

Section 32 (HCM/HOEPA) Breakdown Including CFPB January 1, 2014 - 2016 Updates

	HOEPA (12 CFR § 1026.32) High-Cost Mortgage Loans
General	2013 CFPB TILA amendments apply to Borrowers that purchase or already own their homes and entered into loans that met or exceeded specific cost parameters. These amendments enhance existing HOEPA protections to align with the QM and ATR restrictions effective January 1, 2014.
Consumer Loan Type	<p><u>Principal dwelling only -1st and subordinate liens</u> Covers fixed rate or adjustable rate mortgages including:</p> <ul style="list-style-type: none"> • Purchase Money Loans • Refinancing of closed-end Purchase Money or home equity loan • Closed-end Home Equity Loan • Home Equity Lines of Credit (HELOC) • Actual “Bridge Loans” to obtain principal dwelling • Home Improvement(interest or P&I) • Temporary
Exemptions	<p>HOEPA/Section 32 definitions does not include;</p> <ul style="list-style-type: none"> • Initial Construction Loans(Borrower Interim) • Reverse mortgages • Originated or directly financed by Housing Financing Agency (HFA) • Originated or directly financed USDA Rural Development Section 502 Direct Loan Program • Non-owner occupied and second home purchases and refinance mortgages

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Thresholds	<p>Thresholds based on either APR Test or Points & Fees Test: www.ffiec.gov/ratespread/newcalc.aspx APR Test: A closing date APR that exceeds the APOR as of the date the interest rate was set</p> <ul style="list-style-type: none"> • 6.5 % points for first-lien loans or • 8.5 % points for subordinate-lien loans • 8.5 % points for first-lien loans if dwelling is personal property and less than \$50,000 <p style="text-align: center;">-OR-</p> <p>Points and Fees Test: Points and fees exceeding the greater of;</p> <ul style="list-style-type: none"> • 5 % of the total loan amount if loan amount is \$20,000 or more; or • The lesser of 8% or \$1,000 for loan amounts less than \$20,000 (adjusted annually); or <p>Points and Fees include;</p> <ul style="list-style-type: none"> • All items required to be disclosed in §1026.4(a) and §1026.4(b); -Except for interest or time-price differential; and any Federal or State agency guaranty or mortgage insurance; Non-Agency MI payable after consummation; or for Non-Agency MI payable at or prior to closing, the amount in excess of FHA UFMIP; • Less excludable discount points; • All fees paid directly or indirectly to creditor, loan originator or its affiliates known at consummation; • All compensation paid by creditor to a mortgage broker • All items listed in §1026.4(c)(7), unless reasonable, and creditor or affiliate receives no direct or indirect compensation for charge; • Premiums for any credit insurance payable at or before consummation; • Maximum Prepayment Penalty that may be collected if allowable; and • Total Prepayment penalty incurred if the borrower refinances with creditor or its affiliate. <p>Open-End additionally includes</p> <ul style="list-style-type: none"> • Participation fees payable at or before account opening; • Fees charged to consumer to draw funds from the credit line. <p><i>Prepayment Penalty Coverage Test: Loan is high-cost if you charge a prepayment penalty;</i></p> <ul style="list-style-type: none"> • More than 36 months after consummation or account opening; or • In an amount more than 2% of the amount prepaid.

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<p>Requirements</p>	<p>HOEPA disclosure must be given 3 business days prior to closing. If transaction is rescindable, give to each consumer who has the right to rescind. The following must be included in HOEPA disclosures:</p> <ul style="list-style-type: none"> • “You are not required to complete this agreement merely because you have received these disclosures or signed a loan application. If you obtain this loan the lender will have a mortgage on your home. You could lose your home and any money you have put into it if you do not meet your obligations under this loan” <p>PLUS</p> <ul style="list-style-type: none"> • APR; • Amount of the regular monthly (or other periodic) payment and the amount of any balloon payment; <ul style="list-style-type: none"> -Open-end ;based on borrowing full line of credit with no further extensions, borrower making minimum payments, and APR remaining constant during both draw period and any repayment period. -Examples to include; first minimum periodic for draw period, first minimum periodic for repayment, and balance outstanding at the beginning of any repayment period. -Example section must include a statement indicating that these are not the consumer’s actual payments and that actual minimum periodic payments will depend on amount borrowed, interest rate applicable to that period and whether the consumer pays more than the required minimum periodic payment • Variable rate transaction, statement that interest rate and payment may increase and the maximum rate and payment possible; • Amount borrowed ; Credit limit (note amount with notation if amount includes optional credit insurance or debt-cancellation coverage.) <ul style="list-style-type: none"> -Open-end amount must indicate the borrower’s total credit limit for the plan at the time the account is opened.

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Prohibitions	May not impose a prepayment penalty at any time if the loan violates any of the Section 32 rules.
	May not structure a home-secured loan as an open-end plan to evade Section 32
	May not <ul style="list-style-type: none"> • impose, with limited exception, a balloon payment on loans with a term of less than 5 years; • Balloon exception for “bridge loans of 12 months or less”, or certain Rural and Underserved or Small Creditor loans designated under 1026.43 (f) and (e)(6) • Impose negative amortization; • collect advance payments, i.e., the consolidation and collection of more than 2 periodic payments, paid in advance from the loan proceeds; • increase an interest rate upon default; • include, with limited exception, a due-on-demand clause; • unfairly calculate interest due to be rebated to a consumer in connection with loan acceleration resulting from default; • make, with limited exception, a direct payment of loan proceeds to a home improvement contractor, payable solely in the name of the contractor; • fail to furnish the required Regulation Z notice to an assignee of a high-cost mortgage (informs the assignee this mortgage is subject to special TILA protections and the assignee could be liable for claims and defenses the consumer could assert against the lender); • Refinance a high-cost mortgage made by the same lender into another high-cost mortgage to the same homeowner within 1 year of consummation unless the refinancing is in the homeowner’s interest, e.g., a lower interest rate.