

SENATE BILL No. 924

November 28, 2007, Introduced by Senators HUNTER, CHERRY, RICHARDVILLE, THOMAS, BRATER, GILBERT, OLSHOVE, SCOTT and CASSIS and referred to the Committee on Banking and Financial Institutions.

A bill to amend 2002 PA 660, entitled
"Consumer mortgage protection act,"
(MCL 445.1631 to 445.1645) by adding section 7a.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

SEC. 7A. IF A LENDER APPROVES AN APPLICATION FOR A MORTGAGE
LOAN, THE LENDER SHALL COMPLETE 2 IDENTICAL ORIGINALS OF AN
AGREEMENT IN SUBSTANTIALLY THE FOLLOWING FORM, SIGN BOTH
AGREEMENTS, OBTAIN THE SIGNATURE OF THE BORROWER OR BORROWERS ON
BOTH AGREEMENTS, AND DELIVER 1 OF THE AGREEMENTS TO THE BORROWER
OR BORROWERS:

"THE BASIC FACTS ABOUT YOUR MORTGAGE LOAN
BORROWER: _____ PROPERTY ADDRESS: _____

1 LENDER: _____
2
3 AMOUNT OF LOAN: \$ _____, WHICH IS _____ %
4 OF THE PROPERTY'S APPRAISED VALUE.
5 YOUR LOAN IS FOR _____ YEARS.
6 THE TYPE OF LOAN YOU HAVE: _____
7
8 YOUR BEGINNING INTEREST RATE IS _____ %.
9 THIS RATE IS GOOD FOR _____ MONTHS/YEARS.
10 THE RATE AND YOUR PAYMENT CAN GO HIGHER ON _____
11 AND EACH _____ MONTHS AFTER THAT.
12
13 TODAY'S ESTIMATE OF HOW HIGH THE RATE WILL GO, CALLED THE
14 FULLY INDEXED RATE, IS _____ %.
15 THE MAXIMUM POSSIBLE RATE ON YOUR LOAN IS _____ %.
16
17 THIS LOAN IS BASED ON YOUR MONTHLY INCOME OF \$ _____.
18
19 YOUR BEGINNING RATE = A MONTHLY LOAN PAYMENT OF
20 \$ _____ = _____ % OF YOUR INCOME.
21 -INCLUDING TAXES AND INSURANCE THIS IS ABOUT
22 \$ _____ = _____ % OF YOUR INCOME.
23
24 THE FULLY INDEXED RATE = A LOAN PAYMENT OF
25 \$ _____ = _____ % OF YOUR INCOME.
26 -INCLUDING TAXES AND INSURANCE THIS IS ABOUT
27 \$ _____ = _____ % OF YOUR INCOME.*
28 *THIS IS CALLED YOUR FULLY INDEXED HOUSING EXPENSE RATIO.
29
30 Special factors you must be aware of:
31 -A PREPAYMENT FEE OF \$ _____

1 MUST BE PAID IF _____.

2 -A "BALLOON PAYMENT" OF \$ _____ TO PAY OFF

3 YOUR LOAN WILL BE DUE ON _____.

4 -YOU DO/DO NOT HAVE A "PAYMENT OPTION" LOAN. IF YOU DO,

5 MAKE SURE YOU REALLY UNDERSTAND WHAT THIS MEANS.

6 START WITH THE ATTACHED DEFINITION.

7

8 TOTAL "POINTS" PLUS ESTIMATED OTHER COSTS AND FEES DUE AT

9 CLOSING ARE \$ _____.

10

11 FOR QUESTIONS CONTACT: NAME: _____

12 PHONE: _____ E-MAIL: _____

13

14 See the attached definitions of underlined terms and guidelines

15 DO NOT SIGN THIS IF YOU DON'T UNDERSTAND IT!

16

17		<u>BORROWER</u>	<u>DATE</u>
18		_____	_____
19	<u>AUTHORIZED SIGNER OF LENDER</u>	<u>DATE</u>	<u>BORROWER</u>
20	_____	_____	_____

21 THE BASIC FACTS ABOUT YOUR MORTGAGE LOAN

22 DEFINITIONS AND GUIDELINES

23 THIS FORM GIVES YOU THE BASIC FACTS, BUT SOME MORTGAGE FORMS

24 MAY USE TERMS NOT LISTED HERE. FOR A GOOD, BORROWER-FRIENDLY

25 INFORMATION SOURCE, TRY THE MORTGAGE PROFESSOR ONLINE

26 (WWW.MTGPROFESSOR.COM), WHICH INCLUDES DETAILED EXPLANATIONS OF

27 THE TECHNICAL MORTGAGE TERMS IN ITS "GLOSSARY" AND MUCH OTHER

28 HELPFUL INFORMATION.

29 TERMS USED IN THIS FORM:

1 THE APPRAISED VALUE IS WHAT A PROFESSIONAL APPRAISER
2 ESTIMATES THE HOUSE COULD BE SOLD FOR IN TODAY'S MARKET.

3 THE TYPE OF LOAN DETERMINES WHETHER AND BY HOW MUCH YOUR
4 INTEREST RATE CAN INCREASE. IF IT CAN, YOUR MONTHLY PAYMENTS WILL
5 ALSO INCREASE—SOMETIMES BY A LOT. FOR EXAMPLE, IN A "30-YEAR
6 FIXED RATE" LOAN, THE INTEREST RATE IS ALWAYS THE SAME. IN A "1-
7 YEAR ARM," IT WILL CHANGE EVERY YEAR. OTHER KINDS OF LOANS HAVE
8 VARIOUS PATTERNS, BUT THE INTEREST RATE MAY GO UP A LOT. MAKE
9 SURE YOU UNDERSTAND WHAT TYPE OF LOAN YOU ARE GETTING.

