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## CEO: The government wants you to make non-QM mortgages

by [Rachel Norvell](#) | Apr 10, 2015

There's plenty of buzz in the mortgage industry about whether originators should lend outside the Qualified Mortgage rule (QM-rule), but according to Matthew Ostrander, CEO of [Parkside Lending](#), non-QM loans are critical to the longevity of the housing recovery.

"The government wants you to make non-QM loans and they really need you to," Ostrander said at the [24<sup>th</sup> Annual Rocky Mountain Mortgage Lenders Expo](#). "Private money is extremely important to our longevity."

Ostrander added that a healthy recovery and economy come with the inflation of existing home prices on an ongoing basis. "Inflation will not occur quickly without non-QM. It will be a drag on growth and spending."

While the product does pose more risk, many non-QM loans meet ability-to-repay guidelines using income or assets not authorized in current regulation and has plenty of market potential for mortgage originators, according Ostrander.

In fact, non-QM makes up 10 to 15% of the market and if you add interest only loans, it's 40%. It is also estimated to be worth \$2 trillion over the next four years, he said. The untapped market also offers a huge

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opportunity to non-bank entities, as large banks are retreating.

"Non-banks are, or will, become the winners of this market," Ostrander said. "Large banks don't want to deal with it. They have litigation that's ongoing, not to mention they have the biggest pockets to go after. Expect them to be sitting out for a couple of years."

Ostrander emphasized that some non-QM loans can be safer than QM loans. He used two scenarios. The first included a QM borrower with a \$50,000 income, 43 debt-to-income ratio, 97% loan-to-value and a 620 credit score.

The other scenario is a non-QM borrower with a \$1 million income, 70% LTV and a 760 FICO score, but with a 55 DTI that falls outside of QM requirements. "Which one looks better to you," he asked the audience of [mortgage professionals](#).

Despite the market potential, trepidation lingers over the product's risk, as [mortgage professionals](#) who originate QM loans enjoy greater legal protections should those mortgages default. Mortgage professionals are also uncertain about where the accountability lies.

Another issue is that secondary markets have yet to completely warm up to non-QM loans. Nonbank entities will need to find investors willing to purchase the mortgages. "Early money is greedy money. They [investors] want yields in the 20s and to do that you need to have higher interest rates, but that's not in the best interest of the borrower," Ostrander said.

However, he added companies like Parkside, Bayview Loan Servicing, FirstKey Holdings and MountainView Capital Holdings are a few that do purchase non-QM loans.

So how will non-QM loans become mainstream? The answer is time, according to Ostrander. "There has to be litigation. Someone needs to default, and then sue, and then the courts will figure out what went wrong.

He added that the courts will set the precedent for investors (including independent mortgage bankers) to be able to understand the liability actually created by the non-QM in regards to legal risks. It is after this that investors, credit rating agencies and others will see for themselves that non-QM is quantifiable risk.

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