

ASSEMBLY BILL 792 (LRB -3260)

An Act to amend 138.052 (2) (a) 2., 138.052 (9), 138.056 (3) (a), chapter 428 (title), 428.101 (intro.), 428.101 (3), 428.102 (intro.), 428.102 (2), 428.103 (1) (intro.) and 428.106; and to create subchapter I (title) of chapter 428 [precedes 428.101] and subchapter II of chapter 428 [precedes 428.202] of the statutes; relating to: regulating certain consumer mortgage lenders, granting rule-making authority, and providing a penalty. (FE)

2004

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**2003
ENROLLED BILL**

03en AB-792

ADOPTED DOCUMENTS:

Orig Engr

SubAmdt 1

03 50358/2

Amendments to above (if none, write "NONE"):

AA5, AA6, AA7

Corrections - show date (if none, write "NONE"):

~~AA5, AA6, AA7~~
NONE

Topic

relay minus ORM + POW

3/10/04
Date

[Signature]
Enrolling Drafter

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**ASSEMBLY SUBSTITUTE AMENDMENT 1,
TO 2003 ASSEMBLY BILL 792**

February 25, 2004 - Offered by Representative MONTGOMERY.

1 **AN ACT** *to amend* 138.052 (2) (a) 2., 138.052 (9), 138.056 (3) (a), chapter 428
2 (title), 428.101 (intro.), 428.101 (3), 428.102 (intro.), 428.102 (2), 428.103 (1)
3 (intro.) and 428.106; and *to create* subchapter I (title) of chapter 428 [precedes
4 428.101] and subchapter II of chapter 428 [precedes 428.202] of the statutes;
5 **relating to:** regulating certain consumer mortgage lenders, granting
6 rule-making authority, and providing a penalty.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

7 **SECTION 1.** 138.052 (2) (a) 2. of the statutes is amended to read:
8 138.052 (2) (a) 2. The Except as provided in s. 428.207, the parties may agree
9 that if a prepayment is made within 5 years of the date of the loan, then the lender
10 shall receive an amount not exceeding 60 days' interest at the contract rate on the
11 amount by which the aggregate principal prepayments for a 12-month period
12 exceeds 20% of the original amount of the loan.

1 428.101 (3) Loans made on or after November 1, 1981, by a creditor to a
2 customer and which are secured by a first lien real estate mortgage or equivalent
3 security interest if the amount financed is \$25,000 or less and if the loan is not subject
4 to subch. II.

5 **SECTION 8.** 428.102 (intro.) of the statutes is amended to read:

6 **428.102 Definitions.** (intro.) In this ~~chapter~~ subchapter:

7 **SECTION 9.** 428.102 (2) of the statutes is amended to read:

8 428.102 (2) “Creditor” means a person who regularly engages in, arranges for
9 or procures from 3rd persons, loans within the scope of this ~~chapter~~ subchapter.

10 **SECTION 10.** 428.103 (1) (intro.) of the statutes is amended to read:

11 428.103 (1) (intro.) The following limitations shall apply to all loans subject to
12 this ~~chapter~~ subchapter:

13 **SECTION 11.** 428.106 of the statutes is amended to read:

14 **428.106 Remedies.** (1) Violations of this ~~chapter~~ subchapter may be enforced
15 by a customer subject to this section and ss. 425.308 to 425.311.

16 (2) With respect to a loan subject to this ~~chapter~~ subchapter, if the court as a
17 matter of law finds that any aspect of the transaction, any conduct directed against
18 the customer, by the creditor, or any result of the transaction is unconscionable, the
19 court shall, in addition to the remedies and penalties set forth in this ~~chapter~~
20 subchapter, and a penalty not to exceed that specified in s. 428.103 (2), refuse to
21 enforce the unconscionable aspect of the transaction or so limit the application of any
22 unconscionable aspect or conduct to avoid any unconscionable result.

