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GROUP



# ATR & QM Rules

April 2018

Powering Performance. Together.

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## Background

- **The Spotlight Surveys Program** is a fast turnaround small-survey program that gives senior mortgage executives a unique way to obtain specific qualitative mortgage industry information about:
  - What senior executives at other companies think about issues and significant new industry developments.
  - What actions they are considering, planning or have taken.
- **The Spotlight Surveys: Ability to Repay & Quality Mortgage Rules** survey was launched on February 27, 2018 and remained open until March 12, 2018.
  - Invitations were sent to individuals representing 1,356 unique lenders.
  - Responses were received from 122 unique lenders (a 9% response rate) comprised of 58 Independents, 48 Bank-owned lenders, 11 Credit Unions and 5 Builder/Realtor lender.
  - Responses represented all production channels and lenders operating in both single and multiple channels.

## Summary of Key Findings

### ATR/QM Implementation Experience

- **Lenders estimated that ATR/QM regulations added \$139 per loan to their ongoing origination costs, with \$44 of this additional cost recovered from borrowers through additional loan charges and fees.**
  - Net of costs recovered from borrowers, lenders absorbed ongoing origination costs of \$95.
- **Overall, lenders estimated their average investment in implementing ATR/QM regulations at \$326,000, with only minor differences between Bank and Independent lenders.**
  - However, when broken down by lender size, lenders originating more than \$5 billion invested \$744,000 versus an average of \$177,000 by lenders originating less than \$1 billion.
- **Between 50 and 55 percent of lenders felt that they had “enough time” or “more than enough time” to implement ATR/QM regulations.**

## Summary of Key Findings

### ATR/QM Implementation Experience cont.

- **While differences between Bank and Independent lenders were small, lenders originating more than \$5 billion expressed far more dissatisfaction with the time available for implementation than did smaller lenders.**
  - We attribute this difference to the fact that large lenders require more support because of the scope of complexity of their origination operations. It may also reflect the likelihood that larger lenders have larger, more sophisticated IT departments that demand more of their vendors.
- **In general, lenders had less difficulty implementing ATR than QM.**
  - ATR was judged easier because other underwriting techniques (specifically, VA) provided a roadmap for ATR processes. QM regulations, however, were, and remain, ambiguous which leads to more oversight expense.

## Summary of Key Findings

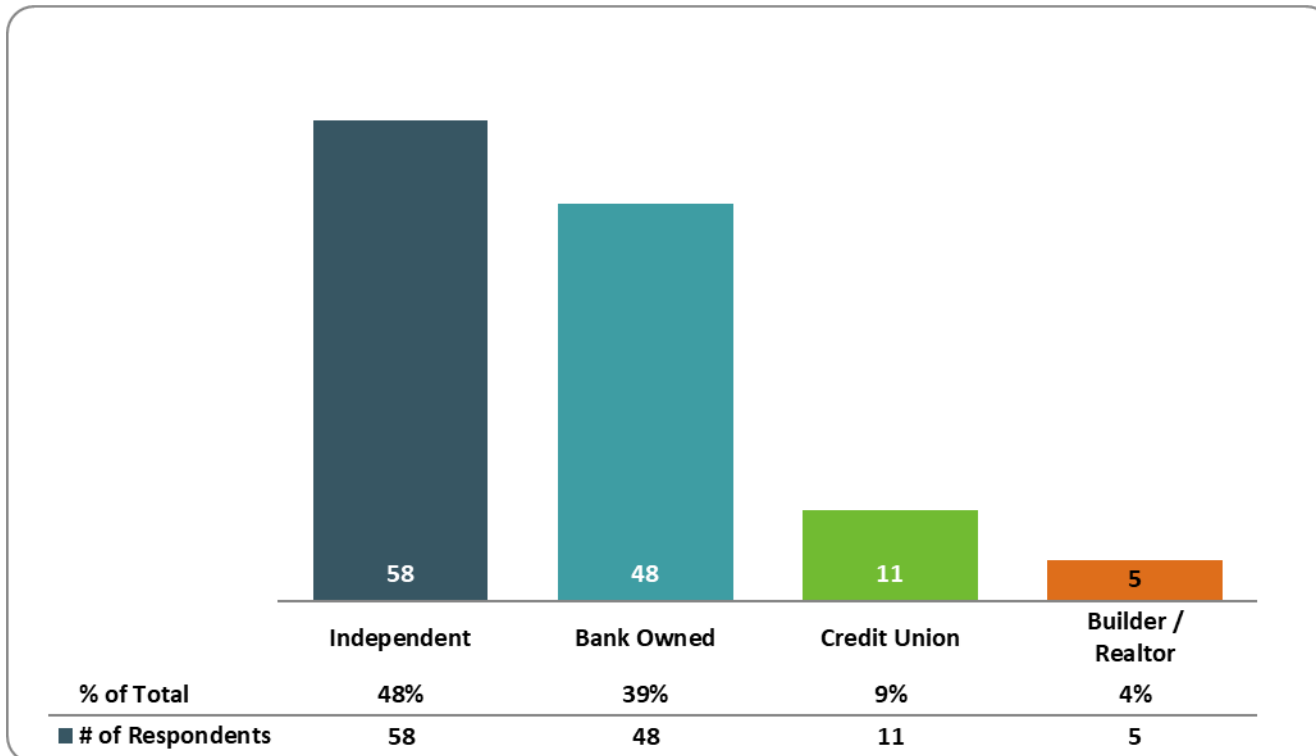
### Attitudes Towards Changing ATR/QM Regulations

