (field ID QM.X103) and then select the reason (or reasons) why the loan qualifies for exemption.

- **General ATR** - This option is selected if the loan is not eligible to be a Qualified Mortgage (QM), but is eligible for General Ability-to-Repay (ATR) as indicated by a green check mark displayed above the General Ability-to-Repay column in the ATR/QM Eligibility matrix and no other column indicates that the loan also is eligible to be a Qualified Mortgage). Green check marks are displayed only when the underwriter marks the underwriting factors that have been considered and evaluated for the loan on the Underwriter Summary.

- **Non-Standard to Standard Refinance** - You may select this option if the creditor for the refinance transaction is the current holder of the non-standard mortgage or servicer acting on behalf of the current holder. This option may give more flexibility in refinancing a non-standard mortgage (which includes various types of mortgages that can lead to payment shock and can result in default) into a standard mortgage without having to meet the General ATR requirements or the General QM DTI requirements.

- **Qualified Mortgage** - This option is selected when a loan is determined to have met all of the requirements for one of the Qualified Mortgage types (General, Agency/GSE, FHA or Small Creditor) as indicated by a green check mark displayed above any one of the Qualified Mortgage columns in the ATR/QM Eligibility matrix.

**Qualified Mortgage Loan Type options:**

This field is populated with one of the following options only if the Ability-to-Repay Loan Type is Qualified Mortgage.

- **General QM** - Selected if the General Qualified Mortgage eligibility standard is met. (This is indicated in the ATR/QM Eligibility matrix.) The following requirements must be met in order to qualify for General QM. When all are met, all the factors under the General Qualified Mortgage column header will display a green check mark.

  - **Loan Term** - The Loan Term (field ID 4) is less than or equal to 360 months.

- **Loan Features:**

  - **Interest Only** - The loan cannot feature any interest only payments. The Transaction Details Interest Only Months field (field ID 1177) must be empty or 0 may be entered.

    **NOTE:** Loans originated in Encompass 8.1.0.3 or earlier may not trigger the green check mark indicator for the Interest Only factor accurately. If necessary, open the file in Encompass 9.0 or later and simply enter any value in field 1177, save the loan file, clear the value from the field (or enter 0), and then save the loan file again. This sequence is not required for loans originated in Encompass 9.0 or later.

  - **Negative Amortization** - The ARM Recast Period/ Stop fields (field IDs 1712 and 1713) are both empty (i.e., no values entered).

  - **Balloon Payment** - The loan cannot feature a balloon payment. The Loan Term (field ID 4) and the Loan Due In (field ID 325) values must be equal. If the Loan Due In value is less than the Loan Term value, a red flag will display for the Balloon Payment factor in the ATR/QM Eligibility matrix and the loan will not meet General QM standards.

  - **Prepayment Penalty** - The Amortization Type (field ID 608) is Fixed AND the Prepayment Penalty Period (field ID RE88395.X316) is less than or equal to 36 AND the Prepayment Penalty entered as a percentage (field IDs 1948, 1973, 1976, 1979, 1982) or the Maximum Prepayment Penalty entered as a percentage (field ID QM.X112) are all less than or equal to 2.000% or all of these fields are blank.

  - **Points and Fees Limit** - The Total points and fees applicable under section 32 (field ID S32DISC.X48) is less than or equal to the Current Qualified Mortgage Fee Threshold (field ID QM.X121).
• **Price Limit**

Conventional First Lien Loans will be evaluated per the defined price-based limit.

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Price Based Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$110,250</td>
<td>QM APR (QM.X381) &lt; 2.25 + APOR (3134)</td>
</tr>
<tr>
<td>$66,156 and</td>
<td>QM APR (QM.X381) &lt; 3.5 + APOR (3134)</td>
</tr>
<tr>
<td>$110,260</td>
<td></td>
</tr>
<tr>
<td>&lt; $66,156</td>
<td>QM APR (QM.X381) &lt; 6.5 + APOR (3134)</td>
</tr>
</tbody>
</table>

• All Conventional first lien loans having sufficient information to be evaluated under the price-based rule will have a result of either Meets or Does Not Meet ATR/QM standard based on the calculated QM APR.

• Conventional Subordinate lien loans will receive an evaluation of Does Not Meet ATR/QM standard.

• If the loan is evaluated under the price-based rule, the result will be captured and will be used in combination with the other required loan attributes to evaluate the loan for General QM eligibility.

• **Debt to Income Ratio** - This test is included in General QM assessment if the Price Limit is not being used on the loan (available between 3/1/2021 and 10/1/2022). The following check boxes on the Underwriter Summary are selected to indicate that they have been assessed by the underwriter AND the total debt ratio is less than or equal to 43.000%.

  - Monthly Covered Loan Payment (field ID QM.X338)
  - Monthly Simultaneous Loan Payment (field ID QM.X339)
  - Monthly Mortgage Related Obligations (field ID QM.X340)
  - Debt Obligations (field ID QM.X341)
  - Child Support Obligations (field ID QM.X342)
  - Alimony Obligations (field ID QM.X343)
  - Current or Expected Income (field ID QM.X345)
  - Debt to Income Ratio (field ID QM.X348)

• **Residual Income** - The Residual Income check box (field ID QM.X348) on the Underwriter Summary is selected to indicate that this factor has been assessed. Note that this factor is not required to qualify for General QM. If the factor is not assessed, a blue flag indicator displays in the matrix.

• **Monthly Payment and Consider and Verify Factors** - All of these factors are required. In order for green check marks to display for each factor, the corresponding check box on the Underwriter Summary must be selected. To view the field mapping between the check boxes on the Underwriter Summary and these factors in the matrix, refer to “Field Mapping Between Underwriter Summary Evaluation Fields and ATR/QM Eligibility Matrix” section on page 36.

• **Agency/GSE QM** (Sunset 6/30/2021) - Selected if the Agency/GSE Qualified Mortgage eligibility standard is met. This is also known as a Temporary QM. (This is indicated in the ATR/QM Eligibility matrix.) The following requirements must be met in order to qualify for Agency/GSE QM. When all are met, all of the factors under the Agency/GSE Qualified Mortgage column header will display a green check mark.

  - **Loan Term** - The Loan Term (field ID 4) is less than or equal to 360 months

• **Loan Features:**

  - **Interest Only** - The loan cannot feature any interest only payments. The Transaction Details Interest Only Months field (field ID 1177) must be empty or 0 may be entered.

    **NOTE:** Loans originated in Encompass 8.1.0.3 or earlier may not trigger the green check mark indicator for the Interest Only factor accurately. If necessary, open the file in Encompass 9.0 or later and simply enter any value in field 1177, save the loan file, clear the value from the field (or enter 0), and then save the loan file again. This sequence is not required for loans originated in Encompass 9.0 or later.

  - **Negative Amortization** - The ARM Recast Period/Stop fields (field IDs 1712 and 1713) are both empty (i.e., no values entered).

  - **Balloon Payment** - The loan cannot feature a balloon payment. The Loan Term (field ID 4) and the Loan Due In (field ID 325) values must be equal. If the Loan Due In value is less than the Loan Term value, a red flag will display for the Balloon Payment factor in the ATR/QM Eligibility matrix and the loan will not meet General QM standards.

  - **Prepayment Penalty** - The Amortization Type (field ID 608) is Fixed

    the Prepayment Penalty Period (field ID RE88395.X316) is less than or equal to 36 (or blank)

    AND

    the Prepayment Penalty entered as a percentage (field IDs 1948, 1973, 1976, 1979, 1982) or the Maximum Prepayment Penalty entered as a percentage (field ID QM.X112) are all less than or equal to 2.000% or all of these fields are blank.

  - **Points and Fees Limit** - The Total points and fees applicable under section 32 (field ID S32DISC.X48) is less than or equal to the Current Qualified Mortgage Fee Threshold (field ID QM.X121).
• **Debt to Income Ratio** - The following check boxes on the Underwriter Summary are selected to indicate that they have been assessed by the underwriter AND the AUS Recommendation (field ID 1544) must be Approve/Eligible, Accept/Eligible, Approve Eligible, or Accept Eligible (for DU) or Accept, Approve, Approve/Eligible, ApproveEligible, Approve Eligible, AcceptEligible, Accept/Eligible, or Accept Eligible (for LP). Encompass also accepts one of the three manual underwriting methods as an alternative to AUS results.

- Monthly Covered Loan Payment (field ID QM.X338)
- Monthly Simultaneous Loan Payment (field ID QM.X339)
- Monthly Mortgage Related Obligations (field ID QM.X340)
- Debt Obligations (field ID QM.X341)
- Child Support Obligations (field ID QM.X342)
- Alimony Obligations (field ID QM.X343)
- Current or Expected Income (field ID QM.X345)
- Debt to Income Ratio (field ID QM.X348)

• **Residual Income** - The Residual Income check box (field ID QM.X348) on the Underwriter Summary is selected to indicate that this factor has been assessed. Note that this factor is not required to qualify for Agency/GSE QM. If the factor is not assessed, a blue flag indicator displays in the matrix.

• **Monthly Payment and Consider and Verify Factors** - All of these factors are required. In order for green check marks to display for each factor, the corresponding check box on the Underwriter Summary must be selected. To view the field mapping between the check boxes on the Underwriter Summary and these factors in the matrix, refer to “Field Mapping Between Underwriter Summary Evaluation Fields and ATR/QM Eligibility Matrix” section on page 36.

• **FHA QM** - Selected if the FHA Qualified Mortgage eligibility standard is met. For the most part, the FHA QM assessment considers the same factors as the Agency/GSE QM eligibility assessment, except that the FHA has a unique threshold for FHA Qualified Mortgage Safe Harbor. This option is automatically selected when you select FHA for the Loan Type (field ID 1172), the Case Assignment Date (field ID 3042) is on or after January 10, 2014 (or blank), and the loan meets all Agency/GSE Qualified Mortgage requirements.

*NOTE: This FHA QM option is available starting in Encompass 9.1.0.2.*

• **Small Creditor QM** - Selected only if the administrator has indicated that your company is a small creditor (using the ATR/QM section of the Organization Details setting) and if the loan meets the following requirements. When all are met, all of the factors under the Small Creditor Qualified Mortgage column header will display a green check mark.

*NOTE: In order to qualify for Small Creditor QM, the loan must not meet the standards for General Qualified Mortgage, Agency/GSE, or FHA Qualified Mortgage.*

- **Loan Term** - If the loan does not feature a balloon payment, the Loan Term (field ID 4) must be less than or equal to 360 months. If the loan does feature a balloon payment, the Loan Term must be between 60 - 360 months.

• **Loan Features:**

  - **Interest Only** - The loan cannot feature any interest only payments. The Transaction Details Interest Only Months field (field ID 1177) must be empty or 0 may be entered.

  *NOTE: Loans originated in Encompass 8.1.0.3 or earlier may not trigger the green check mark indicator for the Interest Only factor accurately. If necessary, open the file in Encompass 9.0 or later and simply enter any value in field 1177, save the loan file, clear the value from the field (or enter 0), and then save the loan file again. This sequence is not required for loans originated in Encompass 9.0 or later.*

  - **Negative Amortization** - The ARM Recast Period/Stop fields (field IDs 1712 and 1713) are both empty (i.e., no values entered).

  - **Balloon Payment** - If the loan does not feature a balloon payment, the Loan Term (field ID 4) must be less than or equal to 360 months. If the loan does feature a balloon payment, the Loan Term must be between 60 - 360 months.

• **Prepayment Penalty** - The Amortization Type (field ID 608) is Fixed AND the Prepayment Penalty Period (field ID RE88395.X316) is less than or equal to 36 (or blank) AND the Prepayment Penalty entered as a percentage (field IDs 1948, 1973, 1976, 1979, 1982) or the Maximum Prepayment Penalty entered as a percentage (field ID QM.X112) are all less than or equal to 2.000% or all of these fields are blank.

• **Points and Fees Limit** - The *Total points and fees applicable under section 32* (field ID S32DISC.X48) is less than or equal to the Current Qualified Mortgage Fee Threshold (field ID QM.X121).
• **Debt to Income Ratio** - The following check boxes on the Underwriter Summary are selected to indicate that they have been assessed by the underwriter:
  - Monthly Covered Loan Payment (field ID QM.X338)
  - Monthly Simultaneous Loan Payment (field ID QM.X339)
  - Monthly Mortgage Related Obligations (field ID QM.X340)
  - Debt Obligations (field ID QM.X341)
  - Child Support Obligations (field ID QM.X342)
  - Alimony Obligations (field ID QM.X343)
  - Current or Expected Income (field ID QM.X345)
  - Debt to Income Ratio (field ID QM.X348)

• **Residual Income** - The Residual Income check box (field ID QM.X348) on the Underwriter Summary is selected to indicate that this factor has been assessed. Note that this factor is not required to qualify for Agency/GSE QM. If the factor is not assessed, a blue flag indicator displays in the matrix.

• **Monthly Payment and Consider and Verify Factors** - All of these factors are required. In order for green check marks to display for each factor, the corresponding check box on the Underwriter Summary must be selected. To view the field mapping between the check boxes on the Underwriter Summary and these factors in the matrix, refer to “Field Mapping Between Underwriter Summary Evaluation Fields and ATR/QM Eligibility Matrix” section on page 36.

• **Small Creditor Rural QM** - Selected only if the administrator has indicated that your company is a rural small creditor (using the ATR/QM section of the Organization Details setting) AND the Subject Property is in a **Rural/Underserved Area** check box (field ID 3850) is selected in the loan file AND the loan meets the following requirements (as indicated by a green check mark in the ATR/QM Eligibility matrix).

  **NOTE**: In order to qualify for **Rural Small Creditor**, the loan must not meet the standards for **General Qualified Mortgage**, **Agency/GSE Qualified Mortgage** or **FHA Qualified Mortgage**.

  - **Loan Term** - If the loan does not feature a balloon payment, the Loan Term (field ID 4) must be less than or equal to 360 months. If the loan does feature a balloon payment, the Loan Term must be between 60 - 360 months.

  - **Loan Features**:
    - **Interest Only** - The loan cannot feature any interest only payments. The Transaction Details Interest Only Months field (field ID 1177) must be empty or 0 may be entered.
      
      **NOTE**: Loans originated in Encompass 8.1.0.3 or earlier may not trigger the green check mark indicator for the Interest Only factor accurately. If necessary, open the file in Encompass 9.0 or later and simply enter any value in field 1177, save the loan file, clear the value from the field (or enter 0), and then save the loan file again. This sequence is not required for loans originated in Encompass 9.0 or later.

    - **Negative Amortization** - The ARM Recast Period/Stop fields (field IDs 1712 and 1713) are both empty (i.e., no values entered).

    - **Balloon Payment** - If the loan does not feature a balloon payment, the Loan Term (field ID 4) must be less than or equal to 360 months. If the loan does feature a balloon payment, the Loan Term must be between 60 - 360 months.

    - **Prepayment Penalty** - The Amortization Type (field ID 608) is Fixed
      
      **AND**

      the Prepayment Penalty Period (field ID RE88395.X316) is less than or equal to 36 (or blank)

      **AND**

      the Prepayment Penalty entered as a percentage (field IDs 1948, 1973, 1976, 1979, 1982) or the Maximum Prepayment Penalty entered as a percentage (field ID QM.X112) are all less than or equal to 2.000% or all of these fields are blank.