10 THE BEGINNING INTEREST RATE IS THE INTEREST YOU ARE PAYING
11 AT THE BEGINNING OF THE LOAN. ESPECIALLY IF IT IS A LOW
12 INTRODUCTORY OR "TEASER" RATE, IT IS THE RATE WHICH YOU WILL HEAR
13 THE MOST ABOUT FROM ADS AND SALESPeOPLE. BUT HOW LONG IS IT GOOD
14 FOR AND WHEN WILL RATES INCREASE? IN MANY TYPES OF LOANS, THE
15 RATE WILL GO UP BY A LOT. YOU NEED TO KNOW.

16 THE FULLY INDEXED RATE IS AN ESSENTIAL INDICATOR OF WHAT
17 WILL HAPPEN TO YOUR INTEREST RATE AND YOUR MONTHLY PAYMENTS. IT
18 IS TODAY'S ESTIMATE OF HOW HIGH THE INTEREST RATE ON AN
19 ADJUSTABLE RATE MORTGAGE WILL GO. IT IS CALCULATED BY TAKING A
20 DEFINED "INDEX RATE" AND ADDING A CERTAIN NUMBER OF PERCENTAGE
21 POINTS CALLED THE "MARGIN." FOR EXAMPLE, IF YOUR FORMULA IS THE
22 "1-YEAR TREASURY RATE PLUS 3%," AND TODAY THE 1-YEAR TREASURY
23 RATE IS 5%, YOUR FULLY INDEXED RATE IS $5\% + 3\% = 8\%$. AT THE TIME
24 THE LOAN IS BEING MADE, THE FULLY INDEXED RATE WILL ALWAYS BE
25 HIGHER THAN A BEGINNING "TEASER" RATE.

26 THE INDEX RATES ARE PUBLIC, PUBLISHED RATES, SO YOU CAN
27 STUDY THEIR HISTORY TO SEE HOW MUCH THEY CHANGE OVER TIME. IF THE

1 INDEX RATE STAYS THE SAME AS TODAY, THE RATE ON YOUR LOAN WILL
2 AUTOMATICALLY RISE TO THE FULLY INDEXED RATE OVER TIME. SINCE THE
3 INDEX RATE ITSELF CAN GO UP AND DOWN, YOU CANNOT BE SURE WHAT THE
4 FUTURE ADJUSTABLE RATE WILL BE. IN ANY CASE, YOU MUST MAKE SURE
5 YOU CAN AFFORD THE FULLY INDEXED RATE, NOT JUST THE BEGINNING
6 RATE, WHICH IS OFTEN CALLED A "TEASER RATE" FOR GOOD REASON.

7 THE MAXIMUM POSSIBLE RATE IS THE HIGHEST YOUR INTEREST RATE
8 CAN GO. MOST LOANS WITH ADJUSTABLE RATES HAVE A DEFINED MAXIMUM
9 RATE OR "LIFETIME CAP." YOU NEED TO THINK ABOUT WHAT IT WOULD
10 TAKE TO MAKE YOUR INTEREST RATE GO THIS HIGH. HOW LIKELY DO YOU
11 THINK THAT IS?

12 YOUR MONTHLY INCOME MEANS YOUR GROSS, PRE-TAX INCOME PER
13 MONTH FOR YOUR HOUSEHOLD. THIS SHOULD BE AN AMOUNT WHICH YOU CAN
14 MOST PROBABLY SUSTAIN OVER MANY YEARS. MAKE SURE THE MONTHLY
15 INCOME SHOWN ON THIS FORM IS CORRECT!

16 YOUR MONTHLY PAYMENT INCLUDING TAXES AND INSURANCE IS THE
17 AMOUNT YOU MUST PAY EVERY MONTH FOR INTEREST, REPAYMENT OF LOAN
18 PRINCIPAL, HOUSE INSURANCE PREMIUMS, AND PROPERTY TAXES.
19 EXPRESSED AS A PERCENT OF YOUR MONTHLY INCOME, THIS IS CALLED
20 YOUR "HOUSING EXPENSE RATIO." OVER TIME, IN ADDITION TO ANY
21 POSSIBLE INCREASES IN YOUR INTEREST RATE AND HOW FAST YOU MUST
22 REPAY PRINCIPAL, YOUR INSURANCE PREMIUMS AND PROPERTY TAXES WILL
23 TEND TO INCREASE. OF COURSE, YOUR MONTHLY INCOME MAY ALSO
24 INCREASE. HOW MUCH DO YOU EXPECT IT TO?