- **Sixty-two percent of respondents favored little or no change to ATR regulations. For QM regulations, 54 percent favored little or no changes.**
- **A lender's attitude toward ATR/QM regulatory change is largely driven by their implementation experience as defined by the size of their investment and their satisfaction with LOS and third-party vendor support, irrespective of whether or not they felt they had adequate implementation time.**
  - Lenders investing more than \$750,000 in ATR/QM implementation were 25 to 33 percent more likely to want a significant scale back or elimination of regulations than were lenders investing less than \$250,000.
  - Lenders rating LOS vendor support poor to fair were almost 70 percent more likely to want a significant scale back or eliminate QM regulations than were lenders who rated LOS vendor support good-to-outstanding.
  - Lenders rating third-party vendor support poor to fair were twice as likely to want a significant scale back or elimination of QM regulations than were lenders who rated such support good to outstanding. For ATR regulations, a lender that rated third-party vendor support poor to fair was 50 percent more likely to want ATR regulations scaled-back or eliminated than lenders who held a favorable view of their third-party vendor support.



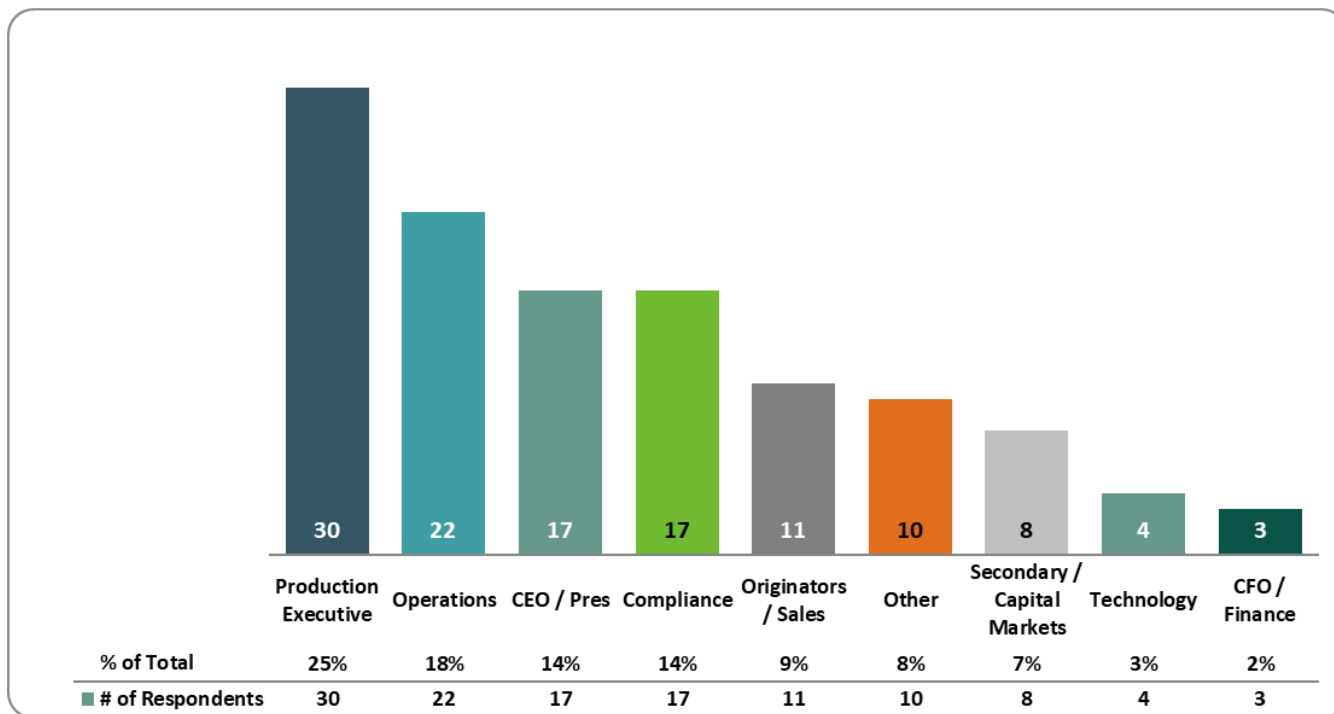
# RESPONDENT PROFILE

## How would you describe the ownership of the company?



- The results of our survey represent both the Banks and Independents.
- For the subsequent analysis, the Credit Unions have been included in the Bank subset and the Builder/Realtor affiliated with the Independents.

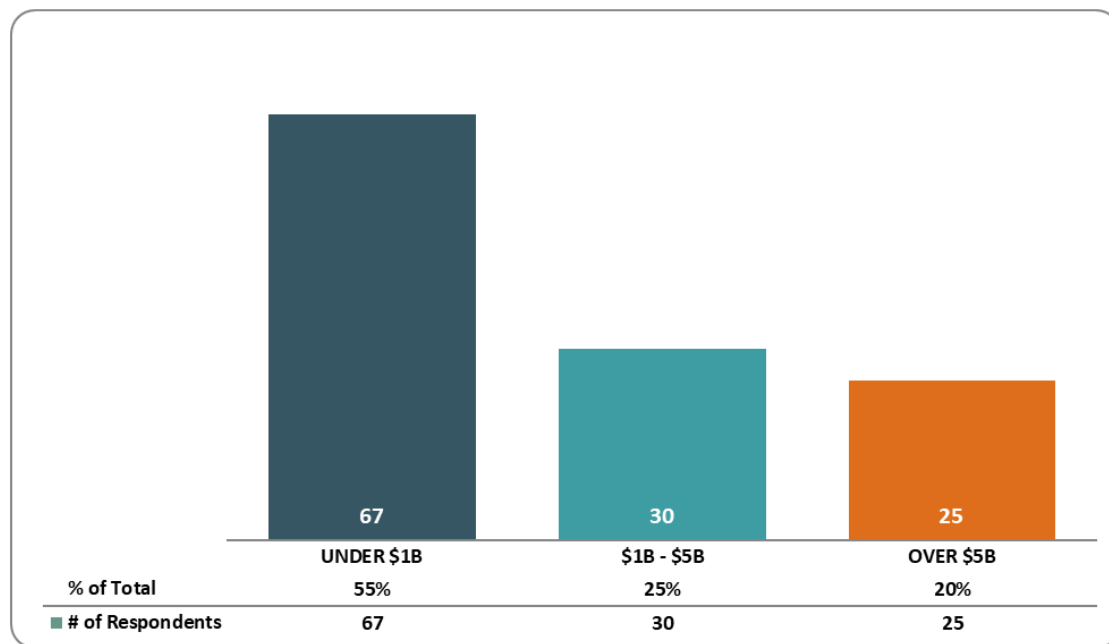
### Which of the following best represents your role at your company?