    - **Points and Fees Limit** - The **Total points and fees applicable under section 32** (field ID S32DISC.X48) is less than or equal to the Current Qualified Mortgage Fee Threshold (field ID QM.X121).
• **Debt to Income Ratio** - The following check boxes on the Underwriter Summary are selected to indicate that they have been assessed by the underwriter:
  - Monthly Covered Loan Payment (field ID QM.X338)
  - Monthly Simultaneous Loan Payment (field ID QM.X339)
  - Monthly Mortgage Related Obligations (field ID QM.X340)
  - Debt Obligations (field ID QM.X341)
  - Child Support Obligations (field ID QM.X342)
  - Alimony Obligations (field ID QM.X343)
  - Current or Expected Income (field ID QM.X345)
  - Debt to Income Ratio (field ID QM.X348)

• **Residual Income** - The Residual Income check box (field ID QM.X348) on the Underwriter Summary is selected to indicate that this factor has been assessed. Note that this factor is not required to qualify for Agency/GSE QM. If the factor is not assessed, a blue flag indicator displays in the matrix.

• **Monthly Payment and Consider and Verify Factors** - All of these factors are required. In order for green check marks to display for each factor, the corresponding check box on the Underwriter Summary must be selected. To view the field mapping between the check boxes on the Underwriter Summary and these factors in the matrix, refer to “Field Mapping Between Underwriter Summary Evaluation Fields and ATR/QM Eligibility Matrix” section on page 36.

• **VA QM** - Selected only when the loan type is VA, the Case Assignment Date field is on or after May 9, 2014 and the following requirements are met (as indicated by the green check mark in the ATR/QM Eligibility matrix).

  - On the VA 26-0286 Loan Summary form, the Yes or No option must be selected for the Loan processed under VA recognized automated underwriting system? field (field ID VASSUM.X4).

  - If Yes is selected for VASSUM.X4, options must also be selected for:
    - Which system was used? (field ID VASSUM.X17).
    - Risk Classification (field ID VASSUM.X17).

  - For VA QM eligibility, Encompass also looks to the AUS Recommendation (field ID 1544) and requires Approve/Eligible, Accept/Eligible, Approve Eligible, or Accept Eligible (for DU) or Accept, Approve, Approve/Eligible, Approve Eligible, Accept Eligible, Accept/Eligible, or Accept Eligible (for LP).

  - If No is selected for VASSUM.X4, complete the manual underwriting process and, as an alternative to AUS results, select one of the three manual underwriting methods on page 1 of the Underwriter Summary tool.

Encompass reviews the transaction’s eligibility for the specific QM loan types in the following order and recommends the loan type whose requirements are met first.

• **Ability-to-Repay Loan Type** - Exempt
• **Qualified Mortgage Loan Type** - General QM
• **Qualified Mortgage Loan Type** - Agency/GSE QM
• **Qualified Mortgage Loan Type** - FHA QM
• **Qualified Mortgage Loan Type** - VA QM
• **Qualified Mortgage Loan Type** - Small Creditor QM
• **Qualified Mortgage Loan Type** - Small Creditor Rural QM
• **Ability-to-Repay Loan Type** - General ATR

**NOTE:** Encompass relies on the underwriter’s assessments indicated on the Underwriter Summary to provide an ATR/QM recommendation. The Underwriter Summary is available in Encompass Banker Edition only. Encompass Broker Edition will make assessments for the Loan Term, Loan Features, and Points and Fees Limit, but users need to click the blue Lock icons in the ATR/QM Recommendation section to lock these fields and manually select the appropriate Ability-to-Repay Loan Type, Qualified Mortgage Loan Type, and Is Loan Eligible for Safe Harbor options from the drop-down lists.

**Is Loan Eligible for Safe Harbor Options**

The Is Loan Eligible for Safe Harbor? field is populated with one of the options below based on the following logic. Click the blue Lock icon to override this logic and select the desired option.

- **Yes** - Selected if the Ability-to-Repay Loan Type is Qualified Mortgage, an option has been selected for Qualified Mortgage Loan Type, and the selected QM loan type has met Safe Harbor Eligibility standards (as indicated by a green check mark in the Safe Harbor Eligibility section of the form).

- **No** - Selected if the Ability-to-Repay Loan Type is Qualified Mortgage, an option has been selected for Qualified Mortgage Loan Type, but the selected QM loan type has not met Safe Harbor Eligibility standards (as indicated by a red flag in the Safe Harbor Eligibility section of the form).

- **N/A** - Selected if the Ability-to-Repay Loan Type is Exempt or General ATR.

For more information about Safe Harbor eligibility, refer to the “Safe Harbor Eligibility” section on page 37 and “Support for VA QM Loans” on page 43.

**What Loan Fields Does the ATR/QM Eligibility Matrix Rely On?**

When assessing the Loan Term, Loan Features, and Points and Fees Limit eligibility, Encompass assesses the values entered on the related forms discussed earlier (2015 Itemization and 1003 Loan Application,
MIP/PMI/Guarantee Fee Calculation window, etc.) and calculations provided on the ATR/QM Management tool’s Qualification form. These indicators are dynamic and will change as the factors change.

<table>
<thead>
<tr>
<th>Loan Term</th>
<th>✔️</th>
<th>✔️</th>
<th>✔️</th>
<th>✔️</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Features</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Only</td>
<td>✔️</td>
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<tr>
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<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

The Debt-to-Income Ratio assessment is based partly on the underwriter’s sign off of debt-to-income factors on the Underwriter Summary.

The underwriter must indicate that all of these factors on the Underwriter Summary have been evaluated. Current Employment Status, Assets, Credit History, and Residual Income are not required for this assessment. If one or more of the required factors have not been evaluated, blue flag indicators will display to indicate that data required for the DTI ratio assessment is missing.

- When assessing eligibility for General QM, Encompass considers the Payment Ratio (DTI) for the maximum rate in the first five years (field ID QM.X119) on ARM loans. General QM requires that this ratio be equal to or less than 43%.
- For Agency/GSE QM eligibility, Encompass looks to the AUS Recommendation (field ID 1544) and requires Approve/Eligible, Accept/Eligible, Approve Eligible, or Accept Eligible (for DU) or Accept, Approve, Approve/Eligible, Approve Eligible, Accept Eligible, Accept/Eligible, or Accept Eligible (for LP). Encompass also accepts one of the three manual underwriting methods as an alternative to AUS results.

The Residual Income factor is not required, but a recommendation to review this factor will be triggered under General ATR and under General QM if Safe Harbor requirements are not met. For more information, refer to Chapter 8, ”Responding to ATR/QM Compliance Alerts” on page 63.
**NOTE:** A blue flag indicator for Residual Income will not prevent a loan from being eligible for any of the QM loan types.

<table>
<thead>
<tr>
<th>Field</th>
<th>Green</th>
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</tr>
</tbody>
</table>

The indicators for the Monthly Payment and Consider and Verify factors are triggered by the factors on the Underwriter Summary. If one or more of the factors have not been evaluated, blue flag indicators will display to indicate that data required for the Monthly Payment or Consider and Verify assessment is missing.

**NOTE:** After the underwriter assesses the required factors, it is recommended that they enter their name (or the AUS) in the Approved By field (field ID 2984) and an Approval Expires date (field ID 2302) on the Underwriter Summary. For Encompass Compliance Service users, a warning may be triggered when a review is run and these fields are missing data.

---

**Field Mapping Between Underwriter Summary Evaluation Fields and ATR/QM Eligibility Matrix**

This section describes how the fields in the ATR/QM Eligibility matrix are populated with a green check mark (meets ATR/QM standard) or blue flag (needs to be reviewed or evaluated by underwriter) based on which check boxes are selected (or not selected) on the Underwriter Summary tool. When a check box is selected, a green check mark is populated to the corresponding field. If the check box is not selected, a blue flag is populated to the corresponding field.

**Underwriter Summary Fields:**
- Monthly Covered Loan Payment (field ID QM.X338)
- Monthly Simultaneous Loan Payment (field ID QM.X339)
- Monthly Mortgage Related Obligations (field ID QM.X340)
- Debt Obligations (field ID QM.X341)
- Child Support Obligations (field ID QM.X342)
- Alimony Obligations (field ID QM.X343)
- Current Employment Status (field ID QM.X344)
- Current or Expected Income (field ID QM.X345)
- Current or Expected Assets (field ID QM.X346)
- Credit History (field ID QM.X347)
- Debt to Income Ratio (field ID QM.X348)
- Residual Income (field ID QM.X349)
**NOTE:** In order for these fields in the Agency/GSE QM column to be populated with a green check mark, the AUS Recommendation field (field ID 1544) must contain an Approve/Eligible, Accept/Eligible, Approve Eligible, or Accept Eligible recommendation (in addition to the corresponding check box on the Underwriter Summary being selected). This field is populated based on the findings returned from the loan’s underwriter or from an automated underwriting service such as Freddie Mac’s Loan Prospector (LP) risk assessment tool or Fannie Mae’s Desktop Underwriter (DU). Encompass also accepts one of the three manual underwriting methods as an alternative to AUS results.

### Safe Harbor Eligibility
A loan’s eligibility for QM Safe Harbor is based on the QM type, lien position, and APR and APOR values.

<table>
<thead>
<tr>
<th>Safe Harbor Eligibility</th>
<th>APR</th>
<th>General Ability-to-Repay</th>
<th>General Qualified Mortgage</th>
<th>Agency/GSE Qualified Mortgage</th>
<th>Small Creditor Qualified Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.227</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Encompass follows the guidance provided by the CFPB, and the applicable Agency, when determining QM Safe Harbor eligibility.

<table>
<thead>
<tr>
<th>Safe Harbor</th>
<th>First Lien</th>
<th>Second Lien</th>
</tr>
</thead>
<tbody>
<tr>
<td>General QM</td>
<td>APR &lt; 1.5% plus APOR</td>
<td>APR &lt; 3.5% plus APOR</td>
</tr>
<tr>
<td>General QM w/Price Based</td>
<td>QM APR &lt; 1.5% plus APOR</td>
<td>QM APR &lt; 3.5% plus APOR</td>
</tr>
<tr>
<td>Agency/GSE QM</td>
<td>APR &lt; 1.5% plus APOR</td>
<td>APR &lt; 3.5% plus APOR</td>
</tr>
<tr>
<td>Small Creditor QM</td>
<td>APR &lt; 3.5% plus APOR</td>
<td>APR &lt; 3.5% plus APOR</td>
</tr>
<tr>
<td>Agency/GSE Small Creditor Balloon QM</td>
<td>APR &lt; 3.5% plus APOR</td>
<td>APR &lt; 3.5% plus APOR</td>
</tr>
<tr>
<td>Small Creditor Rural Balloon QM</td>
<td>APR &lt; 3.5% plus APOR</td>
<td>APR &lt; 3.5% plus APOR</td>
</tr>
</tbody>
</table>
ATR/QM Exemption Eligibility
The Exemption Eligibility section provides lenders with an area to document why a transaction is exempt from Reg Z ATR requirements. Multiple exemption elections may be indicated here.

Non-Standard to Standard Refi Tab
Many consumers have adjustable rate, interest only or negative amortization loans that they may not be able to afford when the loan recasts. To give lenders more flexibility to help these homeowners refinance, the ATR/QM rule gives some lenders the option to refinance a current non-standard mortgage (which includes various types of mortgages that can lead to payment shock and can result in default) into a standard mortgage without having to meet the rule’s ATR requirements including considering the eight underwriting factors required for ATR.

NOTE: This non-standard to standard refinance option applies only to mortgages that the lender currently holds or services.
While this option only applies to mortgages the lender currently holds or services, the following conditions must be met in order for a loan to qualify for the Non-Standard to Standard Refinance exception to ATR requirements:

- Payments under the new Refinance loan will not cause the principal to increase (field ID QM.X6).
- Consumer uses the proceeds to pay off the original mortgage and for closing or settlement charges and the consumer is not receiving cash out at closing (field ID NTB.X30).
- The consumer’s monthly payment will materially decrease (field ID QM.X18)
- The consumer has no more than one 30-day late payment in the past 12 months and no late payments within the past six months (field IDs QM.X3 and QM.X4).
- The consumer’s written application is received no later than two months after the non-standard mortgage has recast (field ID QM.X5).
- The lender has considered whether the standard mortgage is likely to prevent the consumer from defaulting on the non-standard mortgage once the loan is recast (field IDs QM.X16 and QM.X22).

In addition to those eligibility conditions, there are additional guidelines the new standard mortgage must follow:

- The new mortgage cannot have deferred principal (field ID QM.X20), negative amortization (field ID NTB.X25), nor a balloon payment (field ID 1659).
- The points and fees must fall within the thresholds for QM (field ID QM.X21).
- The loan term cannot exceed 40 years (field ID 4).
- The interest rate must be fixed for at least the first five years of the loan (field ID QM.X17).

Based on the completion of the data in this eligibility assessment (and if the required conditions and guidelines have been met), you can document that the loan is eligible for the Non-Standard to Standard Refinance exception from Regulation Z Ability-to-Repay requirements.

**Non-Standard to Standard Refinance Disclosure**

Encompass provides a printed output form for the Non-Standard to Standard Refinance form. The data from the input form is printed to the output form and may be included in disclosure packages as needed.

**To Print the Non-Standard to Standard Refinance Disclosure:**

1. On the Non-Standard to Standard Refinance input form, click the Print icon.

2. The Non-Standard to Standard Refinance Eligibility form is listed in the Selected Forms list on the Print window. Click Print to print the form.

**Appendix Q**

Regulation Z Appendix Q provides lenders guidance on how to calculate a consumer’s back-end debt-to-income ratio for purposes of the General QM debt-to-income ratio threshold. Beginning with the Encompass 21.2 release, the Appendix Q tab has been removed from the ATR/QM Management tool, but is still available as a stand-alone input form to provides underwriters with an independent worksheet to document various types of qualifying income in a
manner consistent with Appendix Q. This worksheet is intended to give
underwriters the ability to assess income independently from what was submitted
by the consumer with their 1003 Loan Application.

### Income Analysis

**NOTE:** The income values entered in this section should match the
corresponding values entered on the 1003 Loan Application - Page 2. If
corresponding values differ between the two forms, the printed Ability-to-Repay
worksheet may render distorted ratios.

1. Click the **Import Income** button to import income values from the 1003 Loan
   Application - Page 2 into the Income Analysis section. (Available starting in
   Encompass 9.1.0.2.)

   OR

   Enter borrower and co-borrower gross monthly income information in the
   Monthly Employment Income section.

   • To open a calculator to determine the monthly base income, click the **Edit**
     icons for the Base fields.

   • To open a calculator to determine average monthly overtime, bonus, and
     commission income, click the **Edit** icon for the Overtime fields.

   • Enter the year, number of months (whole months only), and dollar amount for
     overtime, bonus, and commission income respectively.

   • To open a calculator to determine monthly dividend and interest income, click
     the **Edit** icon for the Div. / Interest fields.

   • For dividend income, enter the year, number of months (whole months
     only), and dollar amount for the dividend.

   • For interest income, enter the year, number of months (whole months
     only), and dollar amount for the interest.

   • To document self-employed income, enter the borrower’s gross monthly
     income in the first **Other** field (QM.X142).

   **NOTE:** When documenting self-employed income, it is recommended that the
   underwriter note a self-employed borrower or co-borrower in the Underwriter
   Comments (field ID 1216) on the Transmittal Summary.

   • In the second **Other** field (field ID QM.X150), enter the monthly borrower and
     co-borrower income not already recorded in the Monthly Employment
     Income section.