25 YOUR FULLY INDEXED HOUSING EXPENSE RATIO IS A KEY MEASURE OF
26 WHETHER YOU CAN AFFORD THIS LOAN. IT IS THE PERCENT OF YOUR
27 MONTHLY INCOME IT WILL TAKE TO PAY INTEREST AT THE FULLY INDEXED

1 RATE, PLUS REPAYMENT OF PRINCIPAL, HOUSE INSURANCE AND PROPERTY
2 TAXES. THE TIME-TESTED MARKET STANDARD FOR THIS RATIO IS 28%; THE
3 MORE OVER 28% YOUR RATIO IS, THE RISKIER THE LOAN IS FOR YOU.

4 A PREPAYMENT FEE IS AN ADDITIONAL FEE IMPOSED BY THE LENDER
5 IF YOU PAY YOUR LOAN OFF EARLY. MOST MORTGAGES IN AMERICA HAVE NO
6 PREPAYMENT FEE. IF YOURS DOES, MAKE SURE YOU UNDERSTAND HOW IT
7 WOULD WORK BEFORE YOU SIGN THIS FORM.

8 A BALLOON PAYMENT MEANS THAT A LARGE REPAYMENT OF LOAN
9 PRINCIPAL IS DUE AT THE END OF THE LOAN. FOR EXAMPLE, A "7-YEAR
10 BALLOON" MEANS THAT THE WHOLE REMAINING LOAN PRINCIPAL, A VERY
11 LARGE AMOUNT, MUST BE PAID AT THE END OF THE SEVENTH YEAR. THIS
12 ALMOST ALWAYS MEANS THAT YOU HAVE TO GET A NEW LOAN TO MAKE THE
13 BALLOON PAYMENT.

14 A "PAYMENT OPTION LOAN" MEANS THAT IN THE YEARS IMMEDIATELY
15 AFTER SECURING A MORTGAGE LOAN, YOU CAN PAY EVEN LESS THAN THE
16 INTEREST YOU ARE BEING CHARGED. THE UNPAID INTEREST IS ADDED TO
17 YOUR LOAN, SO THE AMOUNT YOU OWE GETS BIGGER. THIS IS CALLED
18 "NEGATIVE AMORTIZATION." THE VERY LOW PAYMENTS IN EARLY YEARS
19 CREATE THE RISK OF VERY LARGE INCREASES IN YOUR MONTHLY PAYMENT
20 LATER. PAYMENT OPTION LOANS ARE TYPICALLY ADVERTISED USING ONLY
21 THE VERY LOW BEGINNING OR "TEASER" REQUIRED PAYMENT, WHICH IS
22 LESS THAN THE INTEREST RATE. YOU ABSOLUTELY NEED TO KNOW FOUR
23 THINGS: (1) HOW LONG IS THE BEGINNING PAYMENT GOOD FOR? (2) WHAT
24 HAPPENS THEN? (3) HOW MUCH IS ADDED TO MY LOAN IF I PAY THE
25 MINIMUM RATE? (4) WHAT IS THE FULLY INDEXED RATE?

26 "POINTS" ARE A FEE THE BORROWER PAYS THE LENDER AT CLOSING,
27 EXPRESSED AS A PERCENT OF THE LOAN. FOR EXAMPLE, "2 POINTS" MEANS

1 YOU WILL PAY AN UP-FRONT FEE EQUAL TO 2% OF THE LOAN. IN
2 ADDITION, MORTGAGES USUALLY INVOLVE A NUMBER OF OTHER COSTS AND
3 FEES WHICH MUST BE PAID AT CLOSING.

4 CLOSING IS WHEN THE LOAN IS ACTUALLY MADE AND ALL THE
5 DOCUMENTS ARE SIGNED.

6 "FOR QUESTIONS CONTACT" GIVES YOU THE NAME, PHONE NUMBER,
7 AND E-MAIL ADDRESS OF SOMEONE SPECIFICALLY ASSIGNED BY YOUR
8 LENDER TO ANSWER YOUR QUESTIONS AND EXPLAIN THE COMPLICATIONS OF
9 MORTGAGE LOANS. DON'T BE SHY: CONTACT THIS PERSON IF YOU HAVE ANY
10 QUESTIONS.

11 FINALLY, DO NOT SIGN THIS FORM IF YOU DON'T UNDERSTAND IT!
12 YOU ARE COMMITTING YOURSELF TO PAY LARGE AMOUNTS OF MONEY OVER
13 YEARS TO COME AND PLEDGING YOUR HOUSE AS COLLATERAL SO THE LENDER
14 CAN TAKE IT IF YOU DON'T PAY. ASK QUESTIONS UNTIL YOU ARE SURE
15 YOU KNOW WHAT YOUR COMMITMENTS REALLY ARE AND HOW THEY COMPARE TO
16 YOUR INCOME. UNTIL THEN, DO NOT SIGN."