23 (3) Notwithstanding other provisions of this ~~chapter~~ subchapter, a customer
24 shall not be entitled to recover the specific penalties provided in ss. 428.103 (2) (a)
25 and 428.104 (2) (a) if the person violating this ~~chapter~~ subchapter shows by a

1 preponderance of the evidence that the violation was not intentional and resulted
2 from a bona fide error notwithstanding the maintenance of procedures reasonably
3 adapted to avoid such error.

4 (4) Any action brought by a customer to enforce rights under sub. (1) shall be
5 commenced within one year after the date of the last violation of this ~~chapter~~
6 subchapter, 2 years after consummation of the agreement or one year after the last
7 payment, whichever is later. But in no event shall an action be commenced more
8 than 6 years after the date of the last violation.

9 (5) The administrator specified in s. 426.103, solely through the department
10 of justice, may on behalf of any customer institute an action to enforce this ~~chapter~~
11 subchapter and to recover the damages and penalties provided for this ~~chapter~~
12 subchapter. In such action the administrator may obtain an order restraining by
13 temporary or permanent injunctions any violation of this ~~chapter~~ subchapter. This
14 subsection shall not be construed to incorporate or grant to the administrator with
15 respect to the enforcement of this ~~chapter~~ subchapter, any of the provisions of ch. 426.

16 SECTION 12. Subchapter II of chapter 428 [precedes 428.202] of the statutes is
17 created to read:

18 **CHAPTER 428**

19 **SUBCHAPTER II**

20 **RESPONSIBLE HIGH COST**

21 **MORTGAGE LENDING**

22 **428.202 Definitions.** In this subchapter:

23 (1) “Bridge loan” means a loan with a maturity of less than 18 months which
24 requires only payments of interest until the time that the unpaid balance is due.

1 **(1m)** “Business day” has the meaning that is specified under 12 CFR 226.2 (a)
2 (6) for purposes of 12 CFR 226.31.

3 **(2)** “Covered loan” means a consumer credit mortgage loan transaction other
4 than an open–end credit plan or reverse mortgage in which all of the following apply:

5 (a) The customer is a natural person.

6 (b) The debt is incurred by the customer primarily for personal, family, or
7 household purposes.

8 (c) The loan is secured by a mortgage on, or an equivalent security interest in,
9 residential real property, and the residential real property is or will be occupied by
10 the customer as the customer’s principal dwelling.

11 (d) The terms of the loan provide any of the following:

12 1. That the loan transaction, at the time that the loan is consummated, is
13 considered a mortgage under 15 USC 1602 (aa) and regulations adopted thereunder,
14 including 12 CFR 226.32.

15 2. That total points and fees payable by the customer at or before the loan
16 closing exceed 6 percent of the total loan amount. *R 5-16 AAG*

17 **(3)** “Customer” means an individual to whom a covered loan is offered or made.
18 “Customer” does not include a surety, guarantor, cosigner, or endorser.

19 **(4)** “Department” means the department of financial institutions.

20 **(5)** “Lender” means any person who originates a covered loan and to whom the
21 covered loan is initially payable, except that “lender” does not include an assignee
22 of a covered loan or any person who, for at least 12 consecutive months, has failed
23 to originate any covered loans.

24 **(5m)** “Licensed lender” means a person licensed under s. 138.09.

25 **(6)** “Loan originator” has the meaning given in s. 224.71 (1r).

1 **(6m)** “Local governmental unit” has the meaning given in s. 16.97 (7).

2 **(7)** “Mortgage banker” has the meaning given in s. 224.71 (3).

3 **(8)** “Mortgage broker” has the meaning given in s. 224.71 (4).

4 **(10)** “Servicer” has the meaning given in 12 USC 2605 (i) (2).

