

BILL ANALYSIS

C.S.H.B. 1582
By: Chavez
Financial Institutions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

According to Fannie Mae, nearly half of all subprime mortgage borrowers could have qualified for a loan in the prime market. This predatory practice of steering qualified prime borrowers in the subprime market can cost a borrower thousands of dollars over the life of a loan. Other studies suggest low-income families and minorities are more likely to have subprime mortgage loans and to be susceptible to predatory lending practices, such as equity stripping and loan flipping.

C.S.H.B. 1582 requires the Department of Housing and Community Affairs to conduct a study to examine mortgage foreclosure rates in certain counties.

RULEMAKING AUTHORITY

It is the committee's opinion that this substitute does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 1582 amends Subchapter K, Chapter 2306, Government Code, as follows:

The substitute provides that the Department of Housing and Community Affairs (department) to conduct a study to examine mortgage foreclosure rates in Bexar, Cameron, Dallas, El Paso, and Travis counties. The department shall establish an advisory committee to direct the focus of the study, the findings of which must be approved by a majority of the members of the advisory committee.

The substitute requires the advisory committee to be composed of the director or the director's representative of the department, the savings and loan commissioner or the commissioner's representative, four members appointed by the director to represent community and consumer interests, four members appointed by the savings and loan commissioner who represent the mortgage lending industry, and a representative of the Texas Housing Research Consortium at the University of Texas at Austin who shall serve as chair.

The substitute requires the advisory committee to address the following topics in the study:

- the extent to which the terms of mortgages are related to the foreclosure rate and whether the terms could be offered in a manner to reduce the likelihood of foreclosure;
- the socioeconomic and geographic elements characterizing foreclosures;
- the securitization of mortgages in the secondary market and its effects on foreclosure;
- consumer education efforts to prevent foreclosures; and,
- recommendations to reduce foreclosures and the foreclosure rate.

The substitute provides that the advisory committee will determine the methodology for conducting the study and must require that the first three topics listed above include a statistically significant sample size. To obtain information to conduct the study, the department may contract with appropriate research organizations. Any information used to conduct the study must be available to the department, Savings and Loan Department, and the legislature; however, the information made available to the public must be in aggregate form. The substitute also requires all state government entities to comply with the department as it conducts the study.

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The substitute provides that, in conducting the study, the department may use money under the new Section 1372.006(a-1), Government Code. This section allows money transferred to the department from the Bond Review Board to be used to conduct the study. In addition, the department or advisory committee may seek and accept grants or donations to conduct the study.

The substitute provides that the findings of the study shall be reported to the governor, lieutenant governor, and the speaker of the house of representatives by September 1, 2006.

The substitute provides that the study expires on February 1, 2007.

EFFECTIVE DATE

September 1, 2005.

COMPARISON OF ORIGINAL TO SUBSTITUTE

C.S.H.B. 1582 modifies the original by changing the purpose of the study from practices related to subprime mortgage lending to reasons for mortgage foreclosures on residential property.

The substitute modifies the original by adding language that requires the department to include the savings and loan commissioner, consumer representatives, mortgage lending representatives, and a representative from the Texas Housing and Research Consortium at the University of Texas at Austin in an advisory committee to approve the findings of the study.

The substitute modifies the original by adding language that allows the department to use money under the new Section 1372.006(a-1), Government Code. This section allows money transferred to the department from the Bond Review Board to be used to conduct the study. In addition, the department or advisory committee may seek and accept grants or donations to conduct the study.

The substitute modifies the original by adding language that requires information used to conduct the study only be available to the public in aggregate form.