

## Regulation Z Ability to Repay (ATR) Monthly Payment Underwriting Calculation Quick Reference Guide (January 10, 2014)

Effective January 10, 2014, the Standard Ability-to-Repay (ATR) and Qualified Mortgage (QM) regulations require Creditors to determine a consumer's ability-to-repay the covered transaction using the payment calculation methods mandated in Regulation Z Section 43. Payment methodology will vary based on the covered transaction category itself (e.g., Standard ATR, General QM, Small Creditor Balloon Payment QM, etc.). ATR and QM rules mandate underwriting payment calculations for Reg Z-defined fixed-rate mortgages, step-rate mortgages, adjustable-rate mortgages, and loans with toxic features (interest-only or balloon payments, negative amortization loans, etc.). Each calculation for the mandated monthly payment to be used in the underwriting analysis requires a specific method to determine the calculation's interest rate at origination or the loan's recast date, the amortization period to be used and the principal balance outstanding as of the appropriate date. The payment calculations frequently differ from the payment disclosed on the TILA disclosure. *Refer to the regulations and commentary for complete details!!*

Loan Type	Payment Calculation Rate	Payment Rate Date	Amortization Period	Payment Calculation Principal	Monthly Payment for ATR Underwriting
<b>Standard Ability-to-Repay (ATR) § 1026.43(c)</b>					
<b>Fixed Rate Mortgage § 1026.43(c)(5)(i)</b>	Fixed interest rate specified in loan contract	Fixed interest rate at closing	Amortization period as specified in loan agreement	Loan agreement face amount at closing	Monthly, fully amortizing, substantially equal payments at the payment calculation rate
<b>Step-Rate Mortgage § 1026.43(c)(5)(i)</b>	Greater of FIR or intro rate; if no indexed rate or formula value (i.e., no FIR); optional to use maximum rate applicable during loan term	Calculation rate at closing	Amortization period as specified in loan agreement	Loan agreement face amount at closing	Monthly, fully amortizing, substantially equal payments at the payment calculation rate
<b>Adjustable-Rate Mortgage (ARM) § 1026.43(c)(5)(i)</b>	Greater of FIR (index value plus margin) or intro rate. Disregard any rate cap to calculate FIR versus intro rate. <i>At Creditor's discretion, can use max lifetime rate if &lt; FIR.</i>	Calculation rate at closing. Use index at closing or any index during lookback period prior to closing date (Note 1)	Amortization period as specified in loan agreement	Loan agreement face amount at closing	Monthly, fully amortizing, substantially equal payments at the payment calculation rate
<b>Balloon Payment Loan – HPCT § 1026.43(c)(5)(ii)(A) (Note 2)</b>	Must use the scheduled balloon payment in its entirety since ATR loan is a HPCT	Not applicable. Must use balloon payment!	Not applicable. Must use balloon payment!	Not applicable. Must use balloon payment!	Full balloon payment due per loan agreement, regardless of when it is scheduled
<b>Balloon Payment Loan – Non-HPCT § 1026.43(c)(5)(ii)(A) (Note 2)</b>	Maximum payment scheduled (as specified in loan agreement) during first 5 years after date of 1 <sup>st</sup> regular periodic payment	Use the maximum payment scheduled for the first 5 years per the terms of the note. No special rate or payment calculation required.	Amortization period as specified in loan agreement	Loan agreement face amount at closing	Use the maximum payment scheduled during first 5 years (60 months) after date of 1 <sup>st</sup> regular periodic payment. Disregard balloon payment <u>ONLY</u> if <u>NOT</u> due during those first 60 months.
<b>Interest-Only Loan § 1026.43(c)(5)(ii)(B) (Refer to fixed-rate or ARM rules!)</b>	Greater of FIR (rate specified in loan agreement) or introductory rate, using Fixed-Rate or Adjustable-Rate rules above	Rate at recast date. Recast = Due date of last interest-only payment.	Remaining term of note as of the recast date	Loan agreement face amount at closing	Monthly, fully amortizing, substantially equal payments at payment calculation rate
<b>Negative Amortization Loan § 1026.43(c)(5)(C)</b>	Greater of FIR (rate specified in loan agreement) or introductory rate	Rate at recast date. Recast = Due date of last negatively amortizing payment.	Remaining term of note as of the recast date	Maximum principal allowed per note (either the % cap or # negative amort payments)	Monthly, fully amortizing, substantially equal payments at payment calculation rate based on maximum principal allowed under note
<b>General Qualified Mortgage (QM) § 1026.43(e)(2) &amp; Small Creditor QM Portfolio Loans § 1026.43(e)(5)</b>					
<b>Fixed Rate Mortgage § 1026.43(e)(2)(i)</b>	Fixed interest rate specified in loan contract	Fixed interest rate at closing	Amortization period as specified in loan agreement	Loan agreement face amount at closing	Monthly, fully amortizing, substantially equal payments at the payment calculation rate
<b>Step-Rate Mortgage § 1026.43(e)(2)(i)</b>	Maximum interest rate applicable during the first 5 years after the 1 <sup>st</sup> regular periodic payment due date	Maximum interest rate applicable during the first 5 years after 1 <sup>st</sup> regular periodic payment due date	Amortization period as specified in loan agreement	Loan agreement face amount at closing	Monthly, fully amortizing, substantially equal payments at the payment calculation rate
<b>Adjustable-Rate Mortgage (ARM) § 1026.43(e)(2)(i)</b>	Max interest rate during 1 <sup>st</sup> 5 years (including any rate cap effect) after 1 <sup>st</sup> regular periodic payment due date. <i>Creditor can use max lifetime rate if &lt; max rate w/caps in 1<sup>st</sup> 5 years.</i>	Maximum interest rate applicable during the first 5 years after 1 <sup>st</sup> regular periodic payment due date	Remaining term of the loan as of recast date (the date the interest rate adjusts to the maximum interest rate)	Outstanding principal balance as of date loan adjusts to the maximum interest rate	Monthly, fully amortizing, substantially equal payments at the payment calculation rate
<b>Small Creditor Balloon Payment QM § 1026.43(e)(6) &amp; Certain Creditor Balloon Payment QM § 1026.43(f)</b>					
<b>Balloon Payment Loan § 1026.43(f)(i) and (f)(1)(iv)</b>	Fixed interest rate per the loan agreement	Fixed interest rate for the loan term	Amortization period per note	Loan agreement face amount at closing	Monthly, substantially equal payments at fixed interest rate, <u>excluding</u> the balloon payment