5 **428.203 Prohibitions on and requirements of lenders and assignees.**

6 **(1) BALLOON PAYMENTS.** Except as otherwise provided in this subsection, no lender
7 may make a covered loan to a customer that requires, or that permits the lender to
8 require, a payment that is more than twice as large as the average of all earlier
9 scheduled payments. This subsection does not apply to a loan under which the
10 payment schedule is adjusted to account for seasonal or irregular income of the
11 customer or to a bridge loan with a maturity of less than one year that the customer
12 obtains for the purpose of facilitating the acquisition or construction of a dwelling as
13 the customer’s principal dwelling.

14 **(2) CALL PROVISION.** No lender may make a covered loan to a customer that
15 permits the lender or an assignee of the loan to demand payment of the outstanding
16 balance before the original maturity date, except that a covered loan may permit a
17 lender or assignee to so demand as a result of any of the following:

18 (a) The customer’s failure to make payments required under the loan.

19 (b) A provision in the loan agreement permitting the lender or assignee to make
20 such a demand after the sale of real property that is pledged as security for the loan.

21 (c) Fraud or material misrepresentation by the customer in connection with the
22 loan.

23 (d) Any act or omission by the customer that adversely affects the lender’s or
24 assignee’s security for the loan or any right of the lender or assignee in such security.

-7-
As make

1 (3) **NEGATIVE AMORTIZATION.** No lender may make a covered loan to a customer
2 with a payment schedule that causes the principal balance to increase, except that
3 this subsection does not prohibit such a payment schedule as a result of a temporary
4 forbearance or loan restructuring consented to by the customer.

5 (4) **INCREASED INTEREST RATE.** No lender may make a covered loan to a customer
6 that imposes or permits the lender or an assignee of the loan to impose an increase
7 in the interest rate as a result of the customer's default.

8 (5) **ADVANCE PAYMENTS.** No lender may make a covered loan to a customer that
9 includes a payment schedule that consolidates more than 2 scheduled payments and
10 pays them in advance out of the proceeds of the loan.

11 (6) **REPAYMENT ABILITY.** No lender may engage in a pattern or practice of making
12 covered loans to customers based on the customer's collateral without regard to the
13 customer's ability to repay, including the customer's current or expected income,
14 current obligations, and employment. A lender is presumed to have violated this
15 subsection if the lender engages in a pattern or practice of making covered loans
16 without verifying and documenting the customer's repayment ability.

17 (7) **REFINANCING OF EXISTING COVERED LOAN.** No lender may make a covered loan
18 that refinances an existing covered loan that the lender made to the same customer,
19 unless the refinancing takes place at least one year after the date on which the loan
20 being refinanced was made or the refinancing is in the interest of the customer. No
21 assignee or servicer of a covered loan may make a covered loan that refinances the
22 covered loan, unless the refinancing takes place at least one year after the date on
23 which the loan being refinanced was made or the refinancing is in the interest of the
24 customer. No lender, assignee of a covered loan, or servicer may engage in a pattern
25 or practice of arranging for the refinancing of covered loans by affiliates or

1 unaffiliated creditors, modifying covered loans, or any other acts for the purpose of
2 evading this subsection. This subsection does not apply to bridge loans.

3 (8) PAYMENTS TO HOME IMPROVEMENT CONTRACTORS. No lender under a covered
4 loan made to a customer may pay proceeds of the loan to a person who is under
5 contract to make improvements to an existing dwelling, unless the payment is made
6 by an instrument that is payable to the customer or jointly to the customer and the
7 person who is under contract or, with the consent of the customer, the payment is
8 made through a 3rd party in accordance with a written agreement signed by the
9 customer, the lender, and the person under contract.

10 (8g) SINGLE PREMIUM CREDIT INSURANCE PRODUCTS. A lender may not finance,
11 directly or indirectly, through a covered loan, or finance to the same customer within
12 30 days of making a covered loan, any individual or group credit life, credit accident
13 and health, credit disability, or credit unemployment insurance product on a prepaid
14 single premium basis sold in conjunction with a covered loan. This prohibition does
15 not include contracts issued by a government agency or private mortgage insurance
16 company to insure the lender against loss caused by a customer's default and does
17 not apply to individual or group credit life, credit accident and health, credit
18 disability, or credit unemployment insurance premium calculated and paid on a
19 monthly or other periodic basis.

