

KENTUCKY HIGH-COST RECAP

What loans are subject to rule:

A closed-end consumer loan to a natural person or revocable trust secured by the borrower's primary dwelling, in a loan amount from \$15,000 to \$250,000.

Fees included:

All amounts payable by a borrower at or before the closing of a home loan, excluding any interest or time-price differential due at closing on the loan proceeds and includes:

- a. All mortgage broker fees, including fees paid by the consumer directly to the broker, fees paid by the consumer to the creditor for delivery to the broker, and yield spread premiums paid by the creditor to the broker;
- b. Any amount payable under an add-on or discount system of additional charges;
- c. Service, transaction, activity, and carrying charges that exceed similar charges on a noncredit account;
- d. Points, loan fees, assumption fees, finder's fees, and similar charges;
- e. Appraisal, investigation, and credit report fees when service is provided by the lender or an affiliate and not by a third party;
- f. Charges imposed on a creditor by another person for purchasing or accepting the borrower's obligation, if the borrower is required to pay the charges in cash, as an addition to the loan obligation, or as a deduction from loan proceeds;
- g. Premiums or other charges for credit life, accident, health, or loss of-income insurance, or debt-cancellation coverage, whether or not the debt-cancellation coverage is insurance under applicable law; or
- h. Closing agent fees charged by a third party, but only if the lender requires the particular services for which the borrower is charged and the lender requires the imposition of the charge or the lender retains a portion of the charge.

The loan is considered a high-cost if the points and fees exceed the greater of 6% of the total loan amount or \$3,000.

APR threshold test:

The loan is a high-cost if either of the following occurs:

First Lien: The APR exceeds APOR as of the date on which the interest rate for the transaction is set by more than 6.5% (or 8.5% if dwelling is personal property and loan is less than \$50,000).

Subordinate Lien: The APR exceeds APOR as of the date on which the interest rate for the transaction is set by more than 8.5%.

Additional limitations:

- Must offer loan with no penalty, then max 3% in 1st year, 2% in 2nd year, and 1% in 3rd year. No prepayment penalty following the third anniversary date of the mortgage or sixty (60) days prior to the date of the first interest rate reset.
- No debt acceleration provision (except via default, due-on-sale provision, or other provision unrelated to the payment schedule)
- No balloon payment
- No negative amortization
- No increased interest rate after default unless ARM transaction, and rate change is not related to default
- Home improvement funds must be paid directly to borrower or jointly to the borrower and contractor, or at the election of the borrower through a third-party escrow agent
- Credit insurance may not be financed
- No more than two periodic payments consolidated and paid out of proceeds
- There is a limitation on fees to modify, renew, extend, amend or defer payment
- Lender must provide approved audio-video regarding rights and responsibilities
- Late charge max 5% or \$10 after 15 days or more, charged once per late payment
- No interest only payments
- Arbitration must comply with statement of principles of American Arbitration Association
- Lender must take borrower's ability to repay into account in underwriting transaction.
- If an existing high-cost loan is being refinanced, then prepayment fees or penalties may not be financed, and points and fees in excess of 4% of the total amount financed may not be financed.
- A high-cost loan may not be used to refinance, replace, or consolidate a zero or low interest rate loan made by a governmental or nonprofit lender.
- Any initiation of foreclosure proceedings require a 30 day notice to the borrower informing them of their right to cure any default.
- A lender may not encourage default on existing loans in anticipation of a high-cost home loan closing.
- Lender must escrow for taxes and insurance.
- If high-cost loan will refinance or replace a non-high-cost home loan, then counseling by a HUD-approved counselor is required.

Disclosures required:

A Notice to Borrower must be provided at least three business days prior to closing. This is Doc ID 8938 in the PPDocs, Inc. document library.

If there is a material change in terms, a notice must be provided to the consumer no later than three days after the lender learns of the changes to the loan after application, or 24 hours prior to closing, whichever is earlier. This form is not available in the PPDocs, Inc. document library.

Underlying Regulation:

[Kentucky Revised Statutes Chapter 360.100](#)

<https://apps.legislature.ky.gov/law/statutes/statute.aspx?id=34181>