

# HOEPA Help

## Worksheet tools to help identify Section 32 Covered Loans

### Types of Credit Covered

The Home Ownership Equity Protection Act implementing regulations found in Section 32 of Regulation Z apply to any closed end consumer credit secured by the consumer's principal dwelling that meets either the rate or the points and fees trigger that the regulation provides for. Section 32 rules do not apply to:

- (i) A residential mortgage transaction (a loan to purchase the residence or to finance the initial construction of the residence).
- (ii) A reverse mortgage transaction subject to Sec. 226.33.
- (iii) An open-end credit plan.

### The Rate and Point Triggers

In a covered consumer loan transaction if either the Annual Percentage Rate or the total of certain designated points and fees exceeds defined levels, the loan is subject to Section 32. When a loan is subject to Section 32, additional disclosures are required, loan terms are limited, and other significant regulatory requirements must be taken into consideration. So how do we determine if a loan is, or is not subject to Section 32 treatment? You must run the numbers for the proposed loan through both the rate and points/fees test process to see if you have a "high rate/high fee" loan. The attached HOEPA Worksheets have been designed to help walk you through that process. We offer two versions of this compliance aid. For banks that have access to Microsoft Excel spreadsheet software we provide an Excel spreadsheet which automates the process. For banks without Excel access, we have provided a manual version of the worksheet. In order to use either worksheet properly, you will need certain information about the proposed loan. Once you have gathered the required information, completion of the worksheets should be as easy as preparing your tax return.

#### *Source of Information for the Rate Test*

You will need information on the "Comparable Treasury Rate" that was in effect as of the 15th of the month prior to the month in which the application is received by the bank. This is information you can obtain at the Federal Reserve Board's web site (<http://www.federalreserve.gov/releases/h15/>) in the Board's Selected Interest statistical release H-15, which is published weekly. You should make certain to use the column of rates as of the 15th of the month, or if the 15th falls on a weekend or a holiday, as of the last business day prior to the 15th. Click [here](#) to view the October 16, 2002 release, which provides a sample of what this information looks like. Use the comparable maturity that is closest to the anticipated term of the loan that is being considered. If, for instance, the anticipated loan is for 8 years and release H-15 shows terms for 7 and 10 years, but not for 8 years, you would use rate information for the 7 year securities. If your anticipated loan term is exactly in the middle of two Treasury issues, use the one with the lower rate.

You will need to have calculated the proposed Annual Percentage Rate for the loan before filling in the worksheet since the APR will be compared against the Maximum APR to determine if it exceeds it and is therefore a Section 32 loan.

### *Source of Information for the Points/Fees test*

You should use the same numbers used to complete the GFE given in connection with the proposed loan to complete the worksheet items. If the loan will be covered by Private Mortgage Insurance, you will need to know the total PMI insurance premiums which will be charged over the anticipated life of the loan. If you are selling credit life, A&H, Disability, or Unemployment insurance with the loan, you will need to know the amount of any premiums which will be paid at or prior to closing and whether or not the premiums will be financed.

### **Completion of the Worksheet - (Automated Excel worksheet)**

[Click here to view the automated Excel worksheet.](#)

### *The Rate Test*

<b>Step</b>	<b>Instructions</b>
1	Load the Section 32 Analyzer worksheet into EXCEL.
2	Click on the "Enter Information Here" folder.
3	For documentation purposes enter the optional information at the top of the page regarding the loan number, customer name, and loan officer.
4	Enter the Date the application was received by the bank (this determines which date you will use for "comparable treasury rate" information comparison).
5	Enter the "Amount Financed" for the proposed loan. (as shown in the "fed box" disclosure)
6	Enter the proposed loan term.
7	Enter the Comparable Treasury Rate as of the 15th of the month prior to the month the application was received..
8	If the loan will be secured by a first lien, enter the APR of the loan in the appropriate cell. If it will be secured by a subordinate lien, enter the APR for the loan in that cell. Enter APR information in ONLY ONE cell for either a first lien or for a subordinate lien loan!
The software will indicate if the loan is subject to Section 32 requirements based on the rate test results. If it indicates "Yes" for this test, stop! The loan will be subject to Section 32 rules. Otherwise, continue on to the Points and Fees Test.	



