

## **BILL ANALYSIS**

Senate Research Center  
80R14293 HLT-D

C.S.S.B. 987  
By: Lucio  
Business & Commerce  
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Committee Report (Substituted)

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Current law does not require loan applicants for high-risk home loans to receive consumer counseling before the closing date of such a loan. In September, 2006, the Texas Department of Housing and Community Affairs reported that this state has the nation's sixth-highest home foreclosure rate. Although the state has taken proactive steps to protect homeowners by outlawing certain practices in home equity loans, there are virtually no protections for home buyers against high-risk, or "exotic," home loans. Such loans are very risky because they have variable interest rates, prepayment penalties, allow for payment of interest only, negatively amortize, or provide for a scheduled payment that is twice as large as the average of earlier scheduled monthly payments.

C.S.S.B. 987 requires loan applicants for high-risk home loans to receive consumer counseling before the closing date of such a loan to provide the consumer the chance to make an informed decision of the consequences of such high-risk loans and to attempt to lower foreclosure rates in this state.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Subchapter B, Chapter 343, Finance Code, by adding Section 343.105, as follows:

Sec. 343.105. COUNSELING REQUIRED BEFORE CLOSING HIGH-RISK LOAN.

(a) Defines "high-risk loan."

(b) Prohibits a lender from making a high-risk loan for less than \$125,000 unless the loan applicant (applicant) presents to the lender a certificate of completion of counseling signed by the counselor and the applicant that establishes that, not later than the 10th day before the date of closing, the applicant received counseling in person or by phone from an agency approved by the United States Department of Housing and Urban Development or from an attorney licensed to practice law in this state regarding the advisability of a high-risk loan and the availability of financial alternatives and that includes a signed statement by the counselor that the counselor has training or experience in home loans.

(c) Requires the lender to provide to the applicant and counselor, before the applicant receives counseling as required by Subsection (b), a written notice on a form prescribed by the Finance Commission of Texas (commission) under Subsection (e) that states the proposed terms of the loan, that the proposed loan is a high-risk loan, and that financial alternatives are available.

(d) Requires the lender to maintain in the lender's records any certificate of completion of counseling provided to the lender under Subsection (b).

(e) Requires the commission to prescribe the form and content of the certificate of completion of counseling required by Subsection (b) and the notice required by Subsection (c).

(f) Provides that this section does not apply to an interim construction loan with a maturity of less than 18 months.

SECTION 2. Makes application of this Act prospective.

SECTION 3. Effective date: September 1, 2007.