

Section 32 Loans – Federal Rules*

Applies to: Refinances/Consumer Credit wherein security is borrower's principal dwelling and loan is closed-end credit

APR Test:

- 1st Lien can not exceed by 8%
- 2nd Lien can not exceed by 10%

This means the APR can not exceed: Sum of rate for Treasury security (in effect the 15th of the month preceding the month in which the application was received by the lender) with comparable maturity plus either 8 or 10 points depending on lien position (Example: Received March 22 – use Treasury as of February 15)

FEES:

- All Finance Charges (except interest)
- All Broker Compensation (except YSP)
- All Fees paid to Lender or Lender affiliates (even non-finance charges)
- Any insurance (other than flood or hazard) premiums paid at or before closing – even if not considered an insurance policy by state law - whether voluntary or required by lender (i.e.: credit life, health, debt cancellation ins) – regardless of to whom it was paid

TOTAL MAX LOAN AMOUNT IS DEFINED AS

“Amount Financed” as shown in TIL Box, less any fees paid or financed noted above – including insurance premiums as noted above paid in cash, financed or paid at closing.

CALCULATIONS:

APR TEST

- (1) Add allowance (10% or 8%) to the treasury security as described above
- (2) Check to see if APR exceeds this sum

Example: Treasury Rate* 4.25
 Allowance 10.00 = 14.25
 APR on loan is 12.14 = not high cost
 APR on loan is 14.625 = high cost loan

* Rate on the 15th of month preceding date application was received by lender

FEE TEST

- (1) Add all fees noted above used to calculate Section 32 loans
- (2) Subtract sum of fees from Loan Amount on NOTE to get “total loan amount” as described for Section 32 calculations
- (3) Divide sum of fees from (1) by total loan amount in (2). If result exceeds the allowable 8% or 10%, you have a high cost loan.

Example: (1) Origination fees and discount fees \$4000
 Fees to affiliates (appraisal) 250
 Processing Fee 500
 Lender required Credit Life 3000
 Total fees \$7750

(2) Note loan amount \$100,000
 less fees from (1) 7,750
 “Total Loan Amount” \$ 95,250

- (3) \$7,750 divided by \$95,250 = 8.136% = High Cost as of October 1, 2002 on a 1st lien loan

Section 32 loans require a special disclosure to borrower 3 days prior to closing which are in addition to the 3 day right of rescission. Special notification is also to be given to the Investor purchasing the loan when it is sold.

CALCULATIONS WILL BE CORRECT ONLY IF INPUT IS CORRECT...check all of your fees

CALCULATION OF FEES

CALCULATION OF RATE

Loan amount of Note [a] _____

Fees(1) _____
Finance Charges(2) _____
Fees Pd to Affiliates _____
Credit Insurance (3) _____
Broker Fees (not ysp) (4) _____
 Total fees [b] _____

 Total of (a) minus (b) is [c] _____

 [b] _____
 [c] _____
 [b] divided by [c] *** _____
If over 8%/10% for 2nd=Hoepa _____

Value of Treasury Rate for comparison _____
Add 8% for 1st or 10% for 2nd lien _____
 Total - (Treasury Rate + 8% or 10%) _____
APR of loan _____
 Difference (Total-APR) _____
 Compare: Positive number = HOEPA _____
 Negative number = OK

*** If this amount is over 8.0% on a 1st lien or 10.0% on a second lien - you have a HOEPA Loan

(1) Fees include all finance charges, compensation to brokers other than YSP, \$paid to lender or affiliates of lender even if not finance charge, credit insurance paid before, at or after closing even if state law does not consider it insurance.

(2) include upcharges of fees paid to 3rd parties

(3) Includes: credit life, health, debt cancellation, etc. Excludes: collateral damage, flood, hazard

(4) All fees to Broker even if POC except YSP