Understanding Higher-Priced Mortgage Loans (HPML) and Average Prime Offer Rate (APOR)

As of October 1st, all mortgage lenders must be fully compliant with the Truth in Lending amendment regarding Higher-Priced Mortgage Loans. Summarized below are the sources for finding the current APOR index, how to perform the computation and other steps for compliance.

Higher-Priced Mortgage Loans (HPML) and the Average Prime Offer Rate (APOR)

The recent amendment to Truth in Lending established a new category called Higher-Priced Mortgage Loans. Known as HPMLs, provisions apply to applications received on or after October 1, 2009. HPMLs are not to be confused with HOEPA loans (Home Owner Equity Protection Act) which carry different rules, tolerance levels and state-specific regulations. HPMLs are loans secured by the borrower's principal dwelling that are priced at an APR (Annual Percentage Rate) exceeding a new index published by the Federal Reserve Board named the Average Prime Offer Rate (APOR).

Based on the date the interest rate is set (locked or re-locked) lenders must compare their APR with the Fed's APOR index. The loan will be considered a higher-priced mortgage loan if the APR exceeds the index by:

1.5 or more percentage points on First Liens

3.5 or more percentage points on Subordinate Liens

The Federal Financial Institutions Examination Council (FFIEC) publishes the Average Prime Offer Rate (APOR) on behalf of the Federal Reserve Board. To determine whether or not your loan is considered a Higher-Priced Mortgage Loan, go to the FFIEC website at [http://www.ffiec.gov/](http://www.ffiec.gov/) and select Rate Spread Calculator from the Consumer Compliance menu on the homepage.

This link can be directly accessed as follows: [http://www.ffiec.gov/ratespread/newcalc.aspx](http://www.ffiec.gov/ratespread/newcalc.aspx)

The FFIEC's goal is to have a "rate spread" calculator for HMDA reporting. The index that is applied to HPML is also used for HMDA. On this site you will notice the following links which take you directly to the tables:

continued on next page
which is currently 5.09 your loan is classified as an HPML.

Freddie Mac's Primary Mortgage Market Survey (PMMS)

The information which forms the basis for the Federal Reserve's index is the Freddie Mac Primary Mortgage Market Survey (PMMS). The PMMS posts the weekly interest rates for 15 and 30-year fixed loans and the rates for 1 and 5-year ARMs. The survey also posts the weekly average fees and points, reflected as a percentage of the loan amount. The new regulation requires lenders to compare their APR to the index; however, the PMMS provides useful rate information. The PMMS can be accessed from the following link:

http://www.freddiemac.com/dlink/html/PMMS/display/PMMSOutputYr.jsp

Higher-priced mortgage loans do not include:

- Construction Financing
- Temporary or bridge loans 12 months or less
- Reverse mortgages
- Home Equity Line of Credit

If you have determined that your loan is an HPML, what's next?

Make sure that you document the borrower's ability to pay.

To comply with the new law, lenders must verify the consumer's repayment ability as follows:

- Verify income to cover repayment ability
through W-2, tax returns, paystubs, financial institution records or third party verifications

- **Verify the borrower(s)' current obligations through credit reports and other documents.** A creditor is presumed to have complied with this rule if they have verified the borrower's repayment ability and determined repayment ability of P&I scheduled for the first seven years, taking into account their obligations. The lender may utilize debt ratios or disposable income.

For certain loans, such as terms of 7 years or less or increases in principal balance, no presumption of compliance is available. Creditors are prohibited, within one year of having extended credit subject to this new law, from refinancing any loan to the same borrower into another loan unless the refinancing is in the borrower's interest. The law has other provisions regarding escrows, selling and assigning a mortgage.