   • To open a calculator to determine the sum of other income (retirement,
     Social Security, tips, seasonal compensation, etc.), click the **Edit** icon for
     the second **Other** field.

2. Enter borrower and co-borrower income information related to military,
   government assistance, mortgage credits, and homeowner subsidies in the
   Non-Employment Income section.

   • To open a calculator to determine the sum of all military income, click the **Edit**
     icon for the Military fields.

3. Enter projected income information for the borrower and co-borrower in the
   Projected Income section.

4. Enter income information derived from non-taxable sources in the Non-
   Taxable Income section.

   • To calculate the sum of military allowances such as clothing, rations, and
     housing quarters, click the **Edit** icon for the Military Allowances fields.

### Debt/Obligation Analysis

1. Enter debts and obligations in the Recurring Obligations section. The first six
   records display in this section. Click the **Show All (VOL)** button to view a
   complete list of records on the Verification of Liabilities form and add, delete,
   and manage records and use the additional space provided to enter other
   obligations that may not be reflected in the credit report (alimony, job related
   expenses, etc.)

   • Liabilities are shown as they are reflected in the credit report and values are
     automatically populated when a credit report is imported into Encompass.
2 The Contingent Liabilities on Assumed Mortgages and Contingent Liabilities on Cosigned Obligations sections explain how these types of mortgages are assessed under ATR/QM. Use the fields provided to document the contingent liabilities that are exempt from consideration in the consumer’s General QM debt-to-income ratio.

NOTE: It is important to note that due to industry adoption of the 1003 Loan Application and FNMA 3.2. file format, the 1003 Loan Application continues to be the official source of income, debts, obligations, and mortgage payments being used to determine a consumer’s debt-to-income ratio. Encompass uses the DTI ratios calculated from those values, while the Appendix Q worksheet is leveraged to document an independent assessment of the income assessed by the underwriter.

Ability-to-Repay Printed Output Forms
Encompass provides the ability to print the data entered in the ATR/QM Management tool’s input forms to corresponding output forms (i.e., Ability-to-Repay worksheet (page 1 - 5)).

To Print the Ability-to-Repay Output Forms:
1 While viewing any form in the ATR/QM Management tool, click the Print icon.
2 The Ability-to-Repay forms are listed in the Selected Forms list (along with the Non-Standard to Standard Refinance Eligibility output form). Click Print to print the forms.

Access to ATR/QM Management Output Forms
To make the ATR/QM Management output forms available to users, administrators must grant user access to the forms. Access is granted to user groups. All users who are members of the authorized user group will have access to the documents.

To Give Access to ATR/QM Output Forms:
1 On the menu bar, click Encompass, and then click Settings.
2 On the left pane, click Company/User Setup, and then click User Groups.
3 Select a user group on the Create a Group panel.
4 Click the Resources tab.
5 Click the New icon next to the Standard Print Forms category.
6 On the Standard Print Forms window, select forms from the All Standard Print Forms list, and then click the right-arrow button to move the forms to the Selected Forms list.

7 Click OK to add the selections to the user group.

8 When finished, click the Save icon on the User Groups screen.
Chapter 5

Support for VA QM Loans

In May 2014, the VA issued the Qualified Mortgage Interim Final Rule to define the criteria for VA Qualified Mortgages and Safe Harbor loans. The rule, which is enforced for all loans taken on or after June 1, 2014, defines guidelines for loans that the VA considers Qualified Mortgages (QMs) for purposes of the new Ability-to-Repay (ATR) provisions of the Truth in Lending Act. It designates as Safe Harbor Qualified Mortgages all purchase money origination loans and refinances guaranteed or insured by the VA other than Interest Rate Reduction Refinance Loans (IRRRLs) that do not conclusively meet ATR requirements.

VA QM Requirements

VA IRRRLs that do not conclusively meet ATR requirements are not considered Safe Harbor loans, but are still considered QM loans with a Rebuttable Presumption status. Rebuttable Presumption QMs are presumed to meet the ATR requirements of the Dodd-Frank Act, but borrowers can potentially argue that the lender did not make a good faith determination of a reasonable ability to repay the loan.

Safe Harbor QM IRRRLs

A VA IRRRL is considered a Safe Harbor QM when:

• The prior loan was originated six months or more before the new loan’s closing date.
• The borrower is not more than 30 days past due during the previous 6 months.
• The recoupment period for all fees and charges financed as part of the loan or paid at closing does not exceed 36 months.
• The loan is exempt from 38 CFR 36.4307 income verification requirements or complies with other income verification requirements pursuant to 38 CFR 36.4340, as well as TILA (15 U.S.C. 1639C) and Reg Z.
• The borrower is not currently 30 days or more past due.
• The interest rate is reduced (unless refinancing from an ARM to a fixed loan).
• All other applicable VA IRRRL requirements are met.

Rebuttable Presumption QM IRRRLs

A VA IRRRL is considered a Rebuttable Presumption QM when:

• The loan is exempt from 38 CFR 36.4307 income verification requirements or complies with other income verification requirements pursuant to 38 CFR 36.4340, as well as TILA (15 U.S.C. 1639C) and Reg Z.
• All other applicable VA IRRRL requirements are met.
• The loan fails to meet one or more of the following requirements:
  • The loan being refinanced originated 6 months or more before the new loan’s closing date.
  • The borrower has not been more than 30 days past due during the past six months.
  • The borrower is not currently 30 days or more past due.
  • Recoupment period for all fees and charges financed as part of the loan or paid at closing does not exceed 36 months.

Encompass Support for VA QMs

Updates have been made to the Encompass to support the recent VA QM changes.

VA Loan Summary Form

An underwriting decision option must now be selected on the VA Loan Summary to ensure that the Qualified Mortgage Loan type is correctly populated on the ATR/QM Management tool.

To Select the Loan Type:
1. Open a loan file, click the Forms tab on the lower-left, and then click VA 26-0286 Loan Summary.
2. In the Income Information section, select an underwriting decision option on line 47a for loans taken on or after June 1, 2014.
3 If you select Yes for 47a, select additional options for 47b and 47c to describe the automated underwriting system and the risk classification results.

**Income Information**

| 47a. Loan processed under VA recognized automated underwriting system | Yes |
| 47b. Which system was used? | DU |
| 47c. Risk Classification | APPROVE |

**ATR/QM Management Tool**

The following updates have been made to the ATR/QM Management Tool to support VA QMs:

- On the **Qualification** tab, two check boxes have been added to indicate whether the borrower has been more than 30 days late on a payment in the last 6 months or is currently delinquent by 30 days or more.

- On the **ATR/QM Eligibility** tab, the VA QM Qualified Mortgage Loan Type selection is automatically populated when appropriate.

**NOTE:** A red flag does not display when there are issues with residual income, because residual income does not affect the VA QM results. Instead, a blue flag displays to indicate that a review is needed.

- And the logic behind the Is Loan Eligible for Safe Harbor? indicator has been updated to consider VA Safe Harbor QM requirements.
VA Management Tool
For IRRRLs (Interest Rate Reduction Refinance Loans), use the Recoupment section on the Qualification tab to compare the previous loan information with the proposed new loan information and to calculate the recoupment period for all allowable fees and charges financed as part of the loan or paid at closing.

To Complete the Recoupment Section:
1. For IRRRLs, in the Previous Loan Information section, enter the loan amount, loan term, interest rate, and existing loan date for the previous loan, and then select the Original Amortization Type for the previous loan.
   - The Proposed Loan Information section is populated with data from other input forms.

<table>
<thead>
<tr>
<th>Recoupment</th>
<th>Proposed Loan Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Loan Information</td>
<td>Proposed Loan Information</td>
</tr>
<tr>
<td>VA Loan Number (ULN)</td>
<td>VA Loan Number (ULN)</td>
</tr>
<tr>
<td>Original Loan Amount</td>
<td>285,000.00</td>
</tr>
<tr>
<td>Original Loan Terms</td>
<td>360</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>4.750</td>
</tr>
<tr>
<td>Original Amortization Type</td>
<td>ARM</td>
</tr>
<tr>
<td>Monthly Payment (PMI)</td>
<td>1,485.66</td>
</tr>
<tr>
<td>Total Monthly Payment (MTM)</td>
<td>1,293.25</td>
</tr>
<tr>
<td>Existing Loan Date</td>
<td>06/01/2004</td>
</tr>
<tr>
<td>Existing Loan First Payment Date</td>
<td>12/01/2025</td>
</tr>
</tbody>
</table>

2. In the Closing Costs Recoupment section, select the VA Loan code for the new loan, and then select or clear the check boxes to include or exclude fees in the recoupment calculation.

<table>
<thead>
<tr>
<th>Closing Cost Recoupment</th>
</tr>
</thead>
<tbody>
<tr>
<td>VA Loan Code</td>
</tr>
<tr>
<td>IRRRL (streamline Refi)</td>
</tr>
<tr>
<td>Include</td>
</tr>
<tr>
<td>A. origination charges</td>
</tr>
<tr>
<td>B. services borrower cannot shop for</td>
</tr>
<tr>
<td>VA Funding fee</td>
</tr>
<tr>
<td>all other non-shoppable</td>
</tr>
<tr>
<td>C. services borrower did shop for</td>
</tr>
<tr>
<td>E. taxes and other government fees</td>
</tr>
<tr>
<td>F. Prepaids</td>
</tr>
<tr>
<td>G. Initial Escrow Payment at Closing</td>
</tr>
<tr>
<td>H. Other</td>
</tr>
<tr>
<td>Lender Credits</td>
</tr>
</tbody>
</table>

- The remaining fields in the Opening Veteran Comparison Statement, Closing Veteran Comparison Statement, and Statutory Closing Cost Recoupment sections are calculated automatically.
- The Recoupment Months (field ID VASUMM.X130) in the Statutory Closing Cost Recoupment section is used to determine whether a VA IRRRL loan is classified as a Safe Harbor QM loan.
Chapter 6
Section 32 HOEPA and Section 35 HPML Input Form

The CFPB issued High-Cost Mortgage Amendments to the Truth in Lending Act (Regulation Z) effective January 10, 2014. The final rule amends section 1026.32 of Regulation Z (Truth in Lending) by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 (HOEPA), revising and expanding the tests for coverage under HOEPA, and imposing additional restrictions on mortgages that are covered by HOEPA, including restrictions on prepayment penalties.

Definition of a High-Cost Mortgage
Under HOEPA, a “High-Cost Mortgage” is a consumer credit transaction secured by a consumer's 1-4 unit principal dwelling, including purchase and non-purchase money closed-end credit transactions and HELOCs, in which

- The annual percentage rate (APR) exceeds the average prime offer rate (APOR) for a comparable transaction by more than:
  - 6.5 percentage points for first liens;
  - 8.5 percentage points for first liens less than $50,000 secured by a dwelling that is personal property (e.g., manufactured home); or
  - 8.5 percentage points for junior liens;
- The total points and fees exceed:
  - 5% of the total loan amount if the loan amount is $20,000 or more; or
  - The lesser of 8% of the total loan amount or $1,000 for a loan amount less than $20,000 (the $1,000 and $20,000 figures are adjusted annually);
- A prepayment penalty may be charged more than 36 months after consummation or account opening, or may exceed, in total, more than 2 percent of the amount prepaid.

Transactions eligible for HOEPA coverage include purchase-money loans and home-equity lines of credit (HELOCs). Transactions excluded from coverage include: reverse mortgage loans, loans to finance the initial construction of a dwelling, loans originated by a Housing Finance Agency (i.e., HFA is the creditor), and loans under USDA’s Section 502 Direct Loan Program.

For transactions not exempt from HOEPA coverage, Encompass applies the HOEPA coverage tests to determine if the transaction is a Federal High-Cost Mortgage. There are three separate HOEPA coverage tests based on:

- The transaction’s annual percentage rate (APR)
- The amount of points and fees paid in connection with the transaction
- The prepayment penalties you may charge under the loan or credit agreement

Section 32 HOEPA
In accordance with the rule, the Section 32 HOEPA input form provides the following sections to determine if a loan passes the HOEPA coverage tests. Note that if you have completed the Borrower Summary - Origination and the Good Faith Estimate, the borrower fields and the fees in sections 800, 1100, 1200, and 1300 will already be filled.

APOR Test Section
1. Enter the Application Date (field ID 3292), which is the date on which the creditor receives a written application (submission of a consumer’s financial information in anticipation of a credit decision). An application is received when it reaches the creditor. If it reaches the creditor through an intermediary agent or broker, the application is received when it reaches the creditor, not when it reaches the agent or broker.
2. In the Last Rate Set Date field, enter the date that the interest rate was last set or revised.
   - If a rate lock has been issued, this date is copied from the Secondary Lock Tool when the most recent lock request is locked and confirmed.
3. Click the Calculate HOEPA APR button to populate the HOEPA APR % field.
   - If the HOEPA APR (S32DICS.X177) exceeds the APOR (field ID 3134) by more than 6.500% for first lien loans, then The result of the HOEPA APOR Test: This loan [Does] (field S32DISC.X2) exceed the threshold will occur.
   - If the HOEPA APR (S32DICS.X177) exceeds the APOR (field ID 3134) by more than 8.500% for subordinate lien loans, The result of the HOEPA APOR Test: This loan [Does] (field S32DISC.X2) exceed the threshold will occur.
• If either of the above two conditions are not met, then The result of the HOEPA APOR Test: This loan [Does not] (field S32DISC.X2) exceed the threshold will occur.

NOTE: Any time an Encompass Compliance Service (ECS) review or preview is run, the APOR value (field ID 3134) is updated based on the ECS calculation.

4 To determine the applicable rate threshold, click the View Rate button to view Average Prime Offer Rates tables provided by the FFIEC (Federal Financial Institutions Examination Council) and then enter the applicable average prime offer rate.

• Any time an Encompass Compliance Service (ECS) review or preview is run, the APOR value is updated based on the ECS calculation. This APOR value is not recalculated when a loan team member clicks the Lock and Confirm button on the Secondary Registration tool to lock the loan rate and confirm the lock with the lock requestor.

5 In the two fields related to the comparison of the HOEPA APR to the APOR, type 6.5 in the first field if this is a first mortgage or type 8.5 in the second field if this is a subordinate mortgage.

Points and Fees Test Section
This section determines if the current loan does or does not exceed the Points and Fees threshold. For a loan amount of $20,000 or more total points and fees cannot exceed 5% of the total loan amount; for loan amounts less than $20,000 the total points and fees cannot exceed the lesser of 8% of the total loan amount or $1,000; the $1,000 and $20,000 dollar amounts used in this test may be adjusted each year, effective January 1.
Chapter 6: Section 32 HOEPA and Section 35 HPML Input Form

Sections 800, 1100, 1200, and 1300
The fields in this section are populated based on the data entered on the 2010 GFE form and the 2015 Itemization form. For each fee:

- Select who, if anyone, will receive a portion of the fee from the Paid to drop-down list. These fees are used to calculate the Total points and fees applicable under section 32 (the total of fees that are designated as being paid to a lender, broker, affiliate, etc.).

  NOTE: The drop-down options are: B (Broker), L (Lender), S (Seller), I (Investor), A (Affiliate), and O (Other). The system treats “Other” as a third party provider, unaffiliated with the lender or the broker.