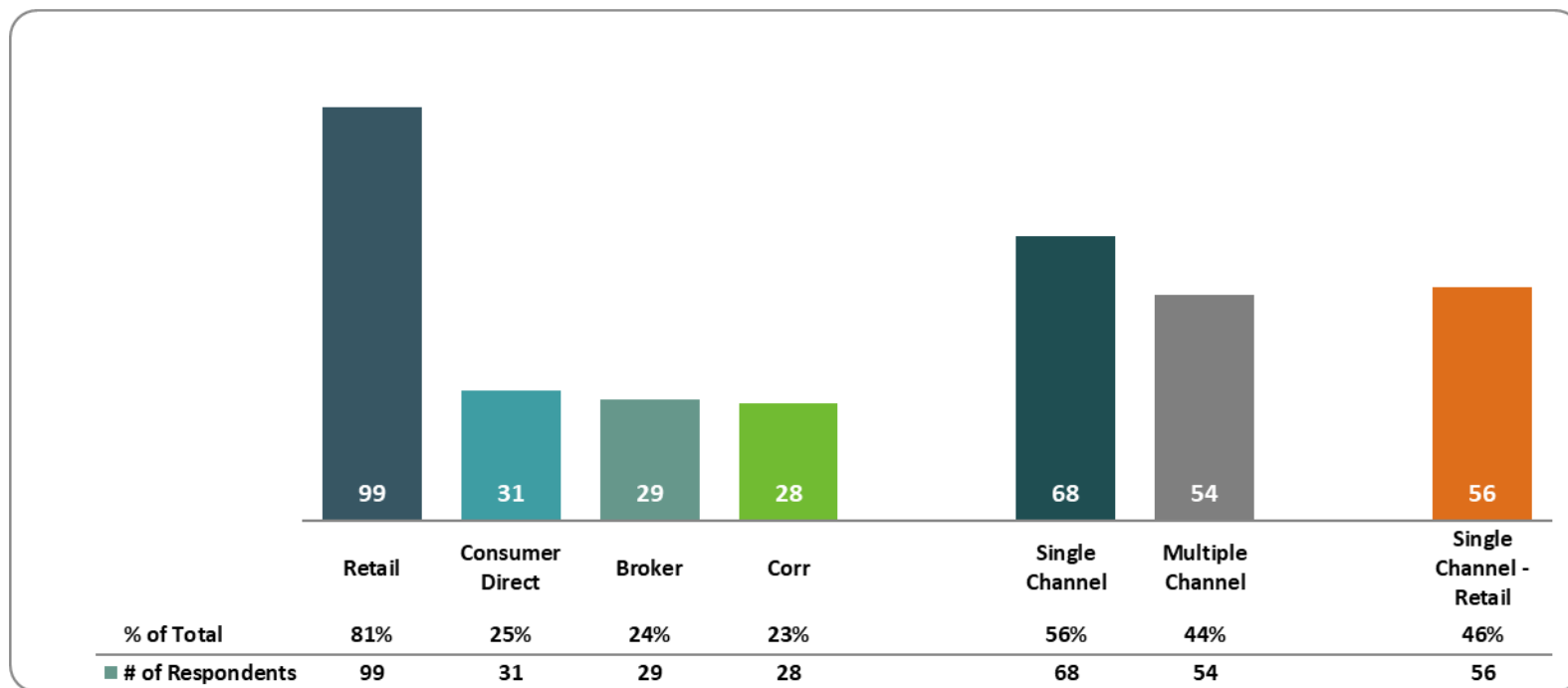
- 25 percent of respondents came from production, 18 percent from operations, 14 percent from compliance and 14 percent from executive/CEO roles.
- Additional responding roles came from Origination and Sales, Secondary/Capital Markets, Technology and Finance. Roles are well represented by the respondent mix who have larger stakes in both ATR/QM implementation and ongoing compliance.

**Across all the channels in which your company does business, what was the breakdown of your total origination volume for 2017?**

- The survey includes respondents of all sizes
