BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

SR 13-20

CA 13-23

December 13, 2013

TO THE OFFICERS IN CHARGE OF SUPERVISION AND APPROPRIATE SUPERVISORY AND EXAMINATION STAFF AT THE FEDERAL RESERVE BANKS AND TO FINANCIAL INSTITUTIONS SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: **Interagency Statement on Supervisory Approach for Qualified and Non-Qualified Mortgage Loans**

Applicability: This guidance applies to all institutions supervised by the Federal Reserve, including those with $10 billion or less in total consolidated assets.

The Federal Reserve and the other federal financial institutions regulatory agencies[1] issued the attached statement to clarify safety-and-soundness expectations and Community Reinvestment Act (CRA) considerations for regulated institutions engaged in residential mortgage lending in light of the Consumer Financial Protection Bureau's (Bureau) Ability-to-Repay and Qualified Mortgage Standards Rule (Ability-to-Repay Rule).[2]

The statement is intended to guide institutions as they assess the implementation of the Bureau's Ability-to-Repay Rule, which takes effect January 10, 2014. From a safety-and-soundness perspective, the agencies emphasize that an institution may originate both qualified and non-qualified residential mortgage loans (QM and non-QM, respectively), based on its business strategy and risk appetite. The agencies will not subject a residential mortgage loan to

[1] The other federal financial institutions regulatory agencies include the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency.

[2] *See* Ability-to-Repay and Qualified Mortgage Standards Rule under the Truth in Lending Act (Regulation Z), 78 FR 6408 (Jan. 30, 2013), as amended. The Ability-to-Repay Rule requires institutions to make reasonable, good faith determinations that consumers have the ability to repay mortgage loans before extending such loans.

safety-and-soundness criticism solely because of the loan's status as a QM or non-QM loan. Regardless of whether a residential mortgage loan is a QM or non-QM, an institution should address key risk areas in residential mortgage lending, including loan terms, borrower qualification standards, loan-to-value limits, documentation requirements, and portfolio- and risk-management practices.

From a consumer protection perspective, the agencies responsible for conducting CRA evaluations do not anticipate that an institution's decision to originate only QMs, absent other factors, would adversely affect its CRA evaluations. As recently addressed in the *Interagency Statement on Fair Lending Compliance and the Ability-to-Repay and Qualified Mortgage Standards Rule*, the requirements of the Bureau's Ability-to-Repay Rule and the fair lending laws are similarly compatible.[3]

Questions regarding this letter should be directed to the following individuals:

- Division of Banking Supervision and Regulation: David Emmel, Manager, at (202) 912-4602; or Donald Gabbai, Senior Supervisory Financial Analyst, at (202) 452-3358; or
- Division of Consumer and Community Affairs: Carol Evans, Assistant Director, at (202) 452-2051; or Amy Henderson, Manager, at (202) 452-3140.

In addition, institutions may send questions via the Board's public website.[4]

Michael S. Gibson
Director
Division of Banking Supervision
and Regulation

Sandra F. Braunstein
Director
Division of Consumer
and Community Affairs

Attachment:

- *Interagency Statement on Supervisory Approach for Qualified and Non-Qualified Mortgage Loans*

Cross-reference to:

- CA letter 13-15, "Interagency Statement on Fair Lending Compliance and the Ability-to-Repay and Qualified Mortgage Standards Rule"

---

[3] Refer to CA letter 13-15, "Interagency Statement on Fair Lending Compliance and the Ability-to-Repay and Qualified Mortgage Standards Rule."

[4] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.