

HOEPA, Higher-Priced Mortgages, Ability to Repay and Qualified Mortgages

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Table of Contents

Welcome	1
Configuration	1
Configuring ComplianceOne to Perform Regulation Z Section 32 HOEPA and Section 35 Higher-Priced Mortgage Loan Determinations, and Section 43 Ability to Repay, Standard Mortgage and Qualified Mortgage Tests	1
Configuring Wiz Sentinel in ComplianceOne Administration	2
Configuring Fees for Federal HOEPA Determination and Standard Mortgage and Qualified Mortgage Tests in ComplianceOne Administration	3
Frequently Asked Questions	4
When is Regulation Z Section 32 HOEPA Applicable? How is This Determined?	4
When is Regulation Z Section 35 HPML (Higher-Priced Mortgage Loan) Applicable? How is This Determined?	5
When is a Regulation Z Section 43 (Ability to Repay, Non-Standard into Standard and Qualified Mortgage) Test Applicable? How is it Performed?	6
When will Wiz Sentinel Determination Results be Displayed in ComplianceOne Lending?	6
How Can the Wiz Sentinel Determination Results be Explained?	7
A Comparison Indices section is included at the bottom of the determination report and displays information relating to how the comparative rate was calculated. When Will Required Disclosures be Autoselected?	8
How to Contact Us	10
Software Notification Service Now Available	10
Support Web Site	10
Internet	10
E-Mail	10
Phone	10
Fax	10

Welcome

This document is intended to answer questions regarding HOEPA, Higher-Priced Mortgages, Ability to Repay and Qualified Mortgages in ComplianceOne.

Configuration

Configuring ComplianceOne to Perform Regulation Z Section 32 HOEPA and Section 35 Higher-Priced Mortgage Loan Determinations, and Section 43 Ability to Repay, Standard Mortgage and Qualified Mortgage Tests

ComplianceOne integrates with the *Wiz Sentinel* service to perform HOEPA and Higher-Priced Mortgage Loan determinations to assist you in complying with Regulation Z Section 32 and Section 35. ComplianceOne also integrates with the *Wiz Sentinel* service to perform the Section 43 Ability to Repay, Standard Mortgage and Qualified Mortgage tests. The federal HOEPA and Higher-Priced Mortgage Loan determinations, as well as the Ability to Repay, Standard Mortgage and Qualified Mortgage tests, are available without a fee or charge; however, you must subscribe to the service and obtain login information. State/local high-cost determinations are also offered through the *Wiz Sentinel* service, but there is a cost associated with this service.

If you already subscribe to *Wiz Sentinel* to receive HOEPA section 32 determinations, you do not need to take any action. The results for Section 35 and Section 43 tests will be included along with the Section 32 (HOEPA) information in the HOEPA determination results page.

Subscribing to *Wiz Sentinel*

Contact Customer Support to subscribe to *Wiz Sentinel*. Customer Support for *Wiz Sentinel* is available by calling (800) 552-9410, ext 1123114 or by email at customersupportwizsentri@wolterskluwer.com