20 (8m) REFINANCING OF SUBSIDIZED LOW-RATE LOANS. (a) In this subsection,
21 "subsidized low-rate loan" means a loan that carries a current interest rate at least
22 2 percentage points below the then current yield on treasury securities with a
23 comparable maturity. If the loan's current interest rate is either a discounted
24 introductory rate or a rate that automatically steps up over time, the fully indexed

1 rate or the fully stepped-up rate, as applicable, shall be used instead of the current
2 rate to determine whether a loan is a subsidized low-rate loan.

3 (b) A lender may not knowingly replace or consolidate a zero-interest rate or
4 other subsidized low-rate loan made by a governmental or nonprofit lender with a
5 covered loan within the first 10 years of the zero-interest rate or other subsidized
6 low-rate loan unless the current holder of the loan consents in writing to the
7 refinancing.

8 (9) UNREGISTERED MORTGAGE BANKERS AND BROKERS. No lender may knowingly
9 contract with any person for the performance of duties in violation of s. 224.72 (1m).

10 **428.204 False statements.** No lender, licensed lender, loan originator,
11 mortgage banker, or mortgage broker may knowingly make, propose, or solicit
12 fraudulent, false, or misleading statements on any document relating to a covered
13 loan.

14 **428.206 Recommending default.** No lender, licensed lender, loan originator,
15 mortgage banker, or mortgage broker may recommend or encourage an individual
16 to default on an existing loan or other obligation before and in connection with the
17 making of a covered loan that refinances all or any portion of that existing loan or
18 obligation.

19 **428.207 Prepayment.** (1) A customer may prepay a covered loan at any time
20 without penalty if the payment is made in the context of a refinancing of the covered
21 loan and if the covered loan is held by the refinancing lender. This subsection does
22 not prohibit the servicer of a covered loan from imposing a prepayment penalty,
23 unless the servicer is also the lender and holds the loan at the time of the refinancing.

24 (2) Any prepayment penalty under this section is subject to all of the following
25 limitations:

1 (a) A prepayment penalty is permitted only during the 36 months immediately
2 following the date of consummation of a covered loan.

3 (b) A lender may not include a prepayment penalty in a covered loan unless the
4 lender offers the customer the option of choosing a loan product without a
5 prepayment penalty. The terms of the offer shall be in writing and initialed by the
6 customer. The offer shall be in a clear and conspicuous format and include the
7 following disclosure:

8 **LOAN PRODUCT CHOICE DISCLOSURE**

9 I was provided with an offer to accept a product both with and without a
10 prepayment penalty provision. I have chosen to accept the product with a
11 prepayment penalty.

12 (c) A prepayment penalty may not exceed 60 days' interest at the contract rate
13 on the amount prepaid on fixed-rate covered loans over \$25,000 if the borrower
14 prepays more than 20 percent of the original loan amount within 36 months
15 immediately following the date of consummation of the covered loan.

16 (d) A prepayment penalty may not be collected on fixed-rate covered loans of
17 \$25,000 or less, on adjustable rate loans, or on those fixed-rate covered loans over
18 \$25,000 not specified in par. (c).

19 **428.208 Disclosure to customers.** At least 3 business days before making
20 a covered loan to a customer, a lender shall ensure that the customer has been given
21 the following notice, in writing and in a clear and conspicuous format:

22 **DISCLOSURE TO BORROWER**

23 A. If you obtain this loan, the lender will have a mortgage on your home. You
24 could lose your home and any money that you have put into it if you do not meet your
25 obligations under this loan. Mortgage loan rates and closing costs and fees vary

1 based on many factors, including your particular credit and financial circumstances,
2 your earnings history, your employment status, the loan-to-value ratio of the
3 requested loan, and the type of property that will secure your loan. The loan rate and
4 fees could also vary based on which lender you select.