### *The Points/Fees Test*

<b>Step</b>	<b>Instructions</b>
1	Enter information about non-interest finance charges in the appropriate cells of the "Enter Information Here" folder. This information can be generally be obtained from the Good Faith Estimate disclosure for the loan and should be consistent with information which will be in the "Fed Box" of the Reg Z disclosure. If the loan will have private mortgage insurance, enter in the appropriate box the TOTAL PMI premiums paid at or prior to loan closing.
2	Enter information on any non-finance charge items which will be treated as Section 32 fees because the lender receives direct or indirect compensation for them or because they are paid to the lender or an affiliate of the lender.
3	Indicate with a "Y" or "N" next to each item entered in step 2 above if the item is being

- financed and paid from loan proceeds or not.
- 4 Enter information on any insurance products sold in connection with the loan for which premiums will be paid at or prior to loan closing.
  - 5 Indicate with a "Y" or "N" next to each item entered in step 4 above if the item is being financed and paid from loan proceeds or not.

The software will now indicate based upon information provided whether or not the loan is subject to section 32 treatment based on the points and fees test.

The software will then indicate in summary whether the proposed loan is a Section 32 loan or not based on whether either the rate or fee triggers have been exceeded.

**Note** For documentation purposes, you can go to the "Worksheet" folder and print out the worksheet to document the calculations that were done for the Section 32 test.

### **Completion of the Worksheet - (Manually prepared worksheet)**

[Click here to view the manually prepared Excel worksheet.](#)

#### *The Rate Test*

Step	Item	Instructions
1	2	Fill in the "Comparable Treasury Rate" information in the "1st lien" or the "Junior Lien" column of the worksheet.
2	3	Add items 1 and 2 together to arrive at the "Maximum APR" allowed and enter the total on the worksheet in the appropriate column.
3	4	Enter the APR for the proposed loan in either the "1st Lien" or "Junior Lien" column of the worksheet.
4	5	If item 4 (the loan APR) exceeds the "Maximum APR" then HOEPA applies so enter "Yes" in the appropriate box and treat the loan as subject to Section 32 rules, otherwise enter "NO" in the box and continue with the Points and Fees Test.

#### *The Points/Fees Test*

Step	Item	Instructions
1	6-17	Enter information about non-interest finance charges in the appropriate cells of the worksheet. This information can be generally be obtained from the Good Faith Estimate disclosure for the loan and should be consistent with information which will be in the "Fed Box" of the Reg Z disclosure. If the loan will have private mortgage insurance, enter in item 15 the TOTAL PMI premiums paid at or prior to loan closing.
2	18	Total amounts entered for items 6 thru 17 and enter the total in items 18.
3	19-22	If any of these non-finance charge items were either paid to the bank or an affiliate of the bank, or if the bank directly or indirectly benefited from the providing of these settlement services, enter the amount of such items in the appropriate cell.
4	19-22	If any of the items indicated in step #3 will be financed and paid from loan proceeds, enter the amount of those items in the "List here if paid from."
5	23-26	Enter in the amount of any premiums paid for insurance products sold in connection with the loan when the premiums will be paid at or prior to closing.

6	23-26	If any of the items indicated in step #5 will be financed and paid from loan proceeds, enter the amount of those items in the "List here if paid from proceeds" column.
7	27	Enter the total of items 19 thru 26.
8	28 & 30	Enter the total of items listed in the "List here if paid from proceeds" column for items 19 thru 26. Enter this same amount in item #30.
9	29	Enter the Amount Financed as it will appear on the "fed box" disclosure.
10	31	Subtract item 30 from item 29 and enter the results in item 31.
11	33	Divide item 27 (HOEPA Fees) by item 31 and enter the results expressed as a percentage amount in item 33.
12	34	If item 33 exceeds 8%, place "Yes" in box 34 , otherwise enter "No".
13	35	If the answer to item 34 is "Yes" is the amount item 27 larger than the amount in item 32? Answer "Yes" or "No".
14	36	Enter "Yes" if the answer in item 34 is "Yes" AND item 35 is "No", otherwise, enter "No".
15	37	If you have answered "Yes" to either item 5 or item 36, or to both, enter "Yes" since this is a HOEPA covered loan, otherwise it is NOT a HOEPA covered loan.