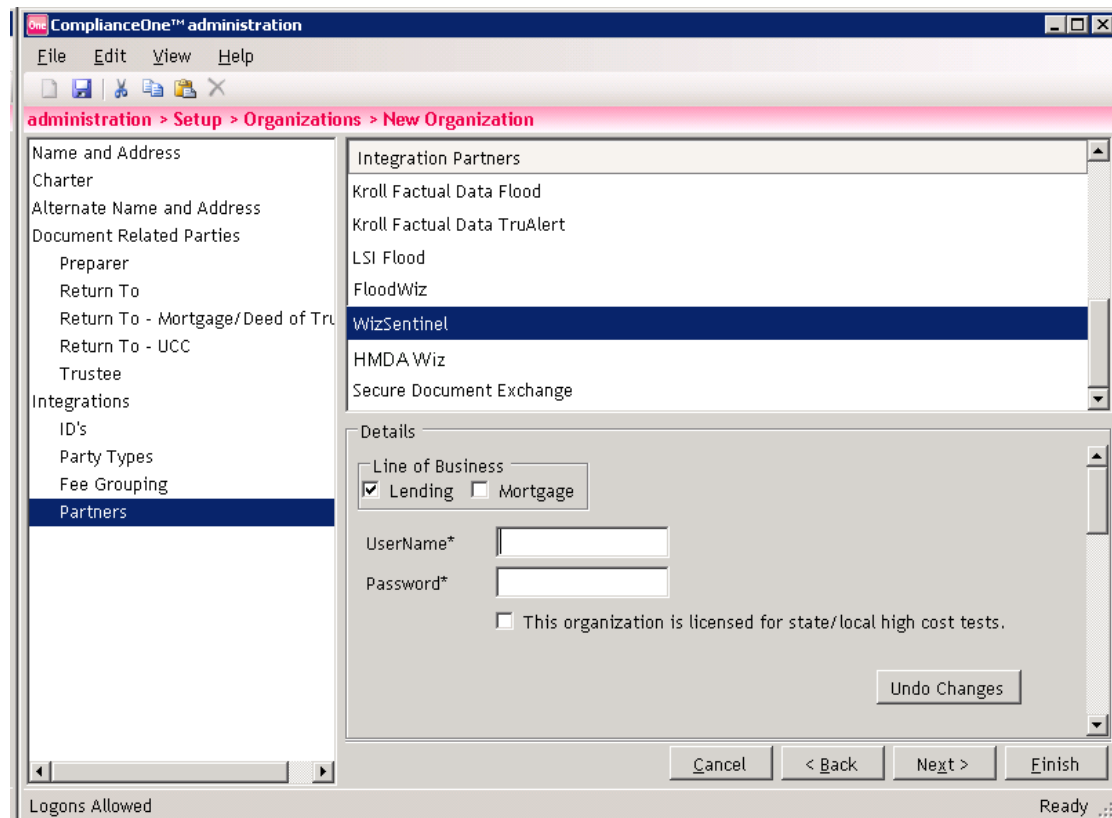
Be sure to include the following information when contacting via email or the web:

- Bank Name
- Bank Address (street, city, state, zip)
- Contact Name
- Contact Phone Number
- Contact Email

Once the order is processed and complete, your username and password will be sent via email. This information is needed prior to configuring the service within ComplianceOne Administration.

Configuring Wiz Sentinel in ComplianceOne Administration

1. Log in to ComplianceOne Administration.
2. Select **Organizations** from the **Setup** tab.
3. Open the applicable organization and choose **Partners** from the left navigator.



4. Select **Wiz Sentinel** from the **Partners** list.
5. Select the applicable **Lines of Business**.
6. Enter the **User Name** and **Password** as supplied.
7. Select **This organization is licensed for state/local high cost tests** if you also subscribed to the state/local determination service.
8. Click **Save** and **Finish**.
9. Repeat for each applicable organization.

Configuring HMDA Wiz in ComplianceOne Administration

Refer to the separate ComplianceOne *HMDA Wiz Setup Guide* for instructions on setting up HMDA Wiz for HMDA compliance management and reporting.

Follow these steps to access ComplianceOne Documentation:

1. Go to our Software Support website at <http://Support.WoltersKluwerFS.com>.
2. In the upper right corner, select **Log In**.
3. Enter your **User Name** and **Password**.
 - If you do not already have a User Name and Password, select **Register** and complete the requested information.
 - You will need your Wolters Kluwer Financial Services customer number to register. If you do not know your customer number, contact our Customer Support at (800) 552-9410 between 7:00am - 7:00pm (Central).
4. Select **Documentation**.
5. Select **ComplianceOne**.
6. Locate and select the desired link to view the documentation online.