  - 55% of the sample originating under \$1 billion
  - 25% originated between \$1 billion and \$2 billion
  - 20% originating over \$5 billion



**Please select the channel(s) in which your company does business.**



- The responses represent all production channels and companies with single and multiple channels of originations



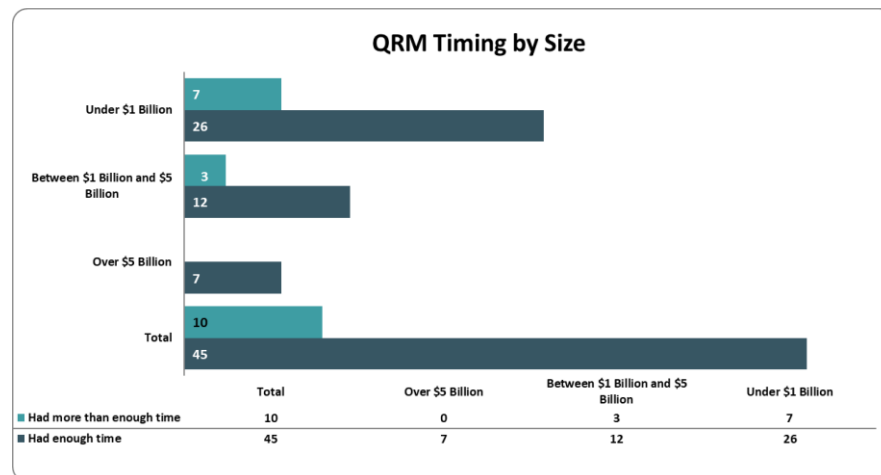
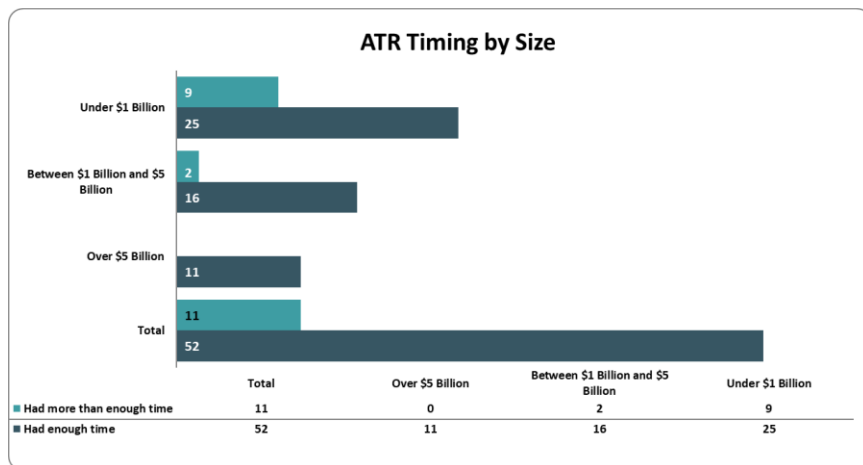
## ATR/QM IMPLEMENTATION EXPERIENCE

