



Brief Summary of Rep. Bachus' Anti-Predatory Lending Legislation Introduced July 12, 2007

Background: The Ranking Member of the House Financial Services Committee, Rep. Spencer Bachus of Alabama, introduced HR 3012 on July 12, 2007 entitled "The Fair Mortgage Practices Act of 2007." Committee Chairman Barney Frank is expected to introduce his own bill later this year.

Summary: The bill includes provisions that would establish a licensing system for all mortgage originators, including mortgage brokers; a new consumer disclosure and handbook; new protections for subprime mortgage borrowers; create a new housing counseling capacity in HUD and establish new appraisal requirements. Specifically, the bill would address:

Coverage

- Not specifically define "subprime" but would assign the Federal Reserve responsibility for arriving at such a definition

Licensing

- Encourage CSBS and AARMR to establish a Nationwide Mortgage Licensing System and registry for all loan originators (lenders and mortgage brokers). Licensing will be the responsibility of the states as long as the licensing requirements meet standards in the bill, or if no such standards are established within 3 years, HUD established standards will apply. Originators will be subject to background checks and must pass a written examination in order to be licensed.

Disclosure – Consumer Information

- Amend TILA to require the Federal Reserve establish a new, one-page summary form for use with all mortgages. The form would include the mortgage's initial interest rate and its duration, the maximum possible rate for the loan, whether the loan has prepayment penalties and several other relevant pieces of information

Counseling

- Require establishment of a new disclosure encouraging subprime borrowers to "take advantage" of homeownership and credit counseling programs. It would also establish a new Office of Housing Counseling in HUD with \$100 million in grant making authority to state and local governments for counseling activities with an additional \$3 million for financial education. The new office would also be assigned the responsibility to update the consumer information booklet required under RESPA, and do so every 5 years thereafter.

Preventing Abuse

- Amend TILA to require escrows for all subprime mortgages, and disclosure to the borrower of the account within three business days before loan consummation. The bill permits borrowers to opt out of escrows, but originators are then required to make additional disclosures.
- Restricts prepayment penalties under hybrid ARMs to apply no more than 120 days before reset. It also requires the Board and the other federal banking regulators to prescribe regulations encouraging lenders to evaluate a consumer's ability to repay mortgage loans.

Anti-Fraud Funding

- Authorizes \$20 million for the Department of Justice, subject to appropriations, to prevent, investigate, and prosecute mortgage fraud.

Appraisals

- Requires physical appraisals for all subprime mortgages. The bill prohibits "appraisal pressure" and coercion, extortion and bribery by lenders, realtors, brokers, and sellers of appraisers.

CRA Credit Incentives

- Would give CRA credit to institutions that provide programs that facilitate the movement of low- and moderate-income borrowers from high cost mortgages to lower cost products. Credit would also be given to programs that help borrowers' understanding of credit and prevent foreclosure.