5 B. As a consumer you should shop around and compare loan rates and fees.
6 You should also consider consulting a qualified independent credit counselor or other
7 experienced financial adviser regarding the rate, fees, and provisions of this
8 mortgage loan before you proceed.

9 C. You are not required to complete this loan agreement merely because you
10 have received these disclosures or have signed a loan application. If you proceed with
11 this mortgage loan, you should also remember that you may face serious financial
12 risks if you use this loan to pay off credit card debts or other debts in connection with
13 this transaction and then subsequently incur significant new debt. If you continue
14 to accumulate debt after this loan is made and then experience financial difficulties,
15 you could lose your home and any equity that you have in it if you do not meet your
16 mortgage loan obligations.

17 D. Property taxes and homeowner's insurance are your responsibility. Some
18 lenders may require you to escrow money for these payments. However, not all
19 lenders provide escrow services for these payments. You should ask your lender
20 about these services.

21 E. Your payments on existing debts contribute to your credit ratings. You
22 should not accept any advice to ignore your regular payments to your existing
23 creditors.

24 **428.209 Exclusive state regulation authority.** The state shall have sole
25 authority, except as provided under federal law, to regulate any matter governed by

1 this subchapter or by a rule promulgated under this subchapter. No local
2 governmental unit may attempt to regulate, directly or indirectly, any matter
3 governed by this subchapter or by a rule promulgated under this subchapter,
4 including enacting an ordinance or adopting a resolution or imposing reporting
5 requirements.

6 **428.2095 Property exempt from debt collection.** Except to the extent that
7 the lender has a valid security interest permitted under this subchapter or has a lien
8 under ch. 779 in the property, all of the following personal property of the customer
9 is exempt from levy, execution, sale, and other similar process in satisfaction of a
10 judgment for an obligation arising from a covered loan:

11 (1) Clothing of the customer or his or her dependents.

12 (2) Dining table and chairs, refrigerator, heating stove, cooking stove, radio,
13 beds and bedding, couch and chairs, cooking utensils, and kitchenware.

14 (3) Household goods, as defined in 12 CFR 227.13 (d), 12 CFR 535.1 (g), or 16
15 CFR 444.1 (i), consisting of furniture, appliances, one television, linens, china,
16 crockery, and personal effects including wedding rings, except works of art,
17 electronic entertainment equipment, antiques, and jewelry, to the extent that a
18 nonpossessory security interest in these household goods is prohibited under 12 CFR
19 227.13 (d), 12 CFR 535.2 (a) (4), or 16 CFR 444.2 (a) (4).

20 **428.210 Administration and penalties.** (1) RULES. The department may
21 promulgate rules for the administration of this subchapter. The rules shall include
22 guidelines for determining a customer's ability to repay a covered loan based upon
23 the customer's debt-to-income ratio.

24 (2) INVESTIGATIONS. (a) At any time that the department has reason to believe
25 that a person has engaged in or is about to engage in an act that violates this

1 subchapter, the department may investigate. In performing an investigation under
2 this paragraph, the department may administer oaths or affirmations, subpoena
3 witnesses, compel their attendance, adduce evidence, and require the production of
4 any matter, including the existence, description, nature, custody, condition, and
5 location of any books, documents, or other tangible things, and the identity and
6 location of persons having knowledge of relevant facts, or any other matter
7 reasonably calculated to lead to the discovery of admissible evidence. The
8 department may access and examine such books, documents, or other tangible
9 things. In any civil action brought on behalf of the department based on evidence
10 obtained in such an investigation, the department may recover the costs of
11 performing the investigation if the department prevails in the action.

12 (b) If 5 or more persons file a verified complaint with the department alleging
13 that a person has violated this subchapter, the department shall immediately
14 commence an investigation pursuant to par. (a).

