## SUMMARY

**CarletonCalcs® Compliance Module** streamlines three labor-intensive and time-consuming calculation tasks. State maximum usury, Federal TILA, and Internal Policy parameters are all validated thoroughly. Alignment between loan computations, contract language, and internal policy restrictions are all accounted with the CarletonCalcs® Compliance Module.

## FEDERAL REGULATORY REVIEW

### TILA APR VALIDATION BY ACTUARIAL OR US RULE METHOD

- Verifies the Truth-in-Lending Act ("TILA") Annual Percentage Rate ("APR") by comparing the disclosed contractual APR to a value computed per rules outlined in Appendix J of Regulation Z.
- An error message is passed to the user if the disclosed value is outside the prescribed 0.125% tolerance.

### TILA FEDBOX VALIDATION

- Validates the disclosures in all remaining "Fed Box" requirements, including the finance charge, amount financed, total of payments, and total sale price (where applicable).

### PAYMENT SCHEDULE AND MATURITY DATE VALIDATION

- Verifies the accuracy of the disclosed payment schedule. This check will ensure the number of payments multiplied by the disclosed payment amount(s) is equal to the disclosed total of payments.
- Validates the disclosed maturity date. This is especially important in transactions with a payment frequency that is a fraction of a month (weekly, bi-weekly, semi-monthly) since the scheduled payment dates will not be the same in each interval.

### LINE BALANCE VALIDATION

- Performs a line-balancing check. This check ensures the amount financed plus the finance charge is equal to the total of payments.

### TOTAL SALE PRICE VALIDATION

- Validates the Total Sale Price disclosure by adding the TILA "down payment" amount to the Total of Payments.

## STATE REGULATORY REVIEW

### STATE MAXIMUM INTEREST / USURY VALIDATION

- Validate disclosed contract amounts vs. state usury maximum

### ABLE TO IMPLEMENT INTERNAL POLICY CHECKS

- Validate disclosed contract amounts vs. internal policy maximum
- Allows for a tolerance level that is user defined (i.e., accept all contracts within X% of what your institution would compute on your own system for this data)

**USING THE DISCLOSED VALUES FROM AN EXISTING CREDIT CONTRACT, THE COMPLIANCE MODULE VALIDATES INTEREST AND FINANCE CHARGES BY COMPUTING MAXIMUM AMOUNTS ALLOWED BY STATE STATUTES AND LENDING REGULATIONS.**

- Clients have the control and flexibility to determine parameters used for each state. This insures a collaborative approach between Carleton and their partners when configuring compliance settings for each state and loan class.
- The Compliance module will apply the defined state parameters to compute maximum charge calculations based on the actual contract data supplied as input.
- Then the module evaluates the input data against the computed values. If the input amount exceeds the maximum, even by as much as $0.01, an error message will be passed back to the user.

## INSTITUTIONAL REVIEW

The CarletonCalcs® Compliance module allows the individual institution to set up its own compliance parameters consistent with internal guidelines.

CarletonCalcs® Compliance automates many of the important calculation functions that are often done manually within credit contract validations. Manual validation of consumer credit contracts is labor intensive, error prone, and often inconsistent when many different staff members perform validation functions. These labor-intensive validation steps can impede eContracting.

The Compliance module can validate individual transactions or in batch. Running transactions in batch allows for any number of contracts to be accurately evaluated at once. Tolerances can be configured to ensure proper evaluation.

Within indirect lending, CarletonCalcs® Compliance assures consistency and accuracy in the validation process when purchasing contracts. As most lenders know, there is no guarantee as to the accuracy and preciseness of contract values produced by other systems. CarletonCalcs® Compliance allows the lender to evaluate those contracts per a state's regulatory rules, lender internal policies, or both.

## THE CHALLENGES OF SUSTAINABLE CALCULATION COMPLIANCE

Very often, we hear the phrase, "It's just math" during conversations about the consumer credit calculation requirements within the lending industry. However, beneath the "math" are esoteric concepts and properties which drive these complex consumer credit calculations.

The regulation of maximum charges allowed in the motor vehicle financing segment of the industry is a prime example of this complexity. Too many times this concept is viewed simply as "APR Maximums" when many states regulate the actual dollar charge produced by a published rate rather than the rate itself. A simple nominal rate comparison is woefully inadequate to meet the demands of many state statutes and credit codes.

In addition, when it comes to state statutory/regulatory compliance, lenders often have choices available between rates, techniques, and properties within a statute. Very seldom is there one single mandate of "this is how it's done.

# STATE SPECIFIC EXAMPLES AND CONSIDERATIONS

***The below state information is presented as a set of sample calculation compliance challenges seen in the motor vehicle financing market based on specific statutory requirements in TX, KY, and MA.***

## Texas

The maximum charge allowed for Motor Vehicle Installment Sales is clearly laid out in the Texas Finance Code, which is one of the most painstakingly detailed credit laws in the United States.

