

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 3434
Version: Second engrossment
Authors: Rhodes and others
Subject: Responsible mortgage lending
Analyst: Thomas R. Pender (651-296-1885)

DATE: March 1, 2002

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

Overview

This bill defines high-cost home loans and imposes certain requirements on lenders with respect to those loans.

Section

- 1 **Citation.** Says that this act may be called the "Responsible Lending Act of 2002."
- 2 **Definitions.** Defines 11 terms that are used in this bill. The key definition is that of "high-cost home loan." This definition uses a definition used in the federal regulations adopted under the federal Home Ownership and Equity Protection Act (HOEPA).
- 3 **Prohibited acts and practices.**
 - Subd. 1. Ability to pay.** Prohibits making high-cost home loans to borrowers who are unlikely to be able to make the loan payments.
 - Subd. 2. Loan flipping.** Prohibits refinancing loans made by the same lender, an affiliate of the lender, or an assignee of the lender, within 24 months after the original loan, unless the lender of the new loan refunds all point and fees paid by the borrower for the original loan.
 - Subd. 3. Negative amortization.** Prohibits negative amortization in high-cost home loans. Negative amortization means the payments are less than the interest accrued, causing the principal balance to rise.
 - Subd. 4. Refinancing of special mortgages.** Prohibits refinancing a special mortgage loan with a high-cost home loan, unless the borrower gets independent loan counseling first. A special mortgage loan is defined as one that is subsidized by a governmental lender and has certain features advantageous to the borrower.
 - Subd. 5. Financing of credit insurance.** Prohibits financing credit insurance as part of a high-cost home loan.
 - Subd. 6. Payoff balance requirement.** Requires lenders to provide payoff information for free

and no later than 17 days after a request.

4 **Disclosures.** Requires certain disclosures to applicants for high-cost home loans.

5 **Unintentional errors.** Protects lenders who violate this act by mistake, if they rectify the situation within 60 days after learning of the error.

6 **Enforcement.** Provides that the commissioner of commerce enforces this act. Preempts local regulation of residential mortgage loans.

7 **Consumer remedies; liabilities.** Provides that this act may be enforced in court through equitable remedies and money damages. Permits the court to award plaintiffs attorney fees and costs. Provides statutory money damages of \$10,000 for a violation of this bill. Prohibits class actions based upon violations of this bill.

8 **Severability.** Provides that provisions of this act are severable, in case one of them is declared invalid by a court.

9 **Exemptions.** Provides an exemption from this act for loans made by the housing finance agency or a nonprofit housing development agency.

10 **Effective date.** Makes all sections effective October 1, 2002, and apply to loans closed on or after that date.