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<b>Refinance Non-Standard Mortgage (NSM) into Standard Mortgage (SM) § 1026.43(d)</b>					
<b>Standard Mortgage (SM): Fixed- or Step-Rate Mortgage § 1026.43(d)(5)(ii)</b>	Fixed interest rate for the first 5 years per the standard mortgage note (Category <u>requires</u> fixed interest rate for 5 years)	Calculation rate at closing	Amortization period as specified in loan agreement	Loan agreement face amount at closing; loan proceeds may only be used for NSM payoff and closing costs	New payment must be ≤ 90% of NSM payment; Monthly, fully amortizing, substantially equal payments at max rate applicable during first 5 years after closing SM using method noted above
<b>Non-Standard Mortgage (NSM) § 1026.43(d)(5)(i)</b>	Fully indexed rate	As of a reasonable time (30 days) before or after date borrower's written application for SM is received	Remaining NSM loan term as of recast date	Principal at recast date, reduced by all scheduled payments up to and on recast	Monthly, fully amortizing, substantially equal payments of principal and interest
<b>Simultaneous Loan § 1026.43(c)(6)</b>					
Monthly payment for the newly originated covered transaction (closed-end consumer purpose loan secured by a dwelling) should be calculated in accordance with the applicable method as defined for the Standard Ability to Repay § 1026.43(c)(5) category for the applicable non-HELOC loan type, General Qualified Mortgage § 1026.43(e)(2) & Small Creditor QM Portfolio Loans § 1026.43(e)(5), or the Small Creditor Balloon Payment QM § 1026.43(e)(6) & Certain Creditor Balloon Payment QM § 1026.43(f) category above. Commentary 43(c)(6) also clarifies that ATR analysis for simultaneous loan must take into account any mortgage-related obligations in accordance to the ATR requirements in 43(c)(2)(v).					
<b>Home Equity Line of Credit (HELOC) § 1026.43(c)(6)(ii)</b>	Rate as specified in the line of credit agreement	Calculation rate at closing	Amortization period as specified in the line of credit agreement	Amount of credit to be drawn against the line at or before closing of newly originated covered transaction (Note 3)	Use payment required under line of credit terms and the amount of credit to be drawn at or before closing of the covered transaction
<b>Non-HELOC Simultaneous Loan § 1026.43(c)(6)(i)</b>	<i>Follow the methodology specified above for the applicable loan type (e.g., fixed rate, ARM, balloon payment loan, etc.) in the first category, Standard ATR § 1026.43(c)(5)</i>				

**Note 1:** Since the monthly payment calculation must be completed prior to loan origination and is a critical component in the ATR underwriting, the Creditor may use the lookback period defined in the note to identify an appropriate index to use in calculating the fully indexed rate for underwriting purposes. For example, if the note specifies a 45-day lookback period to determine the index at the next rate change date, the Creditor may use any index within the 45-day period prior to the anticipated closing date.

**Note 2:** The Standard ATR payment calculation for balloon payment loans depends on whether the loan is a higher-priced covered transaction (HPCT). A first-lien Standard ATR balloon payment loan is a HPCT if its percentage rate (APR) is 1.5 or more percentage points more than a comparable average prime offer rate (APOR), or an APR 3.5 or more percentage points more than a comparable APOR for subordinate liens. Use the maximum payment in the payment schedule, including the entire amount any balloon payment, if the loan is a HPCT. The rules require the use of the maximum payment scheduled during the first five years after the date on which the first regular periodic payment will be due for a loan that is not a HPCT.

**Note 3:** The Creditor is required to consider the simultaneous loan's periodic payment required under the line of credit plan by considering the actual amount of credit to be drawn by the consumer at closing of the newly originated covered transaction secured by the same dwelling. The amount to be drawn is the amount requested by the consumer; when the amount requested will be disbursed, or the consumer's actual receipt of funds is immaterial to the underwriting calculation. The Creditor must determine the source of down payment during underwriting. If in doing so it is determined that the consumer will obtain the down payment using a simultaneous loan, the Creditor must calculate the monthly payment by assuming the amount to be drawn is at least the amount of the required down payment.

**Legend:**

ARM = Adjustable-rate mortgage  
 HPCT = Higher priced covered transaction

ATR = Ability-to-repay  
 NSM = Non-standard mortgage

FIR = Fully indexed rate  
 QM = Qualified mortgage

HELOC = Home equity Line of credit  
 SM = Standard mortgage