Tex. Fin. Code §348.104 lists the maximum rates and corresponding time price differential ("TPD") by vehicle class based on model year of the car. The maximum rates listed are described as add-on interest rates. Since most lenders no longer employ add-on interest for originating transactions, a conversion to simple interest is necessary

.**If the transaction is "regular," by the Code definition, the add-on rate is converted on a straight linear basis.Any irregularities (non-monthly repayment, odd payment amounts, or extended time from the contract date to the first payment date) result in the maximum charge being governed by §348.106, which deviates from the linear conversion.**

§348.106 allows for a maximum TPD based on the "effective return" as though the contract were a regular monthly transaction computed using the listed add-on rates. This process becomes quite complicated in conjunction with weekly, bi-weekly, and semi-monthly repayment schedules.

Regardless of which section of the Code governs a motor vehicle transaction, all of the above methodologies must incorporate the Scheduled Installment Earnings Method as defined by the Code. The daily interest component in the Scheduled Installment Earnings Method requires techniques to properly compute charges for the add-on rates which are listed as rates per $100 per year.

***Florida and Georgia have very similar statutory language regarding motor vehicle financing maximum charges.***

## Kentucky

Like Texas, and many southern states, the maximum rates are published as add-on rates per $100 per year. However, the Kentucky statutory language provides a further dichotomy from add-on to simple interest based on whether the transaction is precomputed or simple interest.

For transactions subject to the effective return methodology, Kentucky Revised Statutes §109.110(5) allows a choice by the lender of computing a return by either the actuarial method (compounding of interest) or the U.S. Rule method (no compounding of interest).

§109.110 also allows the choice by lender to compute an irregular precomputed transaction using daily interest by a traditional simple interest calculation.

# STATE SPECIFIC EXAMPLES AND CONSIDERATIONS (Cont.)

## Massachusetts

In most states, the disclosure treatment of other fees and charges generally coincides with the rules used by TILA.

However, the Massachusetts Bank Commissioner issued an Official Opinion Letter in 2004 that Guaranteed Asset Protection (GAP) charges would be deemed a finance charge for state usury purposes even though they are not a required finance charge for TILA purposes.

This requires the calculation of two sets of disclosures values: one for a proper TILA finance charge and APR disclosure and one for a "State finance charge and APR" disclosure to ensure the transaction does not exceed the maximum charge provisions of the Massachusetts statutes.

# CONFIGURABLE FEATURES

## Payment Frequencies:

The Compliance Module has a great deal of flexibility in validating contracts. The following payment frequencies, time counting calendars, and daily rate options are available.

For example, weekly transactions can be validated using a periodic calendar where a period is always 1/52 of a year or a calendar where the time between each payment is 7/365.

The Module validates transactions with the following payment frequencies:

### Common Frequencies

- Monthly
- Bi-Weekly
- Weekly
- Semi-Monthly
  - ✓ Can set to any two dates of the month

### Other Frequencies

- Single
- Bi-Monthly
- Four Weekly
- Quarterly
- Annually
- Any specific number of days

# CONFIGURABLE FEATURES (Cont.)

## Interest Rate Types:

The Module will accommodate a variety of interest rate types and structures.

For example, many of the motor vehicle finance maximum rates are published as add-on interest rates. The Module will convert those add-on rates per the appropriate statutory language to compute the proper maximum charge.

### State - Loan Class Specific - Statutory Interest Methods

- Simple
  - ✓ US Rule
  - ✓ Actuarial (Compounding)
- Add-On
- Melded Simple
- Split Add-On
- Stepped Rates
- Discount

The Module accommodates melded (a.k.a. blended, tiered) maximum rate structures such as the ones in the UCCC states for Indiana, Kansas, Colorado, etc.

## Time Counting Calendars and Daily Rates for Interest Computation:

### Time Count

- Whole Period and Odd Days
- Actual Days 1st Interval
- Actual Days
- Actual Days 365 (does not include February 29th)
- Federal Calendar
- 30 Day Month
- Any specified number of days

### Daily Rate

- 360
- 364
- 365
- 365/366 (leap year support)
- Any specified number of days per year

When comparing what appear to be identical credit transactions, time counting calendar and daily rate combinations are the biggest reason that "my payment doesn't match."

The time-counting calendar determines appropriate time in an interval, i.e. is 7/01/01 to 8/01/01 considered one month (1/12 of a year) or 31 days for computing interest? If the time interval is 31 days, is it 31/360 or 31/365? Calendars are matched with daily rate options to compute maximum charges.

Carleton has long been recognized in the lending industry for providing accurate calculations that are compliant with federal and state lending regulations. The CarletonCalcs® Compliance Module employs a comprehensive and adaptable approach to validating transactions. In today's complex environment, Carleton provides a proven, reliable compliance solution customized to meet the needs of each of their clients.

# CONTACT

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