

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 3160-01  
BILL NO.: SB 786  
SUBJECT: Mortgages  
TYPE: Original  
DATE: February 17, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	\$0	\$0	\$0

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 3 pages.

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials of the **Department of Economic Development - Divisions of Finance and Credit Unions** and the **Department of Insurance** assume the proposal would have no fiscal impact on their agencies.

	FY 2001	FY 2002	FY 2003
<b><u>FISCAL IMPACT - State Government</u></b>			

	\$0	\$0	\$0
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	FY 2001	FY 2002	FY 2003
<b><u>FISCAL IMPACT - Local Government</u></b>			

	\$0	\$0	\$0
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**FISCAL IMPACT - Small Business**

Lenders that are small businesses could be fiscally impacted by this proposal.

**DESCRIPTION**

The proposal places certain restrictions and limitations on lenders with regards to high-cost home loans. It places restrictions on certain "predatory" lending practices. Under this act, high cost home loans are home loans, other than an open ended credit plan or reverse mortgage transaction, which have interest rates and corresponding fees that exceed a certain level. The proposal prohibits certain "predatory" lending practices with regards to high-cost loans. This act prohibits:

- 1) Lenders from charging prepayment fees;
- 2) The practice of negative amortization;
- 3) Flipping;
- 4) Making a loan when the lender knows the borrower will default;
- 5) Credit insurance packing; and

**DESCRIPTION (continued)**

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6) Charging for services not actually provided.

In addition to prohibiting certain practices, this act also limits how the lender may structure the repayment of the loan. The act also prohibits increasing the interest rate after default and prohibits the lender from charging fees to modify the loan or to defer payments. This act also prohibits lenders from making investments backed by high-cost home loans.

The proposal has an effective date of January 1, 2001.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Department of Economic Development - Divisions of Finance and Credit Unions  
Department of Insurance



Jeanne Jarrett, CPA  
Director  
February 17, 2000