

104TH CONGRESS
1ST SESSION

H. R. 380

To protect home ownership and equity through enhanced disclosure of the risks associated with certain mortgages, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 4, 1995

Mr. TOWNS introduced the following bill; which was referred to the Committee on Banking and Financial Services

A BILL

To protect home ownership and equity through enhanced disclosure of the risks associated with certain mortgages, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Home Ownership and
5 Equity Protection Act of 1995”.

6 **SEC. 2. CONSUMER PROTECTIONS FOR HIGH COST MORT-**
7 **GAGES.**

8 (a) DEFINITION.—Section 103 of the Truth in Lend-
9 ing Act (15 U.S.C. 1602) is amended—

1 (1) by inserting after subsection (u) the follow-
2 ing new subsection:

3 “(v) The term ‘high cost mortgage’ means a
4 consumer credit transaction, other than a residential
5 mortgage transaction or a transaction under an open-end
6 credit plan, that is secured by a consumer’s principal
7 dwelling and that satisfies at least 1 of the following condi-
8 tions:

9 “(1) The annual percentage rate at the time
10 the loan is originated will exceed by more than 10
11 percentage points the yield on Treasury securities
12 having comparable maturities, as determined by the
13 Board. In the case of a variable rate loan with an
14 initial interest rate that may be different than the
15 rate or rates that will apply during subsequent peri-
16 ods, the annual percentage rate shall be computed
17 taking into account the subsequent rates.

18 “(2) Based on information provided by the
19 consumer, the consumer’s total monthly debt pay-
20 ments will exceed 60 percent of the consumer’s
21 monthly gross income, immediately after the loan is
22 consummated. The Board may establish a different
23 debt to income ratio if the Board determines that
24 such a ratio is in the public interest and is consist-
25 ent with the purposes of this Act.

1 “(3) All points and fees payable at or before
2 closing will exceed 8 percent of the total loan
3 amount.”; and

4 (2) by redesignating subsections (v), (w), (x),
5 (y), and (z) as (w), (x), (y), (z), and (aa), respec-
6 tively.

7 (b) MATERIAL DISCLOSURES.—Section 103(u) of the
8 Truth in Lending Act (15 U.S.C. 1602(u)) is amended
9 by striking “and the due dates or periods of payments
10 scheduled to repay the indebtedness.” and inserting “the
11 due dates or periods of payments scheduled to repay the
12 indebtedness, and the disclosures for high cost mortgages
13 required by paragraphs (1) through (6) of section
14 129(a).”.

15 (c) DEFINITION OF CREDITOR CLARIFIED.—Section
16 103(f) of the Truth in Lending Act (15 U.S.C. 1602(f))
17 is amended by adding at the end: “Notwithstanding the
18 above, any person who originates 2 or more high cost
19 mortgages a year, or who originates a high cost mortgage
20 through a loan broker, is a creditor for the purposes of
21 section 129.”.

22 (d) DISCLOSURES REQUIRED AND CERTAIN TERMS
23 PROHIBITED.—The Truth in Lending Act (15 U.S.C.
24 1601 et seq.) is amended by adding after section 128 the
25 following new section:

1 **“SEC. 129. REQUIREMENTS FOR HIGH COST MORTGAGES.**

2 “(a) DISCLOSURES.—In addition to any other disclo-
3 sures required under this title, for each high cost mort-
4 gage, the creditor shall provide the following written dis-
5 closures in clear language and in conspicuous type size
6 and format, segregated from other information as a sepa-
7 rate document:

8 “(1) The following statement: ‘If you obtain
9 this loan, the lender will have a mortgage on your
10 home. You could lose your home, and any money you
11 have put into it, if you do not meet your obligations
12 under the loan.’

13 “(2) The initial annual percentage rate.

14 “(3) The consumer’s gross monthly cash in-
15 come, as reported to the creditor by the consumer,
16 the total initial monthly payment, and the amount of
17 funds that will remain to meet other obligations of
18 the consumer.

19 “(4) In the case of a variable rate loan, a state-
20 ment that the annual percentage rate and the
21 monthly payment could increase, and the maximum
22 interest rate and payment.

23 “(5) In the case of a variable rate loan with an
24 initial annual percentage rate that is different than
25 the one which would be applied using the contract
26 index after the initial period, a statement of the pe-

1 riod of time the initial rate will be in effect, and the
2 rate or rates that will go into effect after the initial
3 period is over, assuming that current interest rates
4 prevail.