Configuring Fees for Federal HOEPA Determination and Standard Mortgage and Qualified Mortgage Tests in ComplianceOne Administration

1. Log in to ComplianceOne Administration and choose the **Lending** tab.
2. Select **Fees** from the **Policy Setup** area.
3. Double click the applicable fee policy and choose **Fees** from the left navigator.
4. View the list of fees displayed on the right and check the **Points and Fees** box for any fee that should be identified as such.
 - a. Note that each fee identified as a Points and Fees fee must also have a HUD line number defined, where available.
5. This process can only be done in Administration and will not be editable at transaction time unless your organization's Global Settings policy allows the ability to edit at transaction time.

Note

In order for points and fees to be determined at transaction time, the Global Setting field in Administration, **Allow points and fees to be determined at transaction time**, must be checked for your organization. By default, this field is unchecked.

6. Click **Save** and **Finish**.
7. Repeat for each applicable fee policy.

A fee can only be designated as applicable to state high-cost determinations at transaction time. This is done within the **Proceeds and Fees** section of **Calculations**. The fee can be marked in the main view or at the detail level.

Note

If a fee is designated as a Points and Fees fee for federal determinations in administration, the system defaults the **State** designation to be selected at transaction time as well.

A credit insurance fee can only be designated as applicable to federal or state high-cost determinations at transaction time. From within the **Credit Insurance** section of **Calculations**, you can select **Points and Fees** and/or **State** to designate a fee as applicable for the points and fees determinations.

Frequently Asked Questions

When is Regulation Z Section 32 HOEPA Applicable? How is This Determined?

HOEPA can apply to any consumer, closed-end or open-end loan secured by the consumer's principal dwelling and NOT initial construction, transaction originated and financed by a Housing Finance Agency or USDA Section 502 transaction.

The Section 32 **APR threshold** is calculated as follows:

- Threshold for most first liens - APR exceeds the APOR for a comparable loan plus 6.5% as of the rate lock date.
- Threshold for first liens secured by a personal property dwelling and with the loan amount of less than \$50,000 - APR exceeds the APOR for a comparable loan plus 8.5% as of the rate lock date.
- Threshold for subordinate liens - APR exceeds the APOR for a comparable loan plus 8.5% as of the rate lock date.

Note

The APR for purposes of the Section 32 APR threshold must be calculated under Regulation Z Section 32(a)(3).

Note

The table of average prime offer rates (APOR) published by the Bureau indicates how to identify the comparable transaction.

- The Section 32 **Fee** threshold for transactions with a **loan amount** $\geq \$20,000$ is $>5\%$ of the total loan amount.
- The Section 32 **Fee** threshold for transactions with a **loan amount** $< \$20,000$ is $>$ the lesser of **\$1,000** or **8%** of the total loan amount.

The dollar amounts used in Section 32 thresholds are updated annually.

Note

Certain types of prepayment penalties (including termination fees and charges similar to prepayment penalties) are used as a third high-cost threshold. ComplianceOne does not support prepayment penalties that exceed the permissible threshold.

Any time HOEPA could apply, the **APR** and **Points and Fees** tests must be run. If a loan exceeds either the **APR** or the **Points and Fees** thresholds, the loan is high-cost, and the applicable results will be displayed in the determination report received in your browser.

Note

The Points and Fees will also be submitted, and the Points and Fees test will also be run, for purposes of the Section 43 Standard Mortgage and Qualified Mortgage tests. The Section 43 Points and Fees thresholds are different from the Section 32 Points and Fees thresholds.

When is Regulation Z Section 35 HPML (Higher-Priced Mortgage Loan) Applicable? How is This Determined?

Regulation Z Section 35 defines a higher-priced mortgage Loan (HPML) as a consumer credit transaction secured by the consumer's principal dwelling with an annual percentage rate (APR) exceeding a certain percentage. Higher-priced mortgage loans include closed-end purchase money, as well as refinances and home equities, but exclude HELOCs.