### Do you feel you had enough time to implement ATR regulations?

	ATR	QRM
Had more than enough time	11	10
Had enough time	52	45
Neutral	21	22
Could have used a little more time	33	38
Could have used a lot more time	3	5
	ATR	QRM
Had more than enough time	9%	8%
Had enough time	43%	38%
Neutral	18%	18%
Could have used a little more time	28%	32%
Could have used a lot more time	3%	4%

- For both ATR and QM regulations, 46 to 52 percent of respondents felt that they either had enough, or more than enough, time.

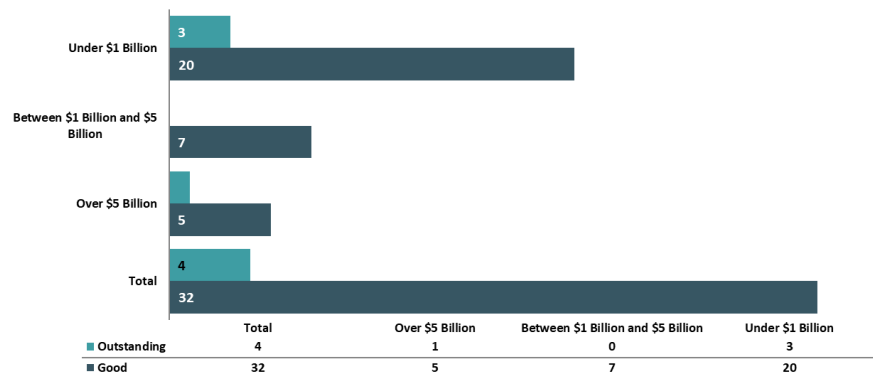
### Do you feel you had enough time to implement ATR regulations?



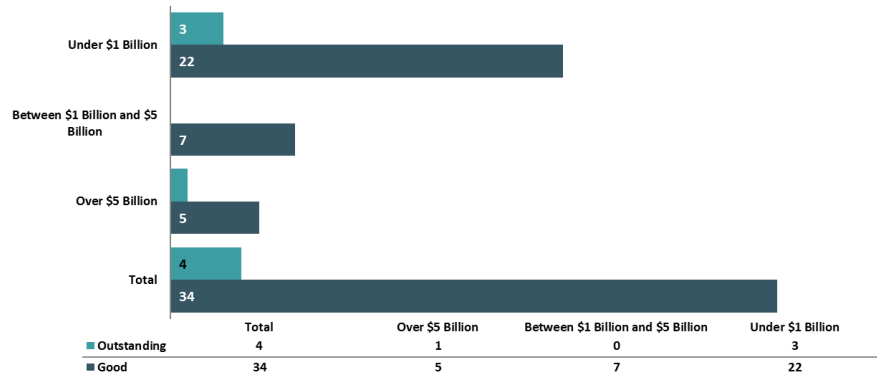
- The charts show only the respondents with “Had more than enough time” or “Had enough time” for this question.
- Large lenders – those originating more than \$5 billion – expressed far more dissatisfaction with the time available for implementation.
  - Larger lenders have a bigger training challenge than smaller lenders.
  - Larger lenders are more likely to have third-party origination channels, which add to the implementation complexity.

### To what extent did your LOS vendor provide knowledge and support in implementing ATR and QM regulations?

ATR LOS Support by Size



QRM LOS Support by Size



- 36 percent of lenders originating less than \$1 billion ranked their LOS support of ATR implementation Outstanding or Good versus 24 percent for lenders originating over \$5 billion.
- QM implementation corresponding percentages are 37 and 25 percent respectively.