- For line 801, the Truth In Lending requirements that went into effect on April 1, 2011 prohibit any person other than the borrower from paying compensation to a loan originator in a transaction where the borrower pays the originator directly. If your administrator has configured the LO Compensation Rule to govern a fee being paid to a broker in line 801, a green LO Compensation icon displays next to the fee line. The LO Compensation Violation message may display any time fees are set to be paid to the broker by both the borrower and someone else other than the borrower. For detailed information, refer to the Managing Loan Originator Compensation white paper.

  • For section 1200, charges are always paid to O (Other).

Section 35 HPML
Use the Section 35 HPML form to determine whether a loan exceeds the threshold for Section 35 Higher-Priced Mortgage Loans. The fields in the top section of the form should already be completed based on entries in other forms, but you can change the dates or select a new loan program as needed.

  NOTE: The Section 35 HPML Threshold test is different than the Section 43 Higher-Priced Covered Transaction (HPCT) Threshold Test. Refer to Chapter 4, “Using Encompass to Document Compliance with HOEPA and Ability-to-Repay” for additional information on HPCT requirements.

To Determine Whether the Loan Exceeds the Section 35 HPML Threshold:

1. If not already entered, enter the Application Date.
2. Click the View Rate button.
3. When the NEW FFIEC Rate Spread Calculator window opens, click one of the links in the Average Prime Offer Rates Tables section to open a spreadsheet for fixed or adjustable rates.
4. The top row in the spreadsheet lists the Term of Loan. Locate the column that contains the Term of Loan for your loan.

Section 32 Qualification Section

The This loan [does/does not] (field ID S32DISC.X51) qualify as a High Cost Mortgage under HOEPA/Section 32 indicator is provided to show if loan exceeds any of the three Section 32 Qualification tests.
The left column lists dates. Locate the row with the date that matches (or directly precedes) the Rate Lock Date for your loan.

- The APOR is the value where the applicable loan term and rate set date intersect. **Example:** For a fixed loan with a term of 7 years and a Rate Lock Date of 1/4/2000, the average Prime offer Rate is 7.47.

Back on the Section 35 HPML form, enter the rate in the **Enter the Average Prime Offer Rate...** field (field ID 3134).

- Encompass will calculate the result and determine whether the loan does or does not exceed the threshold.

Use the HPML Appraisal Requirements section to determine if a second appraisal is required for the loan according to Dodd-Frank Act requirements (effective January 18, 2014).

- **Second Appraisal Required** - This field is calculated to meet the requirements set forth in the Consumer Financial Protection Bureau’s (CFPB) final rule to amend Regulation Z jointly with the Federal Reserve Board, FDIC, FHFA, NCUA, and OCC and implement a new provision requiring appraisals for “higher-risk mortgages” that was added to TILA by the Dodd-Frank Act. This final rule is effective starting January 18, 2014.

  - If the current Sales Price (field ID 136) exceeds the Prior Acquisition Price (field ID 3854) by more than 10% AND the Prior Acquisition Date (field ID 3853) is 90 days or less than the Sales Contract Date (field ID 3855), the loan DOES require a second appraisal.

  - If the current Sales Price (136) exceeds the Prior Acquisition Price by more than 20% AND the Prior Acquisition Date is 91-180 days or less than the Sales Contract Date (field ID 3855), the loan DOES require a second appraisal.

  - If the above conditions are not met or if the Sales Contract Date (field ID 3855) occurs before the Prior Acquisition Date (field ID 3853), the loan DOES NOT require a second appraisal.
Chapter 7

Working with Points and Fees

This Appendix discusses how to use the Paid by and Paid to indicators on the 2015 Itemization, how to document finance charges, mortgage insurance premiums, and other fees on the 2015 Itemization, how to indicate bona fide discount points, and the impact of these points and fees on ATR assessments.

2015 Itemization Form
As you complete the 2015 Itemization form, the entries are copied to the GFE or used to calculate aggregate amounts on the GFE. A letter or number displays to the right of the entry field in the GFE (Section #) column on the Itemization form for each entry that is copied to the GFE. This number indicates the block or section number where the entry displays on the GFE.

700 Section
The information in the 700 sections is not disclosed on the GFE, and the 700 section is typically not completed prior to disclosure.

800 Section
The 800 section lists origination and processing charges, origination credits, and origination points.

Using Paid by and Paid to Indicators
- Type the costs and fees assigned to the borrower, seller, or other parties.
- All fees should indicate who they are being paid to using the Paid to column:
  - B (Broker), L (Lender), S (Seller), I (Investor), A (Affiliate), O (Other unaffiliated provider)
- Prepaid Interest must be paid by the lender (i.e., Paid to = L) to be excluded from the Section 32 Points and Fees calculation.
- FHA Up Front MIP is paid to the US Dept of HUD (i.e., Paid To = O (Other))
- VA Funding Fee is paid to the Dept of Veteran's Affairs (i.e., Paid To = O (Other))
- USDA/RHS Upfront Guarantee Fee is paid to the USDA (i.e., Paid To = O (Other))
- Make sure all fees paid to affiliates are marked as Paid to A (Affiliate). This includes both lender and broker affiliates.

- Fees that are paid to two or more parties should be split and put on different lines with their own Paid to description whenever possible. For example, separating an appraisal fee from an appraisal management admin fee.
- If your administrator has created predefined descriptions for miscellaneous closing costs, select a description from the drop-down list. If your administrator has granted you permission, you can also type a description in the space provided.
- For calculated fields, the value is placed in the Borrower field. If you type a value in the associated Seller field, that amount is deducted from the Borrower value.
- If the Address Book icon displays next to a field, click the icon to select the provider's name from your business contacts. Or type the name in the field and, optionally, right-click to add a new contact to your business contacts.
- Use the Edit icons to open a calculator to determine the associated field value.

NOTE: Starting in Encompass 9.1.0.2, there are additional fields to identify the amount of Title Premiums being retained by an affiliate for Owner's Title Insurance and Lender's Title Insurance. Prior to Encompass 9.1.0.2, indicating either of these as Paid to = A (Affiliate) included the entire amount in the portions of the Owner's Title Insurance paid by the borrower (field ID NEWHUD.X572) and the portions of the Lender's Title Insurance paid by the borrower (field ID NEWHUD.X639) fields in Section 32 Total Points and Fees.) This enhancement allows more visibility into what portion of the fee is paid to an affiliate and/or paid to Other.

Cost and Fee Designations Section
When you record costs and fees:
- Type the amount of the fee in the Borrower or Seller columns (or both).
- Select one or more check boxes as appropriate in sections 800 through 1300.
  - P (Paid outside closing/Paid through closing) - Use the 2015 Itemization to record a non-seller-paid fee as paid outside closing (POC) or paid through closing (PTC). By default, the borrower pays the fee, unless a different payer is selected in the Paid To column. To Enter POC/PTC Fees, select the P check box. A pop-up window allows users to indicate how much of the fee is being paid POC or PTC. The pop-up includes the information below:
    - POC - The portion of the fee to be paid outside closing and the payer.
    - PTC - The portion of the fee to be paid through closing and the payer.
    - Borrower to Pay – The portion of the fee to be paid by the borrower, if any.
• Total – The total non-seller-paid fee.
• APR – The fee is a finance charge and included in the APR calculation.

NOTE: By default, for a broker-originated loan, fees paid by the borrower, broker, or other third-parties are included in the loan’s current APR (field ID 799). For a broker-originated loan that is table funded, select the Table Funded Transactions check box (field ID NEWHUD.X1068) at the top of the 2015 Itemization form to exclude the broker-paid prepaid finance charge fees marked as PTC from the APR.

• Financed – The fee is financed as part of the loan.

NOTE REGARDING ENCOMPASS COMPLIANCE SERVICE: Many high cost and state consumer credit rules take into account whether or not each loan fee is “financed”. Use the POC/PTC pop-up window to indicate whether the fee is financed to ensure accurate treatment by Encompass Compliance Service (ECS). To indicate the fee or a portion of the fee is “financed”, select the Financed check box. “Financed” means the amount is paid from the loan proceeds; it is not paid outside of closing or paid separately in cash or by check at closing. For example, if a $385 Processing Fee is paid by Borrower, a user would select the Financed check box in order for ECS to know the Borrower did not pay the amount outside of closing (POC) and did not bring cash to close (PTC/PAC) in order to pay this amount.

B (Borrower select) - The borrower will locate a provider for this service.
A (APR fees) - Borrower costs that are used to calculate the APR.
• Use the Paid by column in sections 800 through 1300 to indicate who pays the fee: Broker (B), Lender (L), Other (O), Seller (S), or Investor (I).
• Use the Paid to column in sections 800 through 1300 to indicate to whom the fee will be paid.

B (Broker) - The fee is paid to the broker. The value is placed in the Paid To Broker column on the MLDS.
L (Lender) - The fee is paid to the lender.
O (Other) - The fee is paid to someone other than the broker, lender, seller or investor. The value is placed in the Paid To Others column on the MLDS.
S (Seller) - The fee is paid to the seller. The value is placed in the From GFE Seller column on the MLDS.
I (Investor) - The fee is paid to the investor.

NOTE: For any fee entered in sections 700 through 1300, you must select a Paid to option to indicate to whom the fee is being paid. This includes any prepaid interest payments.

Line 801
Line 801 contains the processing and administrative charges. In this example, the screen shows a loan issued by a broker.

- The total amount listed on the Our Origination Charge line will print on the GFE output form.
- Select the Itemize fees when print check box to print the itemized 801 fees on the Itemization of Amount Financed and Addendum to HUD Settlement Statement output forms.
- If there are not enough lines to list all your fees, you can combine multiple fees on a single line.

Line 802
Use the line 802 section to calculate origination credits or points. Select the Specify the Adjusted Origination Charge Details check box and then click the Manage Details button to open the Manage Adjusted Origination Charge Details tool, which allows you to disclose lender-paid loan originator compensation to brokers while staying compliant with both RESPA and Truth in Lending regulations.

NOTE: When you select the check box, any content in the 802 section of the 2015 Itemization is cleared and most of the fields, check boxes, and drop-down lists on the 802 section will be disabled or will no longer display on the 2015 Itemization. You will be able to select these options in the Manage Adjusted Origination Charge Details tool. If you clear the check box, any content entered in the Manage Adjusted Origination Charge Details tool is cleared.

To Use the Tool:
1. Select the Specify the Adjusted Origination Charge Details check box, and then click the Manage Details button.
2 Use the Lender Paid Originator Compensation section to enter credits.
   • Enter the percentage and amount (if needed) of Lender Compensation Credit to the broker in line a.
   • Enter the percentage and amount (if needed) of any Origination Credit for the interest rate chosen to be paid by the lender in line b.
   • Enter a description and amount for any user-defined credits in lines c and d.

3 Use the Origination/Discount Points Adjustments section to enter charges.
   • Enter the Origination points on line e. Use the Seller column to enter the seller paid portion as needed.
   
   **NOTE:** Note: Seller fees are copied to line 802 (field NEWHUD.X788), but are not included in line 803 (field NEWHUD.X801) or 1400 (field NEWHUD.X278).
   • Use the P and A check boxes to indicate whether fees are Paid Outside Closing or APR fees.
   • Enter a description and amount for user-defined adjustments in lines f, g, and h.

4 Select the recipient and payer for each fee in the **Paid by** and **Paid to** columns.
   
   **NOTE:** In line a, the **Paid by** column is always paid by the Lender and the **Paid to** column is always paid to the broker.

When you finish entering credits and charges, the total credits display in the Total Credit for Rate Chosen field (NEWHUD.X1149) and the total charges display in the Total Charge for Rate Chosen field (NEWHUD.X1165). The smaller number is subtracted from the larger number to determine the final credit or charge, which displays in the Total Origination Credit/Charge field (NEWHUD.X1191).

**Finance Charges**

A fee, item or charge is a finance charge if it is payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit. It does not include any fee or charge payable in a comparable cash transaction. Examples include, but are not limited to, fees such as: points (including seller's points), loan origination fee, loan fees, assumption fees, finder's fees, mortgage insurance premiums, funding fees, guarantee fees, credit insurance premiums, processing fees, and similar charges. A fee that is a finance charge is included in the calculation of the Regulation Z APR.

**Finance Charge Exception**

A fee, item or charge is not a finance charge if it is payable in a comparable cash transaction. For example, taxes paid by both cash and credit customers are not finance charges. Other types of real-estate related fees that may be excluded from the finance charge if bona fide and reasonable in amount include: (1) fees for title examination, abstract of title, title insurance, property survey, and similar purposes; (2) fees for preparing loan-related documents, such as deeds, mortgages, and reconveyance or settlement documents; (3) notary and credit-report fees; (4) property appraisal fees or fees for inspections to assess the value or condition of the property if the service is performed prior to closing, including fees related to pest-infestation or flood hazard determinations; and (5) amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the finance charge.
Chapter 7: Working with Points and Fees

900 Section
The 900 section includes fees for future services paid at closing, for example, mortgage insurance for the upcoming year. Under 2010 RESPA regulations, lines 902 and 905 are subject to tolerance limits for fees that cannot increase more than 10% after the GFE has been disclosed.

If the borrower has the option of selecting a provider for a service, a check box displays in the B (Borrower Select) column. If you select the check box to indicate that the borrower will select a provider, the fee is not subject to the tolerance limits for fees that cannot in total increase more than 10% after the GFE is disclosed.

NOTE: A future release of Encompass will provide additional Paid to indicators for Impounds (900 series).

Private Mortgage Insurance Premiums
Private mortgage insurance (PMI) protects the lender if the borrower stops making payments on a conventional loan. PMI premiums are included in the finance charge.

1000 Section
The 1000 section lists the funds to be deposited in an escrow account established by the lender.

1100 Section
The 1100 section includes fees that the lender collects when the loan closes and then distributes to outside service providers. The fees in the 1100 section are subject to the tolerance limits for fees that cannot increase more than 10% after the GFE is disclosed. It is important to communicate with your vendors to ensure that the fees you are entering are up-to-date and accurate before disclosing the GFE. If there are not enough lines to enter all the fees, you can combine multiple fees on one line, as shown on line 1100 in the following example.

If the borrower has the option of selecting a provider for a service, a check box displays in the B (Borrower Select) column. If you select the check box to indicate that the borrower will select a provider, the fee is not subject to the tolerance limits for fees that cannot in total increase more than 10% after the GFE is disclosed.
For line 1101, select the **Itemize Fees When Print** check box to print the itemized 1101 fees on the Itemization of Amount Financed and Addendum to HUD Settlement Statement output forms.

### 1100 Section

The 1100 section includes fees and taxes collected by the lender and the borrower. These fees and taxes are subject to tolerance limits.

<table>
<thead>
<tr>
<th>Fee Description</th>
<th>Amount</th>
<th>Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title Search</strong></td>
<td>200.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Lender's Title Insurance</strong></td>
<td>100.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Settlement and Closing Fee</strong></td>
<td>100.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Owner's Title Insurance</strong></td>
<td>100.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Select the check box in the **Itemize Fees When Print** column to print the itemized fees on the Itemization of Amount Financed and Addendum to HUD Settlement Statement output forms.

### 1200 Section

The 1200 section displays fees collected by the lender when the loan closes, which are then distributed to local and state agencies.

- Line 1201 includes the total of line 1202 and 1206, and is subject to tolerance limits for fees that cannot in total increase more than 10% after the GFE is disclosed.
- Line 1203 displays transfer taxes, which cannot increase at all after the GFE has been disclosed.

