

High-Cost Mortgage Guide



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A Comprehensive Guide by The Housing Assistant



High-Cost Mortgage (HCM) Overview

What is a High-Cost Mortgage (HCM)?

A High-Cost Mortgage (HCM) is a loan that exceeds federal or state cost thresholds set under the Home Ownership and Equity Protection Act (HOEPA). Loans classified as high-cost come with strict regulations and additional consumer protections. Mistakes in identifying HCM loans can result in major compliance violations, financial penalties, and loan buybacks.

What Triggers a High-Cost Mortgage?

Trigger Category	Explanation
APR (Annual Percentage Rate) Thresholds	If the APR is a certain percentage higher than the Average Prime Offer Rate (APOR) published weekly.
Points and Fees Limits	If total points and fees charged to the borrower exceed set percentage thresholds based on loan amount.
Prepayment Penalty Triggers	If the loan includes a prepayment penalty outside allowable timeframes or cost limits.

2025 General Thresholds Example:

- APR more than 6.5% above APOR for first liens
- Points and fees more than 5% of total loan amount (for loans \geq \$24,866)
- Lower thresholds apply for small loans

Thresholds change annually — always check current limits!

Why Passing QC (Quality Control) is So Important

Avoids Loan Repurchases:

If an investor audits the file and finds an undisclosed HCM violation, they may force the lender

to repurchase the loan.

Prevents Regulatory Penalties:

Violating HOEPA regulations can trigger federal fines and reputational damage.

Protects Borrowers:

High-cost mortgages must meet strict counseling, disclosure, and servicing standards. Missing a requirement can harm borrowers.

Maintains Lender Credibility:

Clean QC results show investors and regulators that your operations are compliant and strong.

THA Tip:

- ◆ Always pre-screen loans early for APR, points/fees, and prepayment terms to catch potential High-Cost triggers.
- ◆ Use automated compliance engines — but always include manual review.