### To what extent did your LOS vendor provide knowledge and support in implementing ATR and QM regulations?

	ATR	QM
Outstanding	4	4
Good	32	34
Okay	28	27
Fair	26	26
Poor	18	18
N/A	12	12
	ATR	QM
Outstanding	3.7%	3.7%
Good	29.6%	31.2%
Okay	25.9%	24.8%
Fair	24.1%	23.9%
Poor	16.7%	16.5%
N/A	11.1%	11.0%

### To what extent did your third-party vendors provide knowledge and support in implementing ATR and QM regulations?

	Under \$1 Billion	Between \$1 Billion and \$5 Billion	Over \$5 Billion	Under \$1 Billion	Between \$1 Billion and \$5 Billion	Over \$5 Billion
ATR				QM		
	% of Respondents by Category					
Outstanding	5%	0%	4%	4%	0%	4%
Good	31%	23%	20%	33%	23%	21%
Okay	22%	30%	20%	19%	33%	17%
Fair	22%	27%	16%	22%	23%	17%
Poor	14%	10%	24%	13%	10%	25%
N/A	8%	10%	16%	7%	10%	17%

- For ATR, 32 percent of lenders originating less than \$1 billion ranked their 3<sup>rd</sup> party support as Outstanding or Good versus just 8 percent for lenders originating over \$5 billion.
  - For QM, the corresponding percentages are 31 and 13 percent respectively.



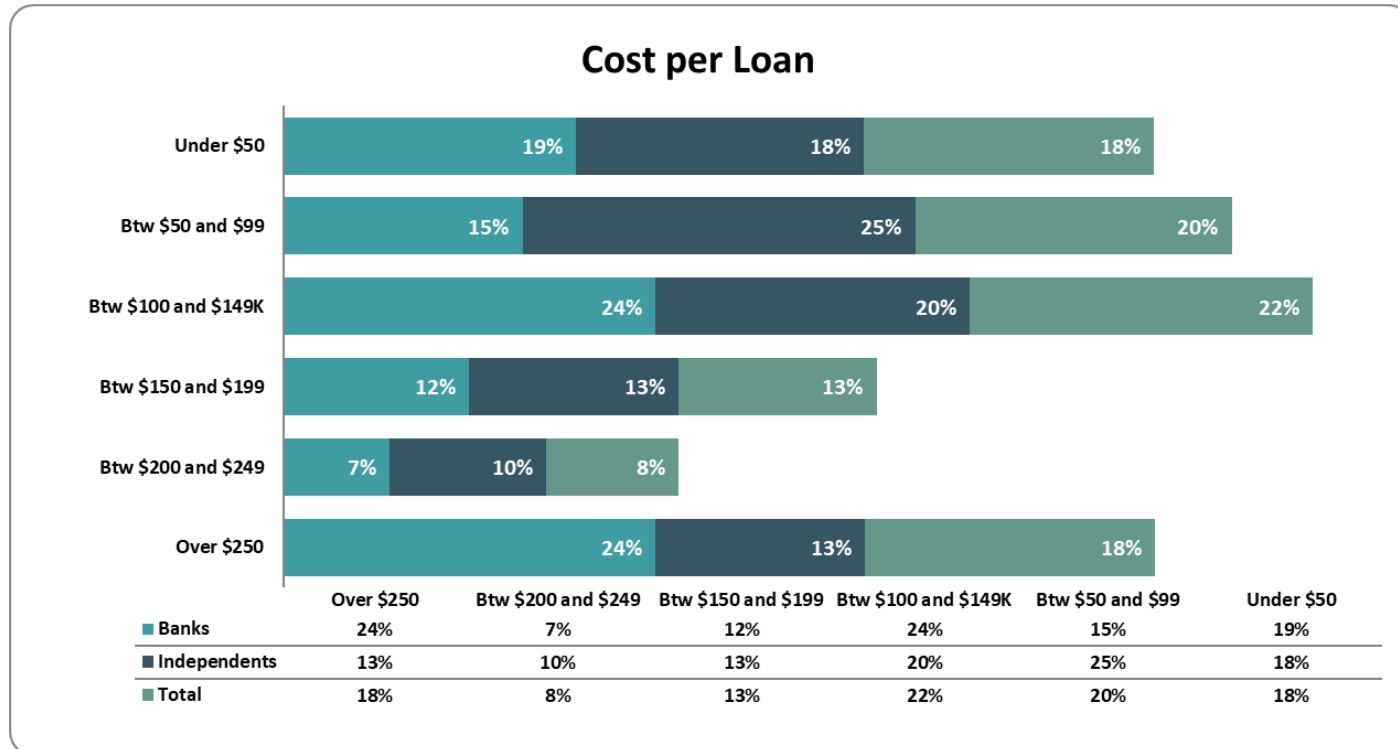
# ATR/QM INVESTMENT AND COSTS

### What is the best estimate of the investment your company made in the people, process, and policy changes to implement ATR/QM?