### 1300 Section

The 1300 section includes charges and other miscellaneous fees not already recorded in sections 800 through 1200. The total for all fees in this section are listed on line 1301 and are subject to tolerance limits for fees that cannot in total increase more than 10% after the GFE is disclosed.

Select the check box in the **B (Borrower Select)** column to indicate that the borrower will select a provider for any of the services in the 1300 section. If the borrower opts to select a provider, the fee is not included in line 1301 and is not subject to the tolerance limits.

### 1400 Section

The 1400 section includes the total of all the estimated settlement charges for the borrower and seller.

### When are Fees Included or Not Included in the Section 32 Points and Fees Calculation?

For loans with an Application Date (field ID 745) on or after January 10, 2014, fees that are included in the Total Points and Fees under section 32 calculation are:

<table>
<thead>
<tr>
<th>Points and Fees</th>
<th>Discount Points</th>
<th>Fee Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1231.00 Total Recording and Transfer Charges</td>
<td>60.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1231.10 Recording Fees</td>
<td>50.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1231.20 Transfer Taxes</td>
<td>100.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1231.30 City/County/State Fees</td>
<td>150.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1231.40 State Fees</td>
<td>200.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

* Will be added to 1301 Total Recording Charges.
** Will be added to 1301 Transfer Taxes on GFE and HUD-1 Page 3.

For loans with an Application Date (field ID 745) on or after January 10, 2014, fees that are included in the Total Points and Fees under section 32 calculation are:

<table>
<thead>
<tr>
<th>Points and Fees</th>
<th>Discount Points</th>
<th>Fee Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reg 2 Total Loan Amount</td>
<td>198,778.08</td>
<td>(Amount Financed - points &amp; fees included in loan amount)</td>
</tr>
<tr>
<td>Current Qualified Mortgage Fee Threshold</td>
<td>$5,873.34</td>
<td>3.05%</td>
</tr>
<tr>
<td>Total points and fees applicable under section 32</td>
<td>$7,575.00</td>
<td>3.86%</td>
</tr>
</tbody>
</table>

The result of Points & Fees Test. This loan does not exceed the threshold for Qualified Mortgages.
• **2015 Itemization fields:**
  - For the 800, 1100, 1200 and 1300 series of fields on these forms, except as noted, any Borrower column fee field where the **Paid to** field is left blank or if the **Paid to** is B (broker), L (lender) or A (affiliate).
  - Line 902 Conventional Non-Refundable Up Front MI - Total amount of financed Up Front Mortgage Insurance (field ID 1826) when the **Refund prorated unearned Up Front** check box (field ID 3262) is not selected.
  - Line 902 Conventional Refundable Upfront MI (assumes refundable on a pro rata basis) - When the **Refund prorated unearned Up Front** check box (field ID 3262) is selected, the amount of financed Up Front MI that exceeds the comparable FHA UFMIP as determined by deducting 1.75 from the value of the Up Front MI percentage (field 1107, if 1107 is greater than 1.75%) and multiplying the difference against the base loan amount (field 1109).

• The Prepayment Penalty Payoff amount (field ID NTB.X16) is included when:
  - The **Yes** check box (field ID QM.X2) is selected for the Refinance with Original Creditor option on the ATR/QM Management tool’s Non-Standard to Standard Refi input form.
  - OR
  - The Purpose of Refinance (field ID 299) is either Cash-Out with Original Lender or No Cash-Out with Original Lender.
  - OR
  - The Existing Loan Description (field ID NTB.X34) is not blank.
  - The Max Prepayment Penalty amount (RE88395.X315) is included.

• **Discount Points:**
  - The amount entered in the Paid by **Borrower** field (field ID NEWHUD.X1151) on the Manage Adjusted Origination Charge Details quick entry form is included if:
    - The Bona Fide check box (field ID NEWHUD.X1067 available in the Manage Adjusted Origination Charge Details quick entry pop-up window, ATR/QM Management tool’s Qualification form, and other input forms) is not selected.
    - **AND**
    - The **Specify the Adjusted Origination Charge Details** check box (field ID NEWHUD.X1139) is selected.
  - The amount entered in the **You pay a charge of** field (field ID NEWHUD.X1151) located on line 802 on the 2015 Itemization is included if:
    - The Bona Fide check box (field ID NEWHUD.X1067) is not selected.
    - **AND**
    - The Specify the Adjusted Origination Charge Details check box (field ID NEWHUD.X1139) is not selected.

For loans with an Application Date (field ID 745) on or after January 10, 2014, fees that are **excluded** in the Total Points and Fees under section 32 calculation are:

• **2015 Itemization fields:**
  - For the 800, 1100, 1200 and 1300 series of fields on these forms, except as noted, any Borrower column fee field where the **Paid to** field is S (seller), I (investor) or O (other).
  - Line 819 (USDA Annual Fee) is excluded on a USDA loan if the Paid by **Borrower** field (field ID NEWHUD.X1301) for line 819 is unlocked.
  - 900 series of fields: Except as noted, any Borrower column fee field where the **Paid to** field is left blank, is S (Seller), I (Investor) or O (Other).
  - Line 901 Daily Interest Charges (field ID 334) is excluded from both Encompass and ECS when the **Paid to** (field ID SYS.X304) is L (Lender).
  - Line 902 Mortgage Insurance Premium - When the **Refund prorated unearned Up Front** check box (field ID 3262) is selected, the amount of financed Up Front MI that is equal to or less than the comparable FHA UFMIP as determined by deducting 1.75 from the value of the Up Front MI percentage (field 1107, if 1107 is less than or equal to 1.75%) and multiplying the difference against the base loan amount (field ID 1109) is excluded.
  - Line 902 USDA Annual Fee is excluded on a USDA loan if the Paid by **Borrower** field NEWHUD.X1301 is locked.
  - Line 905 VA Funding Fee is excluded.
  - 1000 Series: All are currently excluded

**NOTE:** The Encompass 9.1.0.2 release added the ability for Encompass to support including impounds of insurance premiums paid to affiliates in the points and fees calculation.

• **Bona Fide Discount Points** - The following conditions are used to determine if either up to 1% or 2% in discount points may be excluded as bona fide discount points:
  - The Bona Fide check box (field NEWHUD.X1067) is selected.
  - The **Specify the Adjusted Origination Charge Details** check box (field ID NEWHUD.X1139) is selected or not:
    - The Note Rate (field ID 3) is less than the Undiscounted Rate (field ID 3293).
    - If the Undiscounted Rate (field ID 3293) is less than or equal to the APOR+2% the lesser of NEWHUD.X511/NEWHUD.X15 or 1% of Total Loan Amount is excluded depending on whether **Specify the Adjusted Origination Charge Details** check box (NEWHUD.X1139) is selected or not.
• If the Undiscounted Rate (field ID 3293) is less than or equal to the APOR+1% the lesser of NEWHUD.X511/NEWHUD.X15 or 2% of Total Loan Amount is excluded depending on whether Specify the Adjusted Origination Charge Details check box (field ID NEWHUD.X1139) is selected or not.

Bona Fide Discount Point Assessment

In accordance with the Section 32 total points and fees calculation for determining whether a loan is a Federal High-Cost Mortgage or a Qualified Mortgage, Encompass will exclude up to two bona fide discount points if specific conditions are met. The Bona Fide Discount Point Assessment quick entry window accessible from the ATR/QM Management tool’s Qualification form is intended to help you document whether or not discount points can be excluded from Section 32 Points & Fees by meeting the standards used to determine whether or not the discount points are bona fide.

Under §1026.32(b)(3)(i) of the Truth in Lending Act (Regulation Z) for closed-end credit, the term bona fide discount point means an amount equal to 1% of the loan amount paid by the consumer that reduces the interest rate or time-price differential applicable to the transaction based on a calculation that is consistent with established industry practices for determining the amount of reduction in the interest rate or time-price differential appropriate for the amount of discount points paid by the consumer.

Assessing whether or not Discount Points can be excluded from the Total Points and Fees under Section 32 requires multiple pieces of information to be available in order to determine whether or not the points being charged meet the definition of “bona fide”. Prerequisites include:

• Lender must indicate they intend to treat discount points as bona fide by selecting the Bona Fide check box (field ID NEWHUD.X1067) on either the Manage Adjusted Origination Charge Details quick entry form (accessed by clicking the Manage Details button on the 2015 Itemization form) or directly on the 2015 Itemization form.

• There must be a discounted rate entered in the Note Rate field (field ID 3).

AND

Discount points associated with the note rate must be entered in the Paid by Borrower field (field ID NEWHUD.X1151) on the Manage Adjusted Origination Charge Details quick entry form (if the Specify the Adjusted Origination Charge Details check box (field ID NEWHUD.X1139) is selected on the 2015 Itemization form).

OR

Discount points associated with the Note Rate must be entered in the You pay a charge of field (field ID NEWHUD.X15) on the 2015 Itemization form (if the Specify the Adjusted Origination Charge Details check box (field ID NEWHUD.X1139) is not selected).

Note, discount points must be higher than the starting adjusted rate points entered in the Starting Adjusted Rate field (field ID NEWHUD.X1720) on the Bona Fide Discount Point Assessment quick entry window.
• On the Bona Fide Discount Point Assessment quick entry window, a value must be entered in either the Undiscounted Rate field (field ID 3293) or the Starting Adjusted Rate field (field ID NEWHUD.X1720) or both. Note that the Note Rate must be lower than both the Starting Adjusted Rate and Undiscounted Rate values.

**NOTE:** Both the Undiscounted Rate and the Starting Adjusted Rate must be a rate available to the consumer based on their particular profile and loan characteristics. They must include all Loan Level Pricing Adjustors (LLPAs) and other specific adjustments applicable to that consumer.

• On the Bona Fide Discount Point Assessment quick entry window, a value must be entered in the Average Prime Offer Rate field (field ID 3134).

**NOTE:** Refer to Appendix B, “Bona Fide Discount Point Assessment Quick Entry Field Definitions”, for more information about the fields in the Bona Fide Discount Point Assessment quick entry window including how these fields are calculated, and what other fields in Encompass are included in the calculations.

### Bona Fide Discount Point Assessment Tests

Once all of this prerequisite data is available in the loan file, Encompass runs a series of tests to determine the total amount of discount points that can be defined as “bona fide” discount points.

#### Test 1 - APOR Test

- Up to two bona fide discount points may be excluded from total points and fees if the Undiscounted Rate (field ID 3293) does not exceed the APOR (field ID 3134) by more than one percentage point.
- Up to one bona fide discount point may be excluded from total points and fees if the Undiscounted Rate (field ID 3293) does not exceed the APOR (field ID 3134) by more than two percentage points.

#### Test 2 - Reduction in Rate Basis Test

Encompass compares the difference between the Starting Adjusted Rate (field ID NEWHUD.X1720) and the Note Rate (field 3) and will return a calculated value based on the points percentage entered in the Rate Reduction Basis field (field ID QM.X365) and the discount points percentage entered in the Rate Reduction Basis field (field ID QM.X366).

**NOTE:** The calculation will deduct the amount of points included in the Starting Adjusted Rate from the discount points and make a comparison against the difference.

#### Test 3 - Starting Adjusted Rate Basis Test

Encompass deducts the amount of points associated with the Starting Adjusted Rate (field ID NEWHUD.X1721) from discount points entered in the Origination Points percentage field (field ID NEWHUD.X1150 on the Manage Adjusted Origination Charge Details quick entry window) if the Specify the Adjusted Origination Charge Details check box (field ID NEWHUD.X1139) on the 2015 Itemization form is selected.

**OR**

Encompass deducts the amount of points associated with the Starting Adjusted Rate (field ID NEWHUD.X1721) from discount points entered in the Origination Points percentage field (field ID 1061) on the 2015 Itemization form if the Specify the Adjusted Origination Charge Details check box (field ID NEWHUD.X1139) is not selected.

Once the three tests are performed, the lowest value derived from the three tests is identified as being eligible as bona fide for purposes of being excluded from the Section 32 Points & Fees calculation.

**NOTE:** The Bona Fide Discount Point Assessment quick entry window is for informational purposes only and does not impact the calculation for the **Total points and fees applicable under section 32** (field ID S32DISC.X48) on the ATR/QM Management tool’s Qualification form or the Encompass Compliance Service results. The Encompass 9.1.0.2 release modified the calculation for **Total points and fees applicable under Section 32** (field ID S32DISC.X48) to exclude only those points determined to be bona fide using the Bona Fide Discount Point Assessment quick entry window.

### To Manage Bona Fide Discount Points:

- On the ATR/QM Management tool’s Qualification tab, click the **Discount Points** button.
• The Bona Fide Discount Point Assessment Quick Entry window displays.

• Information provided in this window includes the Note Rate and Associated Discount Points being paid by the consumer, the Starting Adjusted Rate and Discount Points associated with the Starting Adjusted Rate, the Undiscounted Rate, Average Prime Offer Rate (APOR), and the Rate Reduction Basis used to document that the meaningful reductions in rate was calculated in a manner consistent with established industry practices.

• These values are used to determine the amount of discount points that can be deemed bona fide based on:
  • The amount of discount points that can be excluded based on the difference between the Starting Adjusted Rate and the APOR
  • The amount of discount points that can be excluded based on a meaningful reduction in rate (Rate Reduction Basis)
  • The amount of discount points that can be excluded based on points that exceed the points associated with the Starting Adjusted Rate
  • Based on the results of all three assessments, a final value of discount points eligible to be considered bona fide is returned.

NOTE: Refer to Appendix B, “Bona Fide Discount Point Assessment Quick Entry Field Definitions”, for more information about the fields in the Bona Fide Discount Point Assessment quick entry window including how these fields are calculated, and what other fields in Encompass are included in the calculations.

Bona Fide Discount Point Assessment Examples
Here are two scenarios to help demonstrate how Encompass designates discount points as bona fide for purposes of exclusion from the Section 32 Points & Fees calculation.

Scenario 1
Discounting a rate from par (Starting Adjusted Rate and Undiscounted Rate are equal).

Test 1 - APOR Test
In this scenario, the Undiscounted Rate of 4.125% does not exceed the APOR of 4.000 by more than 1%. As a result, up to two discount points can be treated as bona fide under this test.

Threshold: 4% + 1% = 5% and 4.125% is less than 5%

Test 2 - Reduction in Rate Basis Test
This scenario uses a Rate Reduction Basis of .25% (field ID QM.X365) for every 1.00% in charges (field ID QM.X366). The borrower is being charged 1% to reduce the rate from 4.125% to 3.875%. As a result, the 1% charge reduced the rate by .25%. Therefore up to 1% can be treated as bona fide under this test.

Calculation: 4.215% - 3.875% = .25% and .25% divided by .25% = 1%

Test 3 - Starting Adjusted Rate Basis Test
This scenario does not use any points associated with the Starting Adjusted Rate (field ID NEWHUD.X1721). Therefore, the entire amount of discount points can be treated as bona fide under this test.

Final Test Results
Based on the results of all three tests, 1% can be treated as a bona fide discount point. This is because 1% was the lowest discount point value returned from the three tests (Test 2 and Test 3).
Scenario 2
Discounting a rate from Starting Adjusted Rate.

