

RHODE ISLAND HIGH-COST RECAP

What loans are subject to rule:

Consumer-purpose transactions secured by the borrower's primary residence, not to include loans made by financial institutions or their subsidiary, or guaranteed by state/federal housing finance agencies, including FHA or VA.

The City of Providence, RI has additional fee/rate limitations, and the lender should consult with the city or title company for further details.

Fees included:

Points and fees will consist of those finance charge items payable to the creditor and any affiliate, any indirect loan broker compensation paid by a source other than the borrower that exceeds 1% of the total loan amount, as well as any direct compensation to the loan broker from the borrower, financed credit insurance premiums, the maximum prepayment fees and penalties that may be charged, and any prepayment fees or penalties incurred by the borrower if the high-cost home loan is refinancing a previous loan originated or held by the same creditor or an affiliate. Up to and including 1% of the total loan amount for bona fide fees paid to a federal or state government agency to guarantee home loan, plus up to 2% for bona fide discount points or a conventional prepayment penalty, may be excluded from the total points and fees. No more than 3% total may be excluded, however.

If the points and fees exceed the following, the transaction is considered a high-cost loan:

- 5% of total loan amount when total loan amount is \$50,000 or more.
- 8% of total loan amount when total loan amount is less than \$50,000

“Total loan amount” means the total amount the consumer will borrow, as reflected by the face amount of the note. For open-end loans, the total loan amount shall be calculated using the total line of credit allowed under the home loan at closing.

APR threshold test:

If the following occurs, the transaction is considered a high-cost loan:

- First Lien: Interest rate equals or exceeds 8 % over yield on US treasury securities
- Subordinate Lien: Interest rate equals or exceeds 9 % over yield on US treasury securities

Compared against Treasury yield on the 15th day of the month immediately preceding the month in which the loan application was received by the lender.

Additional limitations:

- No financing of credit insurance

- No loan flipping, aka refinancing existing loan less than 60 months after consummation without net tangible benefit.
- Creditor may not encourage default on existing loans in anticipation of home loan closing
- Prohibitive mandatory arbitration clauses not permitted
- Creditor must take borrower's ability to repay into account when underwriting high-cost home loan
- Cannot finance any points or fees greater than 5% of total loan amount or \$800, whichever is greater.
- No Prepayment penalty
- No Balloon payment
- No Negative Amortization
- No increased interest rate after default unless variable rate loan transaction, and rate change is not related to default
- No Advance Payments of more than 2 periodic payments paid in advance from loan proceeds.
- Payments to contractors: no home improvement funds may be paid to a contractor unless lender is given a signed and dated completion certificate and payment is made to borrower or jointly (borrower and contractor) or at the election of the borrower through a third-party escrow agent
- No Fees to Modify, Renew, Extend, Amend or Defer Payment
- Late charge max 3% after 15 days or more, (10 days of bi-weekly payments) charged once per late payment
- No demand provision
- Homeownership counseling required prior to closing

Disclosures required:

The Consumer Caution and Home Ownership Counseling Notice and Certification (Doc ID 4437 in the PPDocs, Inc. document library) and Prohibited Acts and Practices Regarding High Cost Home Loans (Doc ID 4617 in the PPDocs, Inc. document library) must both be provided within three business days of learning the loan is or will be a state high-cost transaction.

Underlying Regulation:

Rhode Island Home Loan Protection Act: [R.I. Gen. Laws, Chapter 25.1 et seq.](#)

<http://webservice.rilegislature.gov//Statutes/TITLE34/34-25.2/INDEX.htm>