On January 10, the Consumer Financial Protection Bureau (CFPB) released its long-awaited federal Qualified Mortgage (QM) standard. The new federal guidelines, which are required by the Wall Street Reform and Consumer Protection Act (commonly known as the Dodd Frank Act), establish minimum requirements for all mortgage loans.

As anticipated, the QM standard considers community association assessments a key factor when determining if a borrower is qualified for a mortgage. Ensuring borrowers can afford to pay association assessments will lead to stronger communities and prevent foreclosures.

“The Ability-to-Repay standard will ensure home buyers are able to fulfill all their financial obligations related to owning their home—including their association assessments. This will create a greater degree of financial stability for community associations, while at the same time helping to ensure fairness and equity for all owners in the community," said Thomas M. Skiba, CAE, chief executive officer of Community Associations Institute.

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

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

Key features of the QM standard include:

- Ability to Repay—lenders must document that borrowers have sufficient assets and income to make monthly mortgage payments and pay other mortgage-related obligations such as community association assessments.
- Borrower Debt-to-Income Ratio—borrowers may not spend more than 43 percent of their monthly income for payment of mortgages and mortgage-related obligations such as association assessments.
- Legal Safe Harbor for Lenders—except in the case of high-cost mortgages, lenders that comply with the ability to repay standard will be offered protection from borrower litigation.

- High Risk Loan Terms Prohibited—lenders are no longer permitted to offer mortgages that allow loan balances to increase (negative amortization) or interest-only payments. Mortgages may not have terms of greater than 30 years.
- Transitional Standard—all loans eligible to be guaranteed by Fannie Mae and Freddie Mac or for Federal Housing Administration insurance will be granted QM status during a transitional period.
- Delayed Effective Date—lenders will have one year to comply with the QM standard, which is effective January 2014.

CAI is reviewing the final QM standard and will provide additional updates to CAI members once a full analysis has been completed. Summary documents provided by the CFPB may be viewed here.

With more than 32,000 members dedicated to building better communities, CAI works in partnership with 59 domestic chapters, a chapter in South Africa and housing leaders in a number of other countries, including Australia, Canada, the United Arab Emirates and the United Kingdom. CAI provides information, education and resources to community associations and the professionals who support them. CAI's mission is to inspire professionalism, effective leadership and responsible citizenship—ideals reflected in communities that are preferred places to call home. Visit www.caionline.org or call (888) 224-4321.

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