Test 1 - APOR Test
In this scenario, the Undiscounted Rate of 4.999% does not exceed the APOR of 3.000 by more than 2%. As a result, up to one discount point can be treated as bona fide under this test.
Threshold: 3% + 2% = 5% and 4.999% is less than 5%

Test 2 - Reduction in Rate Basis Test
This scenario uses a Rate Reduction Basis of .25% (field ID QM.X365) for every 1.00% in charges (field ID QM.366). The borrower is being charged 2% to reduce the rate from 4.375% to 3.875%. As a result, the 2% charge reduced the rate by .50%. Therefore up to 2% can be treated as bona fide under this test.
Calculation: 4.375% - 3.875% = .5% and .5% divided by .25% = 2%

Test 3 - Starting Adjusted Rate Basis Test
This scenario uses .125% in points associated with the Starting Adjusted Rate (field ID NEWHUD.X1721). This test deducts the points associated with the Starting Adjusted Rate (in this scenario: .125%) from the discount points entered in the Note Rate/Discount Points field (field ID NEWHUD.X1150; in this scenario: 2.125%) and populates the difference between these percentages to the Discount Points that can be excluded based on the Starting Adjusted Rate field (field ID QM.X368) which in this scenario is 2.000%.

Final Test Results
Based on the results of all three tests, 1% can be treated as a bona fide discount point. This is because 1% was the lowest discount point value returned from the three tests (Test 1).

Additional Factors Impacting ATR Eligibility
These factors must also be assessed by the underwriter (or other loan team member) and their impact on ATR or compliance QM eligibility must be considered.

Things to remember:
- Note Rate / Discount Points fields: The Note Rate (field 3) can be entered manually or is automatically populated with the rate entered on the 2010 GFE or other input form. The associated Discount Points field (field ID NEWHUD.X1150) is a calculated field and is populated based on the points entered in the Origination Points field (NEWHUD.X1150) on the Manage Adjusted Origination Charge Details quick entry window (accessed by clicking the Manage Details button on the 2015 Itemization form if the Specify the Adjusted Origination Charge Details check box (field ID NEWHUD.X1139) is selected) or when loan program data is imported into the loan file after running a pricing search via Encompass Product and Pricing Service (EPPS).
- The Starting Adjusted Rate is a rate available to the consumer based on the consumer’s particular profile and loan characteristics. It is assumed it includes all Loan Level Pricing Adjustors (LLPAs) and other specific adjustments applicable to that consumer. The points associated with this rate are not eligible for exclusion from the points and fees calculation.
- The Undiscounted Rate is the rate a consumer would receive based upon its particular credit profile and loan characteristics without paying any discount points. This is in contrast to the Starting Adjusted Rate which may contain discount points, and if so, the discount points included in the Starting Adjusted Rate are never eligible for “bona fide discount point” exclusion.
- To review guidance from the CFPB on excluding discount points, refer to the Guidance from CFPB on Appropriate Interest Rate for Excluding Discount Points under Final ATR Rule letter provided by Mortgage Bankers Association (MBA).
Chapter 7: Working with Points and Fees

Borrower Income

On the 1003 URLA Part 2, provide the monthly income for the borrower and co-borrower (if applicable) by entering Gross Monthly Income amounts in sections 1b. Current/Self Employment and Income and 1c. Additional Self Employment and Income. Click the Edit icons to open pop-up windows where you can enter detailed information for Base income and Military Entitlements.

Enter additional income, if applicable, in section 1e. Income from Other Sources.

Real Estate-Related Fees

Real Estate-Related Fees include all items listed in 12 CFR § 1026.4(c)(7) (other than amounts held for future payment of taxes) and are included in the points and fees calculation, unless: (1) the charge is reasonable; (2) the lender receives no direct or indirect compensation in connection with the charge; and (3) the charge is not paid to an affiliate of the lender. 12 CFR § 1026.32(b)(1)(iii). The following items fall within this category if they are bona fide and reasonable in amount: (1) fees for title examination, abstract of title, title insurance, property survey, and similar purposes; (2) fees for preparing loan-related documents, such as deeds, mortgages, and reconveyance or settlement documents; (3) notary and credit-report fees; (4) property appraisal fees or fees for inspections to assess the value or condition of the property if the service is performed prior to closing, including fees related to pest-infestation or flood hazard determinations; and (5) amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the finance charge. 12 CFR § 1026.4(c)(7).

Mortgage Broker/Loan Originator Compensation

All compensation paid directly or indirectly by a consumer or creditor to a loan originator, as defined in § 1026.36(a)(1), that can be attributed to that transaction at the time the interest rate is set must be included in the points and fees calculation, unless: (1) that compensation is paid by a consumer to a mortgage broker, as defined in § 1026.36(a)(2), and already has been included in points and
fees under paragraph (b)(1)(i) of this section; (B) that compensation is paid by a mortgage broker, as defined in § 1026.36(a)(2), to a loan originator that is an employee of the mortgage broker; or (3) That compensation is paid by a creditor to a loan originator that is an employee of the creditor. 12 CFR § 1026.32(b)(1)(ii).

As a result, all compensation paid to a loan originator (mortgage broker) is included in the points and fees calculation.

Credit Insurance Premiums
Premiums payable at or before consummation for any credit life, credit disability, credit unemployment, or credit property insurance, or any other credit insurance for which the creditor is a beneficiary, or any payments directly or indirectly for any debt cancellation or suspension agreement or contract must be included in the points and fees calculation, regardless to whom the fee is paid. Items falling into this category include, but are not limited to: Credit Disability Premium, Credit Life Premium, Credit Unemployment Premium, Credit Life Insurance-Impound, and Credit Disability Insurance-Impound. 12 CFR § 1026.32(b)(1)(iv).

Maximum Prepayment Penalty
If a maximum prepayment penalty amount is entered into the Prepayment Penalty field (field ID RE88395.X315) on the ATR/QM Management tool's Qualification tab, Encompass includes the maximum prepayment penalty that may be charged or collected under the terms of the mortgage loan in the points and fees calculation. 12 CFR § 1026.32(b)(1)(v).

Prepayment Penalty Paid in a Refinance
The total prepayment penalty incurred by the consumer if the consumer refinances an existing mortgage loan with the current holder of the existing loan, a servicer acting on behalf of the current holder, or an affiliate of either must be included in the points and fees calculation. 12 CFR § 1026.32(b)(1)(vi). As a result, Encompass includes in the points and fees calculation the total prepayment penalty submitted in (field ID NTB.X16). Encompass will not include the prepayment penalty payoff in the points and fees calculation unless you designate the new loan as a refinance with the same creditor or affiliate using any of the following fields: Purpose of Refinance (field ID 299), Refinance with Original Creditor (field ID QM.X2), or Existing Loan Was (field ID NTB.X34).

Charges Paid to Affiliates
Any bona fide third-party charge that also is a finance charge is included in the points and fees if it is paid to an affiliate of the lender or the loan originator (mortgage broker). Refer to “When are Fees Included or Not Included in the Section 32 Points and Fees Calculation?” on page 54 and the “Real Estate-Related Fees” and “Credit Insurance Premiums”sections starting on page 60 for additional treatment of fees paid to an affiliate.
Chapter 8

Responding to ATR/QM Compliance Alerts

ATR/QM Compliance Alerts are triggered any time a loan violates Ability-to-Repay regulations. These alerts display on the Alerts & Messages tab in the Log, as well as in pop-up windows that display when you save the loan.

Alert Triggers and Response Methods
This section describes the scenarios where a compliance alert will be triggered and explains how to clear the alert.

Ability-to-Repay Loan Type Not Determined Alert

Alert Description
The Ability-to-Repay Loan Type Not Determined alert is triggered when the Ability-to-Repay Loan Type (field ID QM.X23) has not been indicated on the ATR/QM Management tool. (By default, this alert is triggered at the completion of the Approved milestone.) The alerts display on the Pipeline and on the Alerts & Messages tab in the Log.

Clearing the Alert
Verify that the loan is exempt, a Qualified Mortgage or being made subject to general Ability-to-Repay standards and make the appropriate indication in the Ability-to-Repay Loan Type (field ID QM.X23) field. Authorized users can click the blue Lock icon for this field to lock the field and manually select an option from the drop-down list.

Qualified Mortgage Type Not Determined

Alert Description
The Qualified Mortgage Type Not Determined alert is triggered when the Ability-to-Repay Loan Type (field ID QM.X23) is set to Qualified Mortgage and the Qualified Mortgage Loan Type (field ID QM.X24) has not been indicated on the ATR/QM Management tool. (By default, this alert is triggered at the completion of the Approved milestone.) The alerts display on the Pipeline and on the Alerts & Messages tab in the Log.

Clearing the Alert
Verify that the loan is a Qualified Mortgage or being made subject to general Ability-to-Repay standards and make the appropriate indication in the Ability-to-Repay Loan Type (field ID QM.X23) or Qualified Mortgage Loan Type (field ID QM.X24) fields. Authorized users can click the blue Lock icons for these fields to lock the fields and manually select an option from the drop-down lists.
Residual Income Assessment Recommended Alert

Alert Description
The Residual Income Assessment Recommended alert is triggered when the Ability-to-Repay Loan Type (field ID QM.X23) is Qualified Mortgage, but it is not eligible for Safe Harbor (field ID QM.X25) OR the Ability-to-Repay Loan Type is General ATR. This alert recommends a residual income assessment. As the CFPB has not issued official guidelines or requirements for residual income, this alert is a recommendation only and does not need to be addressed or cleared in order for the loan to qualify as a Qualified Mortgage. (By default, this alert is triggered at the completion of the Approved milestone.) The alerts display on the Pipeline and on the Alerts & Messages tab in the Log.

Clearing the Alert
Indicate that residual income has been assessed by the underwriter on the Underwriter Summary (field ID QM.X349).

General QM DTI Exceeded Alert

Alert Description
The General QM DTI Exceeded alert is triggered when the loan's Debt-to-Income (DTI) ratio (field ID QM.X119) exceeds the limit for a general Qualified Mortgage. CFPB states DTI must be less than or equal to 43% (based on the maximum payment for the first five years) to meet general QM standard. The alerts display on the Pipeline and on the Alerts & Messages tab in the Log.

Clearing the Alert
• Verify that the loan is a Qualified Mortgage or being made subject to general ability-to-repay standards.

• Adjust the Total Debt Ratio (based on the maximum payment for the first five years; field ID QM.X119) to be less than or equal to 43%.

QM Safe Harbor Eligibility Not Determined Alert

Alert Description
The QM Safe Harbor Eligibility Not Determined alert is triggered when the Ability-to-Repay Loan Type (field ID QM.X23) is set to Qualified Mortgage and the Is Loan Eligible for Safe Harbor field (field ID QM.X25) has not been populated on the ATR/QM Management tool. (By default, this alert is triggered at the completion of the Approved milestone.) The alerts display on the Pipeline and on the Alerts & Messages tab in the Log.

Clearing the Alert
Verify that the loan is a Qualified Mortgage or make adjustments to the loan data to comply with the Ability-to-Repay Loan Type (field ID QM.X23) or Qualified Mortgage Loan Type (field ID QM.X24) requirements. As a result, Is Loan Eligible for Safe Harbor field (field ID QM.X25) should populate with the appropriate option automatically. Authorized users can click the blue Lock icon for this field to lock the field and manually select an option from the drop-down list.
General QM Loan Feature Violation Alert

Alert Description
The General QM Loan Feature Violation alert is triggered when the Ability-to-Repay Loan Type (field ID QM.X23) is set to Qualified Mortgage and loan repayment data does not meet the standards for a general Qualified Mortgage. The alerts display on the Pipeline and on the Alerts & Messages tab in the Log.

Clearing the Alert
- The data entered in the following fields can trigger this alert. Adjust these values to meet General QM requirements.
  - Interest Only indicator (field ID 2982)
  - Prepayment Penalty Period (field ID RE88395.X316)
  - Prepayment Penalty (field ID QM.X112)
  - The result of Points & Fees Test [does / does not] exceed the threshold for Qualified Mortgages (field ID QM.X124)
  - Negative Amortization indicator (field ID NEWHUD.X6)
  - Does the new loan have a balloon Payment indicator [Yes] (field ID 1659).

  OR

- Verify that the loan is a Qualified Mortgage or being made subject to general Ability-to-Repay standards and adjust loan data accordingly.

Ability-to-Repay Exemption Reason Not Determined Alert

Alert Description
The Ability-to-Repay Exemption Reason Not Determined alert is triggered when the Ability-to-Repay Loan Type (field ID QM.X23) is set to Exempt and an ATR/QM Exemption Eligibility option has not been indicated at the bottom of the ATR/QM Management tool's ATR/QM Eligibility tab. The alerts display on the Pipeline and on the Alerts & Messages tab in the Log.

Clearing the Alert
- Select the Transaction is exempt from Reg. Z Ability-to-Repay requirements based on check box (field ID QM.X103), and then select the appropriate option in the ATR/QM Exemption Eligibility section to indicate the reason for the exemption.

  OR

- Verify that the loan is a Qualified Mortgage or being made subject to general Ability-to-Repay standards and adjust loan data accordingly.
AUS Discrepancy Alert

Alert Description
The AUS Tracking tool is used to document and track the results received from an Automated Underwriting System (AUS) such as DU and LP and ensure that the data in the loan file matches the data analyzed by the AUS when it returned its findings. The tool's Underwriting Decision History table is where you can create and track AUS decision records. Each record is a snapshot of the data analyzed by the AUS. The AUS Discrepancy alert is triggered when the AUS Recommendation field (field ID 1544) on the ATR/QM Management tool’s Qualification tab is populated, and the data in any of the following Encompass fields does not match the data in the AUS snapshot:

- Field 2 does not match AUS.X16 (Details Total Loan Amount)
- Field 356 does not match AUS.X18 (Details Appraised Value)
- Field 3 does not match AUS.X19 (Details Note Rate)
- Field 1172 does not match AUS.X20 (Details Loan Type)
- Field 4 does not match AUS.X21 (Details Term)
- Field 608 does not match AUS.X22 (Details Amortization Type)
- Field 19 does not match AUS.X24 (Details Loan Purpose)
- Field 353 does not match AUS.X11 (Details LTV)
- Field 976 does not match AUS.X12 (Details CLTV)
- Field 1389 does not match AUS.X41 (Details Total Monthly Income)
- Field 1731 does not match AUS.X32 (Details Total Housing Payment)
- Field 740 does not match AUS.X14 (Details Housing Expense Ratio)
- Field 742 does not match AUS.X15 (Details Total Expense Ratio)

NOTE: The alerts display on the Pipeline and on the Alerts & Messages tab in the Log.

Clearing the Alert
Review the changes to the affected fields in the loan file and then re-run AUS if needed.
Chapter 9

Verification and Documentation Tracking Tool

Use the Verification and Documentation Tracking tool to track and review the verifications and associated documents for employment history, income, asset, and monthly obligation (liabilities) that have been collected to help ensure that you are making a qualified mortgage.

Documenting employment, income, asset, and liabilities information helps ensure compliance with the Consumer Financial Protection Bureau’s (CFPB) amendment to Regulation Z (in effect for applications on or after January 10, 2014) that implements sections 1411, 1412, and 1414 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and prohibits creditors from making most residential mortgage loans against a closed end first or junior lien secured by a 1-4 unit dwelling unless the creditor makes a reasonable, good faith determination of the consumer’s ability to repay the loan. In addition, the rule establishes certain protections for creditors who make a “qualified mortgage.”

Create and Edit Tracking Entries

Verification and Documentation Tracking tool entries are created in the eFolder by clicking the ATR/QM button on the Document Details window for an eFolder document. A Verification Timeline entry is then created in the Verification and Documentation Tracking tool, and a document entry is created for the associated eFolder document.