The classification as a higher-priced mortgage loan is based solely on the following APR thresholds:

- Threshold for “non-jumbo” first liens - The APR exceeds the average prime offer rate for a comparable transaction as of the rate-lock date by 1.5% or more.
- Threshold for “jumbo” first liens - The APR exceeds the average prime offer rate for a comparable transaction as of the rate-lock date by 2.5% or more.
- Threshold for subordinate liens - The APR exceeds the average prime offer rate for a comparable transaction as of the rate-lock date by 3.5% or more.

If a loan exceeds the threshold defined, it is considered a higher-priced mortgage loan, and applicable results will be displayed in the determination report received in your browser.

When is a Regulation Z Section 43 (Ability to Repay, Non-Standard into Standard and Qualified Mortgage) Test Applicable? How is it Performed?

Regulation Z Section 43 defines a “covered transaction” as a consumer, closed-end credit loan secured by a dwelling, including new loans and refinances. HELOCs are excluded, and several other loan types are exempt from the ability-to-repay requirements (reverse mortgages, bridge and initial construction loans with a term of 12 months or less, and certain mortgage programs).

Loans made under Ability to Repay have to meet specific underwriting requirements, and Standard Mortgages and Qualified Mortgages have to meet underwriting requirements, as well as limitations on loan terms and points and fees. Information for a “covered transaction” is collected and submitted to *Wiz Sentinel* for purposes of the report.

The total points and fees on a Standard Mortgage or a Qualified Mortgage must NOT exceed the following limits (based on the loan amount):

Loan amount \geq \$100,000: 3% of the total loan amount

Loan amount \geq \$60,000 but $<$ \$100,000: \$3,000

Loan amount \geq \$20,000 but $<$ \$60,000: 5% of the total loan amount

Loan amount \geq \$12,500 but $<$ \$20,000: \$1,000

Loan amount $<$ \$12,500: 8% of the total loan amount

When will *Wiz Sentinel* Determination Results be Displayed in ComplianceOne Lending?

Once you have completed the *Wiz Sentinel* setup in ComplianceOne Administration, a determination is performed upon completion of the transaction calculations area on applicable

loans. The determination results are then displayed in an internet browser when the following criteria are met:

1. The loan is a consumer loan.
- AND
2. At least one collateral item defined for the loan is a **Residence**.

Note

The calculations of Regulation Z Section 32, Section 35 and Section 43 are dependent on the rate lock date. The rate lock date is entered in the Application Definition page of Loan Definitions on the application side of the ComplianceOne Lending program. The field is also available on the Loan Definition 1 page of the lending side of the program.

How Can the *Wiz Sentinel* Determination Results be Explained?

Section 32 Results will display the **APR** and **Fee %** for the transaction and Section 32 Limits. The difference in the actual and the Section 32 limits for each will be calculated and an applicable Section 32 message will be displayed. The following are examples of Section 32 messages that may display:

- The Section 32 Message will be blank if all APR or Points and Fees thresholds are not exceeded.
- The APR exceeds the APR limit.
- HOEPA Section 32 test is not required because the loan is initial construction only.
- Total Section 32 fees are greater than 5% of the total loan amount.

Bona Fide Discount Details: Section 32 bona fide discount points calculation details results will also display and will be completed for Section 32 and Section 43 loans (Standard Mortgage or Qualified Mortgage). This section is used to display the total amount of the discount points included in points and fees, as well as the permissible exclusion amount. The total amount of discount points is included under “Amount Charged in Discount Points,” and the exclusion amount appears under “Section 32 bona fide amount.” The rest of the entries will include a “0” on the report - this information is not currently utilized in the program.

ATR-QM Results will include the ATR Test (Ability to Repay), the Non-Standard to Standard Test (Standard Mortgage), or the QM Test (Qualified Mortgage). The following are examples of Section 43 messages that may display:

- Values returned with meets requirements are for qualitative purpose and purely informational.

Note

This message will always display on the ATR-QM Results.

- Those that meet requirements.
- Those that do not meet requirements.
- Those that could not be considered because information was not provided.
- Value for one or more QM criteria was not provided, therefore QM test was not run.

Note

This message will display if you fail to enter required information.