	Under \$1 Billion	Between \$1 Billion and \$5 Billion	Over \$5 Billion
% of Respondents by Category			
Under \$1K	58%	30%	4%
Btw \$100K and \$249K	28%	27%	12%
Btw \$250K and \$499K	7%	23%	24%
Btw \$500K and \$749K	3%	13%	12%
Btw \$750K and \$1M	0%	3%	12%
Over \$1M	3%	3%	36%
Average Investment	\$177,000	\$311,000	\$744,000

- The survey showed that lender investment in implementing ATR/QM regulations was virtually the same for Bank and Independent but varied significantly as a function of lender size.
  - Lenders originating less than \$1 billion invested, on average, just \$177,000 versus an average investment of \$744,000 by lenders originating over \$5 billion.

### What is your best estimate of the increase in your cost per closed loan resulting from ATR/QM regulations?



- Banks estimated that compliance with ATR/QM regulations added \$147 per loan to their origination costs, 11 percent higher than the \$131 per loan estimated by Independents.

### What is your best estimate of the increase in your cost per closed loan resulting from ATR/QM regulations?

	Under \$1 Billion	Between \$1 Billion and \$5 Billion	Over \$5 Billion
% of Respondents by Category			
Under \$50	22%	20%	8%
Btw \$50 and \$99	14%	30%	25%
Btw \$100 and \$149	29%	10%	17%
Btw \$150 and \$199	11%	20%	8%
Btw \$200 and \$249	11%	3%	8%
Over \$250	14%	17%	33%
Average Cost Per Loan	\$133	\$128	\$167

- Per loan cost differences were larger when based on lender size. Lenders originating less than \$1 billion estimated an average increase of \$133 per loan versus \$167 for lenders originating over \$5 billion, a 25 percent difference.
- Survey results also showed that lenders recovered about 32 percent of the increased origination costs per closed loan through increased fees charged to borrowers.
- About \$95 of the average \$139 cost per loan was absorbed by the lenders, with the remaining \$44 being paid by borrowers through loan charges and fees.



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# ATR/QM ATTITUDE TOWARDS CHANGES

### What is your attitude regarding potential changes in ATR/QM regulations?

	<div>Under \$1 Billion</div>	<div>Between \$1 Billion and \$5 Billion</div>	<div>Over \$5 Billion</div>	<div>Under \$1 Billion</div>	<div>Between \$1 Billion and \$5 Billion</div>	<div>Over \$5 Billion</div>
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	17%	31%	4%	13%	13%	9%
Modest changes to current regulations	41%	48%	50%	37%	55%	39%
Significant scale back of current regulations	32%	17%	42%	38%	29%	48%
Eliminate them entirely including a roll back of current regulations	10%	3%	4%	12%	3%	4%

- Lender size did not appear to make a significant difference in attitude towards regulatory change.
  - 58 percent of lenders originating under \$1 billion favored no, or modest, changes in ATR regulations versus 54 percent of lenders originating over \$5 billion.

### What is your attitude regarding potential changes in ATR/QM regulations?

Investment Made in People, Process & Policy Changes						
	Under \$250,000	\$250,000 and \$750,000	Over \$750,000	Under \$250,000	\$250,000 and \$750,000	Over \$750,000
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	22%	13%	7%	14%	10%	7%
Modest changes to current regulations	43%	50%	40%	43%	40%	40%
Significant scale back of current regulations	29%	30%	40%	35%	43%	40%
Eliminate them entirely including a roll back of current regulations	6%	7%	13%	8%	7%	13%

- Lender attitudes towards regulatory change did vary significantly with size of the investment made by lenders in people, process, and policy.
  - 65 percent of lenders that invested less than \$250,000 favored no, or modest, changes in regulations versus 47 percent of lenders that invested over \$750,000.
  - For QM, 57 percent of small lenders favored no, or modest, changes compared to 47 percent of larger lenders.