After the entries are created, you can open the tracking tool to add a new document entry, change the verification method for a timeline entry, or open the Document Details window for the associated eFolder document. Permission to create and edit entries is granted by the administrator on the Forms/Tools tab in the Personas setting.

To Create a Verification and Documentation Tracking Entry:

1. Open a loan folder, click the eFolder icon on the upper-right, and then click the Documents tab.
2. Select a document, and then click the Edit icon.
   • Or, click the New icon, select Add a new document, and then click OK.

3. When the Document Details window opens, click the ATR/QM button in the Details section.
4 On the ATR/QM window, select the check boxes for the verification types you are recording. A new tab is added to the window for each type selected.

NOTE: A user can select and clear the check boxes only if the administrator has given the user permission in the Personas setting on the Forms/Tools tab in the Tools section (Verification and Documentation Tracking).

5 To add a verification record, click a tab, and then click the Add icon in the appropriate section of the tab.

6 On the verification window, select the options that apply for the borrower and co-borrower, and then click Add.

- Some selections have editable text boxes that enable users to enter additional information.

NOTE: Review the entries carefully before you click Add. After entries have been added, they cannot be deleted from the ATR/QM window. To remove an entry, you must cancel out of the ATR/QM window before saving the selections. This will clear all your entries. You can then open the window again to re-enter the data.

7 On the verification tabs, entries are marked as B, C, or J for Borrower, Co-borrower, or Joint. Click a cell in the How was it verified? column to enter the verification method for the entry.

8 Complete the entries on all the relevant tabs, and then click Save.

NOTE: After you click Save, only a user with the Administrator persona can delete the document, and the selections cannot be changed with the exception of the How was it verified? text, which can be changed by a user who has been granted editing rights in the Personas setting on the Forms/Tools tab in the Tools section (Verification and Documentation Tracking).
• After the entries have been saved, the verification types selected in the ATR/QM window will display in the ATRM/QM text field in the Details section on the Document Details window and in the Details section on the Document Details tab in the Document Manager.

• The entries are also recorded in the Verification and Documentation Tracking tool, which is accessible from the Tools tab on the lower-left of the loan file. Each section on the tool lists the ATR/QM entries for a particular category. The documents associated with the entries for each category are listed in the Documents section.

To Edit an Existing Timeline Tracking Entry:
1. Open a loan file, click the Tools tab, and then click Verification and Documentation Tracking.
2. Double-click a timeline entry.
3. On the ATR/QM pop-up window, click a cell in the How was it verified? column, and then enter or edit the verification method.
4. When finished, click Save.

To Edit a Document Tracking Entry:
1. Double-click a document entry.
   • The Document Details window for the document opens.
2. In the Tracking section, on the Status tab, adjust the expiration date or select check boxes to change the status.
   • The data is copied back to the Verification and Documentation Tracking tool.

To Clear a Flagged Entry:
1. When a red flag displays above a category section, one or more of the verifications has not been completed. To clear the flag, make sure the following tasks are complete:
   • Double-click a verification entry to open the ATR/QM field to enter information in the How was it verified? field.
   • Double-click a document to open the Document Details window to make sure the Received and Reviewed check boxes are selected.
2. When the required fields are complete, the red flag is replaced with a green check mark.

Add a Timeline and Document Tracking Entry from the Tool

NOTE: The recommended best practice is to create tracking entries from your eFolder documents, but you can also add verification timeline and document entries from the Verification and Documentation Tracking tool if needed.

Use one of the Documents sections to add a document entry associated with an eFolder document. This option also creates a verification timeline entry associated with the new document entry.

To Add a Timeline and Document Tracking Entry from the Tool:
1. In the Documents section, click the New icon.
2. Select a document name from the drop-down list, and then click OK.
   • The drop-down list consists of all available documents from the eFolder
   • The creation date and expiration date for the verification are imported from the eFolder document. Once the expiration date is reached, a new verification should be performed on the related employment status, income, asset or liability.
Chapter 10
AUS Tracking Tool

AUS Tracking Tool
Along with the ATR/QM Management tool, the AUS Tracking tool is available. Authorized users can use this tool to document and track the results received from an Automated Underwriting System (AUS) such as DU and LP and ensure that the data in the loan file matches the data analyzed by the AUS when it returned its findings. Using the Underwriting Decision History table, you can create AUS findings records. A record is a snapshot of the data analyzed by the AUS or underwriter. If any of this data is changed in the loan file and no longer matches the data in the snapshot, an AUS Data Discrepancy alert is triggered. Keeping records of the underwriting decisions for the loan file is another step in helping document if you are making an Agency/GSE Qualified Mortgage.

To Open the AUS Tracking Tool:
1. Open a loan, and then click the Tools tab.
2. Click AUS Tracking.

The AUS Tracking tool displays.

AUS Tracking
The AUS Tracking section provides important values, dates, and time periods taken from the most recent AUS findings. This data is pulled from the most recent record listed in the Underwriting Decision History table.

- Click the Copy to Transmittal Summary button to copy the data in the Underwriting Risk Assess Type, If “Other” Description, AUS Recommendation, DU Case ID / LP AUS Key#, Doc Class (Freddie), and Submitted By fields to associated fields on the Transmittal Summary (form 1008) input form.

Underwriting Decision History
Use the Underwriting Decision History section to create records of the various underwriting decisions that have been returned on the loan file.

Suggested Workflow:
This is the suggested method for creating underwriting decision history records and track the results received from Fannie Mae’s DU (Desktop Underwriter), Freddie Mac’s LP (Loan Prospector), or other automated underwriting systems.

1. Click the New icon.

   The AUS Details window displays. Fields in the Loan Snapshot section are populated with current loan data. This section is read-only.

2. In the Automated Underwriting Findings/Feedback section, enter the underwriting findings details. The Underwriting Risk Assess Type (field ID AUS.X1) is required in order to add the record.

3. Click OK.

4. Order underwriting for the loan file from Fannie Mae (DU), Freddie Mac (LP), or another AUS provider.
   - To order underwriting in Encompass, click the Services tab, and then click Request Underwriting.

5. Once you receive the underwriting decision from the AUS, open the Underwriting Decision History record you created in steps 1-2, and then update the fields in the Automated Underwriting Findings/Feedback section with the AUS data.

6. Click OK.

NOTE: The ability for DU or LP underwriting review findings to automatically be added to the Underwriting Decision History table upon completion is targeted for a future Encompass release.
To View AUS Decision Details:
1. To view the underwriting findings and the loan data analyzed by the AUS, select an Underwriting Decision History record, and then click the View History (magnifying glass) icon. This information is read-only.

The record provides details about the underwriting decision and the loan data that was analyzed by the AUS.

![Automated Underwriting Findings/Feedback](image)

To Edit AUS Details:
1. To edit the data in the Automated Underwriting Findings/Feedback section of an Underwriting Decision History record, select the record, and then click the Edit icon.
2. Update the underwriting findings details as needed, and then click OK.

Grant User Access to AUS Tracking Tool
Use the Personas setting to grant individual users access to the AUS Tracking tool.

To Grant a User Access to the AUS Tracking Tool:
1. On the menu bar, click Encompass, and then click Settings.
2. On the left panel, click Company/User Setup, and then click Personas.
3. In the Create a persona panel, select a persona.
4. Click the Forms/Tools tab.
5. In the Tools panel, select the AUS Tracking check box.
   • Select the Create Manual Entry check box to enable the user to manually add a new entry to the tool’s Underwriting Decision History table.
6. Click the Save icon.

**NOTE:** The values in the AUS Details window are used to trigger an AUS Data Discrepancy alert when key data is changed in the loan file and no longer matches the AUS Details data. Refer to the “AUS Discrepancy Alert” entry on page 65 for a list of the fields that may trigger this alert.
Appendix A
ATR/QM Table

This table provides a general comparison of Ability-to-Repay Requirements with Qualified Mortgages.*

<table>
<thead>
<tr>
<th>Loan feature limitations</th>
<th>ATR Standard</th>
<th>General QM</th>
<th>Agency/GSE QM (Temp) Sunset 6/30/2021</th>
<th>Balloon-Payment QM</th>
<th>Small Creditor QM</th>
<th>Small Creditor Balloon-Payment QM (Temp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan feature limitations</td>
<td>No limitations</td>
<td>No NegAm, interest-only, or balloon payments</td>
<td>No NegAm, interest-only, or balloon payments</td>
<td>No NegAm or interest-only payments</td>
<td>No NegAm, interest-only, or balloon payments</td>
<td>No NegAm or interest-only payments</td>
</tr>
<tr>
<td>Loan term limit</td>
<td>No limitations</td>
<td>30 years</td>
<td>30 years</td>
<td>No more than 30 years</td>
<td>30 years</td>
<td>No more than 30 years</td>
</tr>
<tr>
<td>Points &amp; fees limit</td>
<td>No limitations</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Payment Underwriting</td>
<td>Greater of fully indexed or introductory rate</td>
<td>Max rate in first 5 years</td>
<td>As applicable, per GSE or agency requirements</td>
<td>Amortization schedule no more than 30 years</td>
<td>Max rate in first 5 years</td>
<td>Amortization schedule no more than 30 years</td>
</tr>
<tr>
<td>Mortgage-related obligations</td>
<td>Consider and verify</td>
<td>Included in underwriting monthly payment** and DTI***</td>
<td>As applicable, per GSE or agency requirements</td>
<td>Included in underwriting monthly payment** and DTI***</td>
<td>Included in underwriting monthly payment** and DTI***</td>
<td>Included in underwriting monthly payment** and DTI***</td>
</tr>
<tr>
<td>Income or assets</td>
<td>Consider and verify</td>
<td>Consider and verify</td>
<td>As applicable, per GSE or agency requirements</td>
<td>Consider and verify</td>
<td>Consider and verify</td>
<td>Consider and verify</td>
</tr>
<tr>
<td>Employment status</td>
<td>Consider and verify</td>
<td>Included in underwriting DTI</td>
<td>As applicable, per GSE or agency requirements</td>
<td>No specific requirement</td>
<td>No specific requirement</td>
<td>No specific requirement</td>
</tr>
<tr>
<td>Simultaneous loans</td>
<td>Consider and verify</td>
<td>Included in underwriting DTI</td>
<td>As applicable, per GSE or agency requirements</td>
<td>Included in underwriting DTI</td>
<td>Included in underwriting DTI</td>
<td>Included in underwriting DTI</td>
</tr>
<tr>
<td>Debt, alimony, child support</td>
<td>Consider and verify</td>
<td>Consider and verify</td>
<td>As applicable, per GSE or agency requirements</td>
<td>Consider and verify</td>
<td>Consider and verify</td>
<td>Consider and verify</td>
</tr>
<tr>
<td>DTI or Residual Income</td>
<td>Consider and verify</td>
<td>DTI ≤ 43 percent</td>
<td>As applicable, per GSE or agency requirements if price based limit not used</td>
<td>Consider and verify</td>
<td>Consider and verify</td>
<td>Consider and verify</td>
</tr>
<tr>
<td>Credit History</td>
<td>Consider and verify</td>
<td>Included in underwriting DTI</td>
<td>As applicable, per GSE or agency requirements</td>
<td>No specific requirement</td>
<td>No specific requirement</td>
<td>No specific requirement</td>
</tr>
</tbody>
</table>

* This chart compares the general ATR requirements with the requirements for originating QM loans. Additional requirements may apply, particularly for small creditor and balloon payment QM loans. This chart is not a substitute for the rule. Only the rule and its Official Interpretations can provide complete and definitive information regarding its requirements. The complete rule, including the Official Interpretations and small entity compliance guide, is available at [http://www.consumerfinance.gov/regulations/ability-to-repay-and-qualified-mortgage-standards-under-the-truth-in-lending-act-regulation-z/](http://www.consumerfinance.gov/regulations/ability-to-repay-and-qualified-mortgage-standards-under-the-truth-in-lending-act-regulation-z/).

** "Included in underwriting monthly payment" means that the rule does not require the creditor to separately consider and verify this factor. However, a creditor must consider this factor when underwriting the consumer’s monthly payment under the rule.
*** "Included in underwriting DTI" means that the rule does not require the creditor to separately consider and verify these factors. However, a creditor considers and verifies these factors when calculating the consumer's debt-to-income ratio.
Appendix B

Bona Fide Discount Point Assessment Quick Entry Field Definitions

The following Appendix provides field IDs for the fields in the Bona Fide Discount Point Assessment quick entry window, information about how these fields are calculated, and what other fields in Encompass are included in the calculations.

1 **Note Rate** (field ID 3) - The Interest Rate on the loan. This is also known as the Discounted Rate when the consumer is being charged discount points to reduce the interest rate. This value can be entered in multiple input forms including the Borrower Summary - Origination, 1003 Loan Application - Page 1, and 2010 GFE.

2 **Discount Points** (field ID NEWHUD.X1150 if field NEWHUD.X1139 is selected or field ID 1061 if field NEWHUD.X1139 is not selected) - A charge paid by the borrower (expressed as a percentage of the loan amount) to obtain a lower interest rate. This value is added to the calculated value of the Discount Points Percentage when determining the Total Discount Point Amount.

3 **Discount Points Dollar** (field ID NEWHUD.X1227 if field NEWHUD.X1139 is selected or field ID 436 if field NEWHUD.X1139 is not selected) - A charge paid by the borrower (expressed as a dollar amount) to obtain a lower interest rate.
4 Total Discount Point Amount (field ID NEWHUD.X1151 if field NEWHUD.X1139 is selected or field ID NEWHUD.X15 if field NEWHUD.X1139 is not selected) - The amount being charged to the consumer to receive the discounted rate specified in the Note Rate.

5 Starting Adjusted Rate (field ID NEWHUD.X1720) - A rate available to the consumer based on their particular profile and loan characteristics that includes all Loan Level Pricing Adjustors (LLPAs) and other specific adjustments applicable to that consumer. This rate and any points associated with the Starting Adjusted Rate are the basis of comparison against the discounted rate for determining whether or not the discount points may be deemed as bona fide. The Starting Adjusted Rate may be a par rate (no credit, no charge to the consumer), an above par rate (credit to the consumer for the rate offered) or a below par rate (charge to the consumer for the rate offered) so long as it is a rate actually available to the consumer.

6 Starting Adjusted Rate Discount Point Percentage (field ID NEWHUD.X1721) - A charge that would be paid by the consumer (expressed as a percentage of the loan amount) to obtain the Starting Adjusted Rate. For example a charge of .125% of the loan amount (a price of 98.875) to obtain the Starting Adjusted Rate of 4.375%. Any points associated with the Starting Adjusted Rate are ineligible to be excluded from HOEPA and QM points and fees tests as bona fide discount points. This field should be left blank if there are no charges to the consumer to obtain the Starting Adjusted Rate or if all discount points being charged to the consumer will be eligible to be excluded from HOEPA and QM points and fees tests as bona fide discount points.

7 Starting Adjusted Rate Discount Point Dollar (field ID NEWHUD.X1722) - A charge that would be paid by the consumer (expressed as a dollar amount) to obtain the Starting Adjusted Rate. This value is added to the calculated value of the Starting Adjusted Rate Discount Points Percentage when determining the Total Starting Adjusted Rate Discount Point Amount.

8 Total Starting Adjusted Rate Discount Point Amount (field ID NEWHUD.X1723) - The total amount that would be charged to the consumer to receive the Starting Adjusted Rate.

