

To: Interested Parties

From: Martin Eakes, Coalition for Responsible Lending

Re: Draft language for Model Regulation against Predatory Lending

Date: September 23, 1999

Attached is the draft language for a proposed regulation by NCUA and state regulators that would prohibit credit unions from making predatory home mortgage loans or investments backed by such loans.

For all residential home loans of less than the Fannie Mae conforming loan limit (currently \$240,000), the proposed regulation would:

- ▪ Prohibit the financing of upfront, single premium credit insurance. Monthly payment credit insurance is still permitted.
- ▪ Prohibit loan prepayment penalties that trap consumers in unfavorable loans.
- ▪ Prohibit the practice of “flipping,” where a lender refinances an existing home loan with upfront fees that strips the homeowner's equity in the home.

A “high-cost” home loan would be defined as:

- ▪ A home loan in which the borrower is charged more than 3% of the loan amount (4% for FHA or VA loans) for upfront fees, points, broker compensation, or other charges, not including escrows collected at closing for fees for appraisal, attorney, credit report, etc. paid to third parties, or,
- ▪ A home loan where the borrower is charged an interest rate higher than 8% above one year Treasury securities.

For high-cost home loans of less than \$240,000, the proposed regulation would:

- ▪ Prohibit balloon payments, negative amortization, and mandatory arbitration clauses in the loan contract.
- ▪ Require that the borrower's ability to repay the loan be given full consideration in the underwriting process.
- ▪ Prohibit the financing of any upfront fees and insurance premiums to prevent the practice of stripping the cash value of a borrower's equity in the home.
- ▪ Require counseling for high-cost home loan borrowers prior to loan closing.