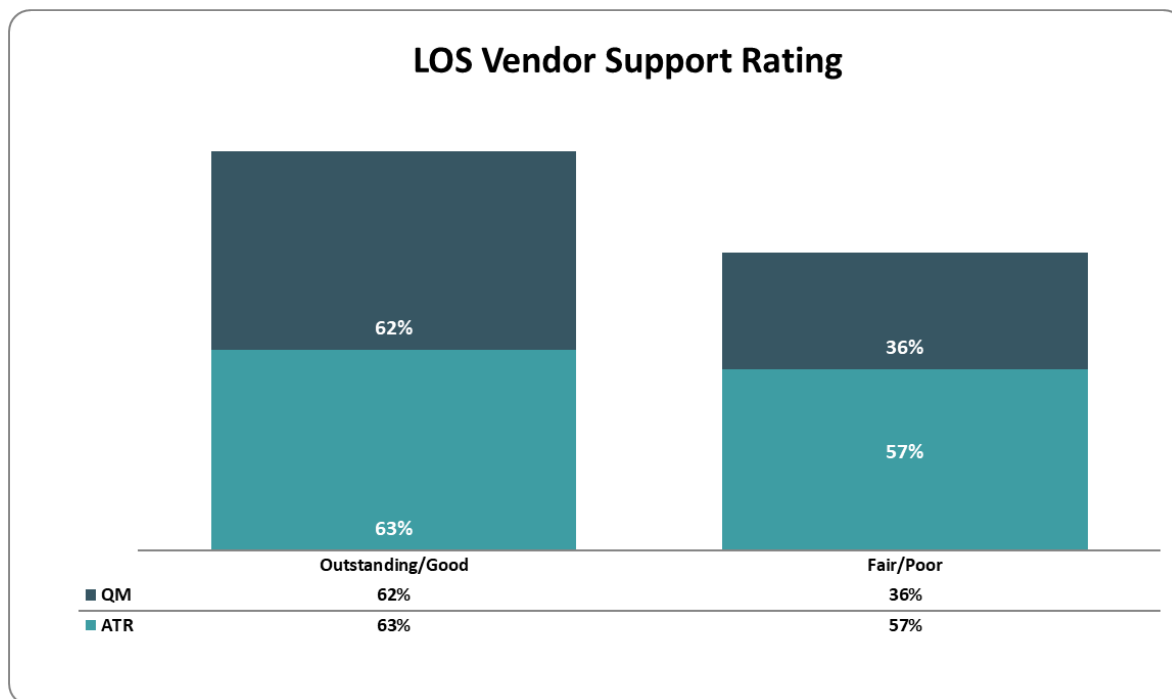
## What is your attitude regarding potential changes in ATR/QM regulations?

- The respondent's role also came into play with attitudes towards change of regulations.
  - Between 60 to 70 percent of respondents favored no, or modest, changes in ATR regulations.
  - COOs, CFOs, and Heads of Production favor significant scaling back of QM regulations.

	CEO	COO	CFO	CEO	COO	CFO
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	29%	23%	33%	13%	4%	0%
Modest changes to current regulations	41%	36%	33%	56%	39%	33%
Significant scale back of current regulations	24%	36%	33%	25%	52%	67%
Eliminate them entirely including a roll back of current regulations	6%	5%	0%	6%	4%	0%
	Head of Production	Compliance	Other	Head of Production	Compliance	Other
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	13%	15%	13%	13%	14%	17%
Modest changes to current regulations	47%	45%	50%	37%	48%	38%
Significant scale back of current regulations	31%	35%	27%	37%	33%	34%
Eliminate them entirely including a roll back of current regulations	9%	5%	10%	13%	5%	10%

## What is your attitude regarding potential changes in ATR/QM regulations?

- When LOS vendor support was outstanding or good, 62 percent of respondents favored no, or modest, changes in QM regulations.
  - When LOS vendor support was judged fair to poor, only 36 percent favored little or no change.
- For ATR, 63 percent of lenders favored no, or modest, changes when LOS vendor support was outstanding or good.
  - 57 percent favored little change when vendor support was fair to poor.



### What is your attitude regarding potential changes in ATR/QM regulations?

	Outstanding/ Good	Okay	Fair/Poor	Outstanding/ Good	Okay	Fair/Poor
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	26%	14%	15%	24%	12%	5%
Modest changes to current regulations	44%	45%	40%	45%	41%	35%
Significant scale back of current regulations	26%	27%	40%	28%	37%	50%
Eliminate them entirely including a roll back of current regulations	4%	14%	5%	3%	10%	10%

- When third-party vendor support was fair to poor, 60 percent of lenders favored significant scale back to complete elimination of QM regulations.
- When third-party vendor support was good to outstanding, only 31 percent of lenders favored scale backs or elimination.

## Contact Us

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