

Non-Qualified Mortgages: What They Are, How They Work



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What Is a Non-Qualified Mortgage (Non-QM)?

A non-qualified mortgage, or non-QM, is a type of mortgage often taken out by borrowers who have the funds to buy a home but are unable to meet the typical mortgage eligibility requirements. For instance, self-employed workers with irregular incomes might not be eligible for qualified [mortgages](#), or QMs, which have strict lending requirements.¹

Key Takeaways

- Non-qualified mortgages allow borrowers who don't meet traditional

lending criteria to still purchase a home.

- Non-QMs have unique eligibility requirements, interest rates, and terms.
- Potential non-QM borrowers should weigh the benefits against the risks, including higher interest rates.
- Non-QMs are particularly well-suited for self-employed workers and other people with non-traditional sources of income.

How Non-QMs Work

[Qualified mortgages](#) are those that meet the [Dodd-Frank Wall Street Reform and Consumer Protection Act's](#) lending requirements.¹ [Non-qualified mortgages](#) also have their own sets of criteria you have to meet to get a mortgage, but these aren't the same as those outlined in the Dodd-Frank Act. Not all lenders offer non-QMs, but those that do give borrowers a chance to purchase a home they might not otherwise be able to qualify for.

As with other types of home loans, the borrower eligibility requirements for a non-QM are set by the mortgage lender. In most cases, you might need to make a larger [down payment](#) or can expect to pay a higher [interest rate](#) on a non-QM.

You might also be required to meet a certain income threshold or prove your income in ways other than providing a [W-2](#) or [pay stubs](#), as you typically would for a QM. This is important for borrowers who have non-traditional sources of income, such as self-employed business owners and contractors.

History and Regulatory Background of Non-QMs

In the aftermath of the [2007–2008 financial crisis](#), the Dodd-Frank Act of 2010 changed the financial regulation and oversight of, among other things, the mortgage lending industry.² The goal was to ensure that anyone borrowing money to purchase a home could reasonably repay their debt.

As part of this, the act established anti-predatory lending provisions that

lenders must comply with in order for their mortgages to be considered QMs. These include reviewing a prospective borrower's employment status, monthly expenses, proof of income, and [credit history](#). Thus, home loans that don't meet these requirements are considered non-QMs.

Pros and Cons of Non-QMs

Pros

- Flexible qualifying criteria
- Good for non-traditional workers

Cons

- Potentially higher interest rates
- Larger down payment
- Harder to find

Pros Explained

- **Flexible qualifying criteria:** Without the strict requirements that QMs are subject to, lenders are able to assess potential borrowers based on a variety of possible factors. For instance, QMs typically require a minimum [credit score](#) or substantial credit history, so a non-QM is often a good option for non-prime borrowers.³
- **Good for non-traditional workers:** Self-employed business owners, contractors, etc. who may be ineligible for a QM could qualify for a home loan by applying for a non-QM instead.

Cons Explained

- **Potentially higher interest rates:** Because lenders view non-QMs as

being riskier than their QM counterparts, non-QMs typically have higher interest rates.

- **Larger down payment:** You could pay as little as 0% down with some QMs. But for non-QMs, you might have to pay 25% of your home's sale price, depending on your credit score.
- **Harder to find:** Not all lenders offer non-QMs, so you might have to work a bit harder to track down a non-QM lender that both suits your needs and you'll be able to qualify for.

Where Can You Get a Non-Qualified Mortgage?

Not all lenders provide non-QMs. You'll have to look online or contact the lenders you're considering to determine whether they offer non-QMs, assuming their non-QM options are even what you're looking for.

What Are Some Alternatives to a Non-QM?

Even if you're eligible for a non-QM, consider looking into your options from other lenders first. Some alternatives to non-QM loans include traditional mortgages, FHA loans, VA loans, and USDA loans.⁴⁵⁶

Can a Non-QM be Refinanced Into a Traditional Mortgage?

Yes, it's entirely possible to refinance a non-QM into a traditional mortgage.

The Bottom Line

Getting a mortgage can take a lot of work, and for folks who might not be eligible for QMs, non-QMs are a good alternative, though they aren't without their downsides. Determine what you're eligible for and compare several different lenders before you submit an application for a non-QM. It might also be smart to talk to a mortgage broker or realtor to figure out what home loan options you may have.