Results that print in these sections of the *Wiz Sentinel* report correspond to the information that you provide for a particular transaction.

Section 35 Results will display the APR for the transaction and the Section 35 limit. The difference in the actual APR and the Section 35 limit is then calculated and an applicable Section 35 message will be displayed. Following are examples of Section 35 messages that may display:

- The Section 35 Message will be blank if the APR threshold is not exceeded.
- The APR equals or exceeds the Higher Priced Mortgage limit.
- Section 35 test is not required because this is an Open Ended loan.
- The Section 35 Higher Priced Mortgage Test was not performed because of missing values in required attributes.

Note

This message will display if you fail to enter a rate lock date in the application definition page.

State Results will display applicable calculations based on state regulations if the state/local high cost determination service was purchased through *Wiz Sentinel*. If the service was not purchased, the following message will display:

Warning!

No state or local high cost determination was made for this loan. This can happen either because no state or local high cost laws exist for the collateral state or because a state or local high cost license for *Wiz Sentinel* has not been purchased for your organization. [Click here](#) for information on ordering a state or local high cost license for *Wiz Sentinel*.

A Comparison Indices section is included at the bottom of the determination report and displays information relating to how the

comparative rate was calculated. When Will Required Disclosures be Autoselected?

If the loan exceeds the APR or Points and Fees thresholds, the Regulation Z Section 32 disclosures will be selected. Required disclosures for Section 32 include the Regulation Z Mortgage Disclosure and Notice to Assignee. Additional language will also be included in the Promissory Note and/or Security Agreement when HOEPA is applicable.

There are currently no required disclosures to be given on loans that exceed the Regulation Z Section 35 thresholds, or are made under Section 43 (Ability to Repay, Standard Mortgage or Qualified Mortgage). However, there are additional restrictions that the lender must consider when making HOEPA and higher-priced mortgage loans, or loans under Section 43.

The rules in Regulation Z Section 34 and Section 43 specifically prohibit certain underwriting practices and restrict certain loan features that were prevalent in the sub-prime market.

HOEPA (closed-end) and higher-priced mortgage loans are subject to Section 43 ability-to-repay requirements. The rule identifies the factors the creditor must consider when making a closed-end loan secured by a dwelling, and also explains the methodology the creditor must use to verify the consumer's ability to repay. In addition, the rule provides a safe harbor for compliance or a presumption of compliance, if certain conditions are met.

HOEPA open-end loans are subject to the ability-to-repay requirements described in Section 34. The rule explains the methodology the creditor must use to verify the consumer's ability to repay and provides a presumption of compliance, if certain conditions are met.

How to Contact Us

Software Notification Service Now Available

Wolters Kluwer Financial Services announces the launch of our new Software Notification Service.

Customers who subscribe to the Software Notification Service will receive notifications for many of our software products when updates are made available on our Software Support Web site at <http://Support.WoltersKluwerFS.com>.

To subscribe to this service, visit <http://Alerts.WoltersKluwerFS.com> and enter your valid e-mail address. A link to your personal profile page is then e-mailed to you allowing you to specify your profile information and subscription preferences.

To ensure you receive this e-mail as well as future communications, make sure to add **@wolterskluwer.com** and **@wolterskluwerfs.com** to your safe senders list.

Support Web Site

Visit our Software Support web site for documentation, downloads, frequently asked questions, training, or support information: <http://support.wolterskluwerfs.com>.

Internet

Also you can visit us on the Internet at www.wolterskluwerfs.com.

E-Mail

E-mail questions or issues to: ComplianceOneSupport@wolterskluwer.com.

Phone

You can telephone our SupportLine technicians at 1-800-274-2711, ext. 1123660. Our support staff is available Monday through Friday, 7 A.M. to 7 P.M. CST. Voice mail operates continually, allowing you to leave us a message after hours and on weekends. To help us handle your question as quickly as possible, have these items available before you call:

- product name and version number
- customer number
- operating system and version number; service pack numbers, if installed

Fax

You may fax us at (320) 323-4848.