9 Undiscounted Rate (field ID 3293) - The lowest rate available to the consumer in which they would not have to pay a charge (ie discount points) to obtain the interest rate. This may be a par (no credit, no charge to the consumer) or above par rate (credit to the consumer).

10 Average Prime Offer Rate (field ID 3134) - A rate that is derived from average interest rates, points, and other loan pricing terms currently offered to consumers by a representative sample of creditors for mortgage transactions that have low-risk pricing characteristics as published by the CFPB.

11 Rate Reduction Basis Points Percentage (field ID QM.X365) - A value used in calculating a reduction in rate. This value reflects the number of percentage points in which a rate must be reduced for every point charged to the consumer to reduce an interest rate to a discounted interest rate. For example, when applying a rate reduction basis calculation of .25% points in rate for every 1% in discount points, this value represents the .25% in rate. This value may be passed to ECS/Mavent for use in applying a Reduction in Rate Basis test for Bona Fide Discount Points.

12 Rate Reduction Discount Points Percentage (field ID QM.X366) - A value used in calculating a reduction in rate. This value reflects the number of percentage points being charged as discount points to the consumer to reduce an interest rate to a discounted interest rate. For example, when applying a rate reduction basis calculation of .25% points in rate for every 1% in discount points, this value represents the 1% in discount points.

13 Discount Points that can be excluded based on APOR (field ID QM.X364) - The amount of discount points (expressed as a percentage of the loan amount) that may be eligible to be deemed Bona Fide based on comparing the Starting Adjusted Rate to the Note Rate.

- Up to two bona fide discount points may be eligible to be excluded from total points and fees if the Starting Adjusted Rate (field NEWHUD.X1720) does not exceed the APOR (field 3134) by more than one percentage point.

- Up to one bona fide discount point may be eligible to be excluded from total points and fees if the Starting Adjusted Rate (field NEWHUD.X1720) does not exceed the APOR (field 3134) by more than two percentage points.

14 Discount Points that can be excluded based on reduction in rate (field ID QM.X367) - The amount of discount points (expressed as a percentage of the loan amount) that may be eligible to be deemed Bona Fide based on comparing the Total Discount Point Amount being charged to the consumer that exceeds the Total Starting Adjusted Rate Discount Point Amount and the difference between the Note Rate and Starting Adjusted Rate based on the values entered in the Rate Reduction Basis Points Percentage (QM.X365). No value will be returned if fields QM.X365 and QM.X366 are blank indicating that a rate reduction basis is not being applied.

15 Discount Points that can be excluded based on the Starting Adjusted Rate (field ID QM.X368) - The amount of discount points (expressed as a percentage of the loan amount) that may be eligible to be deemed Bona Fide based on comparing the Total Discount Point Amount being charged to the consumer that exceeds the Total Starting Adjusted Rate Discount Point Amount. It is calculated by subtracting the value in NEWHUD.X1723 from either NEWHUD.X1151 or NEWHUD.X15.

16 Bona Fide Discount Points Percentage (field ID QM.X369) - The amount of discount points (expressed as a percentage of the loan amount) determined to be eligible to be excluded from Federal HOEPA and QM Points and Fees tests as Bona Fide Discount Points.
17 Bona Fide Discount Points Amount (field ID QM.X370)- The amount (expressed as a dollar amount) determined to be eligible to be excluded from Federal HOEPA and QM Points and Fees tests as Bona Fide Discount Points

Note Regarding Encompass Product and Pricing Service: The Encompass Product and Pricing Service (EPPS) provides support for discount point calculations and automatically populates loan files. EPPS helps identify ranges that should be eligible to exclude the discount points as bona fide and will deliver the starting adjusted rate, undiscounted rate, discount points and starting rate associated discount points to Encompass to facilitate comparing the discounted rate to the starting adjusted rate / undiscounted rate to the note rate.
Appendix C
FAQ and Resources

Frequently Asked Questions about Ability-to-Repay (ATR) / Qualified Mortgage (QM)

When will the new General QM Definition be available in Encompass and Mavent?
Updates to support the revised final rule will be made in Encompass 21.2, releasing in June, 2021.

When will the new rule apply to loans originated in Encompass?
By default, the system setting for using the new Price Based Evaluation is set to 10/1/2022. However, this can be modified by your Encompass Admin, and can be set to as early as 3/1/2021. At this time, based on guidance, lenders will not be allowed to set the date earlier than 3/1/2021.

When will the GSE Patch be no longer available in Encompass and Mavent?
The Encompass Policy setting controlling usage of the GSE Patch has been set to 7/1/2021.

What is ATR/QM?
The Ability-to-Repay (ATR)/Qualified Mortgage (QM) Standards require lenders to demonstrate they have made a reasonable and good faith determination, based on verified and documented information, that the consumer has a reasonable ability-to-repay the loan. Additionally, the ATR/QM rule provides that a lender making a special type of loan, known as a Qualified Mortgage, is entitled to presume the loan complies with ATR requirements (Safe Harbor). The rule establishes different types of QMs that are generally identified as loans with restrictions on loan features, limits on fees being charged, and underwriting requirements.

When does it go into effect?
ATR/QM will apply to loan applications received on or after January 10, 2014.

Why are these standards important to lenders and consumers?
The lack of documentation concerning a consumer's ability-to-repay a loan was common during the housing boom in the late 1990s and early 2000s and was one of the contributing factors of the housing collapse that began in 2007. The ATR/QM rule is just one of the rules aimed at helping lenders make less risky loans.

How will ATR be evaluated?
To determine a consumer’s ability to repay, creditors must consider eight underwriting factors:
1. Current or reasonably expected income or assets
2. Current employment status
3. Monthly payment on the covered transaction
4. Monthly payment on any simultaneous loan
5. Monthly payment for mortgage-related obligations
6. Current debt obligations, alimony, and child support
7. Monthly debt-to-income ratio or residual income
8. Credit history

What is ICE Mortgage Technology doing to address ATR/QM?
Over the last year, ICE Mortgage Technology has been consistently participating with the CFPB, the GSEs, and top investors to understand major industry concerns around ATR/QM Standards and other regulations, to share our perspective with these constituents, and to come up with the best solution in our software to address those concerns. The Encompass® Ability-to-Repay (ATR)/Qualified Mortgage (QM) solution introduced in the Encompass Fall 2013 Release (9.0) enables lenders to effortlessly and automatically assess ATR/QM eligibility at any stage of the loan and document effectively ATR/QM compliance to investors and regulators leveraging existing workflows.

ICE Mortgage Technology's ATR/QM functionality also provides dynamic eligibility recommendations and feedback for multiple types of QM loans: General QM; Agency/GSE QM, Small Creditor Balloon Payment QM, and Small Creditor QM.
What will the functionality provide?

- An ATR/QM eligibility worksheet, complete with supporting data.
- An Appendix Q worksheet that documents how the income was underwritten to arrive at the overall DTI calculations for General Qualified Mortgage analysis.
- Encompass Compliance Service™ (Mavent®) reports detailing rate thresholds, fee assessments and discount points that count towards the 3% QM ceiling. Refer to
- The Encompass Product and Pricing Service™ provides support for discount point calculations and automatically populates loan files. EPPS helps identify ranges that should be eligible to exclude the discount points as bona fide and will deliver the starting adjusted rate and undiscounted rate to Encompass to facilitate comparing the discounted rate to the starting adjusted rate.
- The Encompass eFolder which contains automated underwriting results, credit report, pay stubs, 4506-T, etc. that can be exported to investors.

Are Encompass Broker and Encompass Banker editions the same?

No, they are separate systems designed for two different client segments:

- Encompass Banker Edition: Licensed lenders or depository financial institutions (banks and credit unions)
- Encompass Broker Edition: Third-party originators who originate mortgage loans but do not close or fund them.

What are the main overall functionality differences between Encompass Broker and Encompass Banker systems?

Encompass Banker Edition includes additional automation and tools used by creditors including:

- Additional administrative settings and controls (persona rules, business rules, etc.)
- Custom field and screen capabilities
- Secondary marketing capabilities
- Advanced reporting capabilities
- LO Compensation Management capabilities
- Underwriting Summary tool used by underwriters to evaluate the factors of the loan

Is the ATR/QM functionality the same in Encompass Broker and Encompass Banker?

The Encompass ATR/QM solution was applied to both the Encompass Banker and Encompass Broker software; however, because Banker Edition contains screens specific to lending, which are not required when brokering a loan, there can be some differences in how you use these capabilities. Both systems have the ATR/QM Management tool, the associated printed Ability-to-Repay Worksheet and Non-Standard to Standard Refinance Eligibility output form.

The key difference is that this functionality is automated for the Encompass Banker software. Clients on the Encompass Broker software cannot rely on the system to make the automated assessments in regards to ATR and QM because the system has no insight into how the loan was underwritten. Clients using Encompass Broker Edition have access to all of the data that is used in making an ATR/QM decision and insight into loan features and points and fees limits, but clients will need to manually enter the type of ATR or QM loan being made based on feedback from your creditor.

NOTE: The Ability-to-Repay worksheet output form does not rely on the automated assessment being made to populate the form. Only the ATR Type, QM Type and Safe Harbor elections need to be manually selected to have them included in the worksheet.

Is there an additional cost associated with this functionality?

No, it comes automatically with the Encompass Fall 2013 (9.0) release and subsequent releases.

Who will have access to these screens?

Access is designated by persona (in Banker Edition only). It is up to your organization to provide access to this functionality.

Do you have to choose one or the other ATR or QM when setting up a loan product?

The system will alert you if you have not met at least one standard. You do not have to associate ATR/QM with a loan product; however, some products may automatically be excluded from QM (such as Interest Only, Neg Am, etc.).

Will Encompass provide a hard stop if the loan's DTI exceeds 43%?

No, but a General QM DTI Exceeded alert will trigger if you have indicated you have a general QM but have a DTI that exceeds 43% (based on the maximum principal and interest payment in the first 5 years). Hard stops can be created through business rules.
Can we prevent a loan from moving forward if it is not a QM loan?
Yes, through the use of business rules.

What fields are reportable?
All of the ATR/QM fields are reportable.

Are fields QM.X120 & QM.X121 supposed to auto-populate?
If so where is that feeding from, if not what should be entered?
QM.X120 and QM.X121 are both calculated fields:
- QM.X120 is the result of the Amount Financed minus Financed 4c7 Points and Fees paid to Creditor or Creditor's Affiliate minus any Financed Credit Insurance Premiums and if applicable minus Prior Loan's Prepayment Penalty Payoff if it is financed into the current refinance transaction.
- QM.X121 is the total amount of fees that are permitted for Qualified Mortgages.

Do I need to mark the box for higher priced covered transactions?
No, this is system generated and calculated.

Can we exclude the small creditor column on the QM eligibility form?
Yes, this is controlled through settings in the Organization Information area under the Company/User Setup setting.

Is the APOR date under Safe Harbor Eligibility section on the Eligibility tab only populated if you input it on Section 35 screen first?
It is populated once you have an APR and APOR. Encompass uses the same fields so chances are both will be populated at the same time.

Does the APOR value change once the interest rate is locked?
Yes, it will be updated each time a compliance review is run and will change if information that impacts the APOR changes.

Is the APOR auto-populated and where is the data from?
It is auto-populated when running a compliance review through Encompass Compliance Service. We use the data from the FFIEC tables.

Is the APOR using the GFE application date?
No, the APOR is using the Last Rate Set Date (field ID 3253), the Lock Date or the Current Date.

Will Encompass have an APR Tool for re-verification?
Encompass Compliance Service can be used to re-verify the APR calculation.

Are standard print forms available for the tabs on the ATR/QM Management Input form?
Yes, this functionality includes output forms.

What is the application date trigger for comparison tolerances?
It is the Application Date (field ID 745)

Does ATR apply to all types of occupancy, not just Primary?
Yes, it applies to any transaction subject to Regulation Z.

Will data entered on Page 2 of the 1003 Loan Application flow over to the Appendix Q screen?
The Base income will flow to the Appendix Q screen only if the income is entered in the Calculate Base Income pop-up window (accessed by clicking the Edit icon for the Base field (field ID 101). All other income fields will need to be completed on the Appendix Q input form. Starting in Encompass 9.1.0.2, you can click the Import Income button on Appendix Q to import all Gross Monthly Income and Other Income fields from the 1003 Loan Application - Page 2 to Appendix Q.

Will the Appendix Q be an option to print either to the eFolder or hard copy?
Yes.

If we alter a loan that causes it to lose QM status, is there an alert?
There are several alerts delivered with Encompass and you can add custom alerts.

Will a copy of the AUS be attached to the tracking entries?
Not at this time, however, we are looking to include that in a future release.

Is there a way to track appraisals?
There are fields in the disclosure tracking for recording when 1st and 2nd appraisals are provided or an AVM.
Are housing counseling lists included with the disclosures?
ICE Mortgage Technology is targeting an Encompass release in the first/second quarter of 2014 that will facilitate the ability to generate the list of HUD-Approved Home Counseling Agencies directly from within Encompass. This functionality will be delivered in two parts during Q1/Q2.

The first part is expected in late January/early February and will be a new input form in Encompass that will store the agency information and produce a system-generated list. The second part will be enabling a button on the new input form that can go out and electronically import a list of agencies from the HUD API. This is expected to be available later in Q1/early Q2 and will not require a server side update of Encompass.

Until then, a pre-mapped word version of the temporary disclosure referenced by the CFPB’s interpretive rule bulletin is posted to the Encompass Compliance Center under the Compliance Calendar to install in Encompass as a ‘Custom Form’ for lenders who choose to use the temporary option allowed by the CFPB. This posted form will be referenced as: Encompass Housing Counseling Agency Information.

Encompass users can also use the CFPB’s website (http://www.consumerfinance.gov/find-a-housing-counselor/) and either print the list, or save the list as a PDF, of HUD-Approved Home Counseling Agencies from the website into the Encompass eFolder, and then have the document added to the initial disclosure packages. We provide a separate acknowledgment form that was already release in Dec. to Encompass that can be used to have the borrower sign a document indicating that they received the list generated from the CFPB site.

If the Underwriter does not need alimony to calculate and the associated check box is not selected, does that have a detrimental effect on the outcome?
Yes, we need at least an affirmative indication that alimony or the lack thereof was considered and evaluated.

We often have to match our input to underwriter's input-will we be able to clear red flags for data differences?
Yes.

If the user deletes the findings in the eFolder, will it affect the data displayed in the AUS Tracking tool?
No, the AUS Tracking tool will initially be manually completed and soon after will become populated by the AUS data import functionality.

Additional Resources
For more information about HOEPA and Ability-to-Repay standards, the ATR/QM Management tool, and other related functionality refer to these resources:

- CFPB website (Ability-to-Repay and Qualified Mortgage Standards page)
- CFPB Basic Guide for Lenders - What is a Qualified Mortgage?
- CFPB’s Ability-to-Repay and Qualified Mortgage Rule (Small Entity Compliance Guide)
- To review guidance from the CFPB on excluding discount points, refer to the Guidance from CFPB on Appropriate Interest Rate for Excluding Discount Points under Final ATR Rule letter provided by Mortgage Bankers Association (MBA).
- Surviving ATR/QM Standards in 2014 and Beyond (provided by ICE Mortgage Technology)
  http://www.elliemae.com/new-atrqm-standards/
- ATR/QM Product Overview/Training (provided by ICE Mortgage Technology)
- ATR/QM Management Tool video tutorial (27:07)