

## Federal Section 32 Worksheet Definitions and Explanations

### BASIC INFORMATION

- After completing worksheet, circle either “Yes” or “No” to reflect whether you found this loan (with the terms and fees contemplated) to be a “Prohibited Loan.”
- For purposes of the Federal Section 32 Worksheet and these instructions, the term “borrower” includes both the borrower and any co-borrowers. Therefore, for example, the term “borrower’s principal dwelling” also refers to the co-borrower’s principal dwelling.

### POINTS AND FEES TEST

- **STEP #4**
  - Enter the total amount of per diem interest per line 901 of the HUD-1.
  - If the borrower(s) will be receiving an interest credit, enter 0 on line 4.
- **STEP #7**
  - In order to include a fee on line 7, it MUST satisfy BOTH steps (a) and (b). If a fee only satisfies one of the two steps, you should not include it.
  - For step (a), include only those fees that will be paid by the borrower at or before closing. Do NOT take into consideration the application of any lump-sum seller credit or lender credit for purposes of this worksheet.
  - Do not include any fees that are “finance charges”. For questions concerning the proper classification of a fee(s), refer to the “What is a Finance Charge???” table.
  - For step (b), only include those fees that are retained as compensation to the creditor, an affiliate of the creditor, or the broker (if this is a broker transaction). Do not include any fees that are collected by the creditor, an affiliate of the creditor, or the broker in order to be passed along to another entity.
    - Creditor means the company to whom note will initially be made payable (i.e., whose name loan closes in).
    - Affiliate means any company that controls, is controlled by, or is under common control with another company (e.g., if ABC Mortgage owns a significant portion of XYZ Title Company, XYZ is an “affiliate” of ABC; e.g., if ABC and XYZ are both owned by EFG Holding Company, then ABC, XYZ, and EFG are all “affiliates” of each other).
  - E.g., if an appraisal is performed by a staff appraiser (e.g., the appraiser is employed by the creditor), this will satisfy Step #7. It does not matter if a portion of the fee may ultimately be shared with the appraiser.
  - E.g., a Survey fee would satisfy Step #7 if retained as compensation to the creditor, an affiliate of the creditor, or the broker (if applicable).
  - E.g., fees for title examinations and appraisals should be included in Step #7 when paid by a borrower to an affiliate of the creditor as compensation (i.e., the affiliate does not pass the fee on to someone else).

### APR TEST

- The appropriate “Federal Section 32 Ceiling” may be found on the Whole Loan Rate Sheet (Broker and Correspondent) or the Arsenal Quote Sheet (Retail).
- General Rule: The appropriate ceiling is based on both the month in which the application was received and the length of the term of the loan.
  - **Broker Branches Only:** If loan is closing in STM’s name, use month in which credit package was received. If loan is closing in broker’s name, use month in which application was received by broker.
- “Length of the term” means the number of years from closing to maturity. It is not based on amortization (e.g., a 30 yr loan due in 15 yrs will have a 15 yr term, even though the amortization schedule is based on 30 yrs).
- E.g., if application was received in April and term is 30 years, look at table on Rate Sheet and cross-reference the row for April with the column for 30 years. The number you locate is the appropriate “Federal Section 32 Ceiling.”