5 “(6) A statement that the consumer is not re-
6 quired to complete the transaction merely because he
7 or she has received disclosures or signed a loan ap-
8 plication.

9 “(b) TIME OF DISCLOSURES.—The disclosures re-
10 quired by this section shall be given no later than 3 busi-
11 ness days prior to consummation of the transaction. A
12 creditor may not change the terms of the loan after pro-
13 viding the disclosures required by this section.

14 “(c) NO PREPAYMENT PENALTY.—

15 “(1) IN GENERAL.—Except as provided in para-
16 graph (4), a high cost mortgage may not contain
17 terms under which a consumer must pay a prepay-
18 ment penalty for paying all or part of the principal
19 of a high cost mortgage prior to the date on which
20 such balance is due.

21 “(2) REBATE COMPUTATION.—For the pur-
22 poses of this subsection, any method of computing
23 rebates of interest less advantageous to the
24 consumer than the actuarial method using simple in-
25 terest is deemed a prepayment penalty.

1 “(3) CERTAIN OTHER FEES PROHIBITED.—An
2 agreement to refinance a high cost mortgage by the
3 same creditor or an affiliate of the creditor may not
4 require the consumer to pay points, discount fees, or
5 prepaid finance charges on the portion of the loan
6 refinanced. For the purpose of this paragraph, the
7 term ‘affiliate’ has the same meaning as it does in
8 section 2(k) of the Bank Holding Company Act of
9 1956.

10 “(4) EXCEPTION.—A high cost mortgage may
11 include terms under which a consumer is required to
12 pay not more than 1 month’s interest as a penalty
13 if the consumer prepays the full principal of the loan
14 within 90 days of origination.

15 “(d) NO BALLOON PAYMENTS.—A high cost mort-
16 gage may not include terms under which the aggregate
17 amount of the regular periodic payments would not fully
18 amortize the outstanding principal balance.

19 “(e) NO NEGATIVE AMORTIZATION.—A high cost
20 mortgage may not include terms under which the out-
21 standing principal balance will increase over the course of
22 the loan.

23 “(f) NO PREPAID PAYMENTS.—A high cost mortgage
24 may not include terms under which more than 2 periodic
25 payments required under the loan are consolidated and

1 paid in advance from the loan proceeds provided to the
2 consumer.”.

3 (e) CONFORMING AMENDMENT.—The table of sec-
4 tions at the beginning of chapter 2 of the Truth in Lend-
5 ing Act is amended by striking the item relating to section
6 129 and inserting the following:

“129. Disclosure requirements for high cost mortgages.”.

7 **SEC. 3. CIVIL LIABILITY.**

8 (a) DAMAGES.—Section 130(a) of the Truth in Lend-
9 ing Act (15 U.S.C. 1640(a)) is amended—

10 (1) by striking “and” at the end of paragraph

11 (2)(B);

12 (2) by striking the period at the end of para-
13 graph (3) and inserting “; and”; and

14 (3) by inserting after paragraph (3) the follow-
15 ing new paragraph:

16 “(4) in case of a failure to comply with any re-
17 quirement under section 129, all finance charges and
18 fees paid by the consumer.”.

19 (b) STATE ATTORNEY GENERAL ENFORCEMENT.—
20 Section 130(e) of the Truth in Lending Act (15 U.S.C.
21 1640(e)) is amended by adding at the end the following:
22 “An action to enforce a violation of section 129 may also
23 be brought by the appropriate State attorney general in
24 any appropriate United States district court, or any other

1 court of competent jurisdiction, within 5 years from the
2 date on which the violation occurs.”.

3 (c) ASSIGNEE LIABILITY.—Section 131 of the Truth
4 in Lending Act is amended by adding at the end the fol-
5 lowing new subsection:

6 “(d) HIGH COST MORTGAGES.—If a creditor fails to
7 comply with any of the requirements of section 129 in con-
8 nection with any high cost mortgage, any assignee shall
9 be subject to all claims and defenses that the consumer
10 could assert against the creditor. Recovery under this sub-
11 section shall be limited to the total amount paid by the
12 consumer in connection with the transaction.”.

13 **SEC. 4. EFFECTIVE DATE.**

14 This Act shall be effective 60 days after the promul-
15 gation of regulations by the Board of Governors of the
16 Federal Reserve System, which shall occur not later than
17 180 days following the date of enactment of this Act.

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