Press Release

Understanding the End of the QM Patch

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While the Obama Administration's Consumer Financial Protection Bureau (CFPB) implemented a rule requiring mortgage borrowers to have a debt-to-income ratio below 43 percent (the Qualified Mortgage, or QM, rule), it also created an exemption (the QM Patch) for mortgages backed by Fannie Mae and Freddie Mac, the government-sponsored housing finance giants. Last week, however, the Trump Administration's CFPB announced that it will not extend this exemption past 2021. In this analysis, AAF's Director of Financial Services Policy Thomas Wade examines the implications of this shift by answering five questions around this policy change.

He concludes:

- The QM Patch arose because of a conflict between the need to lower the number of risky mortgages and the desire to encourage home ownership — a central part of the "American Dream";
- The QM Patch is deeply problematic in that it compounds the government-provided advantages that Fannie Mae and Freddie Mac already have, giving them an even stronger position in the housing finance market; and
- While allowing the QM Patch to expire will decrease mortgage availability, particularly for those with low incomes, it also will necessarily decrease the systemic risk implicit in the U.S. housing sector.

Read the analysis.