15 (c) If the records of a person who is subject to an investigation pursuant to par.
16 (a) are located outside of this state, the person at the person's option shall either
17 make them available to the department at a convenient location within this state or
18 pay the reasonable and necessary expenses for the department to examine them at
19 the place where they are located. The department may designate representatives,
20 including comparable officials of the state in which the records are located, to inspect
21 them on the department's behalf.

22 (d) At the request of the department of financial institutions and upon
23 reasonable notice to all affected persons, the department of justice may apply to any
24 court of record for an order compelling compliance if a person fails to obey a subpoena
25 or to give testimony pursuant to par. (a).

1 **(3) ENFORCEMENT AND PENALTIES.** (a) The department may serve a notice of a
2 hearing that complies with s. 227.44 (1) and (2) on a person if the department
3 reasonably suspects that the person has violated this subchapter. The department
4 may receive complaints alleging violations of this subchapter. A hearing conducted
5 pursuant to a notice under this paragraph shall be conducted in the manner specified
6 for a contested case, as defined in s. 227.01 (3), under ss. 227.44 to 227.50. Except as
7 provided in sub. (4), if the person fails to appear at the hearing or if upon the record
8 made at the hearing the department finds that a violation has been established, the
9 department may issue and serve on the person an order specifying any of the
10 following:

11 1. That the person must cease and desist from the violation or practice and
12 make restitution for any actual damages suffered by a customer.

13 2. That the person must forfeit not more than \$1,000 per violation or, if the
14 person willfully or knowingly violated this subchapter, not less than \$1,000 nor more
15 than \$10,000 per violation.

16 3. That the person must pay to the department the costs of its investigation.

17 4. That a license, registration, or certification issued by the department to the
18 person is suspended or revoked or will not be renewed.

19 5. That any individual who is responsible for the violation must be removed
20 from working in any capacity related to the violation or related to activities regulated
21 by the department.

22 6. Any additional conditions that the department considers reasonable.

23 (b) An order under par. (a) is effective upon service on the person and may be
24 appealed under s. 220.035.

1 (c) The department of justice, at the request of the department of financial
2 institutions, may bring an action to enforce an order issued under par. (a).

3 (4) **SAFE HARBOR.** It is a defense to any alleged violation of this subchapter if
4 the person alleged to have committed the violation establishes all of the following:

5 (a) That the person acted in good faith while committing the violation.

6 (b) That, no later than 60 days after the discovery of the violation and before
7 any investigation or other enforcement action by the department under this section,
8 the person notified the affected customer of the violation and either made
9 appropriate adjustments to the loan to bring the loan into compliance with this
10 subchapter or changed the terms of the loan in a manner beneficial to the customer
11 so that the loan is no longer a covered loan.

12 **428.211 Parity for federally insured depository institutions.** This
13 subchapter does not apply to any state chartered bank, trust company, savings and
14 loan association, savings bank, or credit union, or to any subsidiary of a state
15 chartered bank, trust company, savings and loan association, savings bank, or credit
16 union, to the extent that federal law preempts or prohibits the application of the
17 provisions of this subchapter to a federally chartered bank, trust company, savings
18 and loan association, savings bank, or credit union of the same type.

19 **SECTION 13. Initial applicability.**

20 (1) This act first applies to loans for which applications are received by a lender,
21 as defined in section 428.202 (5) of the statutes, as created by this act, on the effective
22 date of this subsection.

23 **SECTION 14. Effective date.**

**ASSEMBLY AMENDMENT 5,
TO ASSEMBLY SUBSTITUTE AMENDMENT 1,
TO 2003 ASSEMBLY BILL 792**

February 26, 2004 - Offered by COMMITTEE ON FINANCIAL INSTITUTIONS.

1 At the locations indicated, amend the substitute amendment as follows:

2 ✓ 1. Page 7, line 11: delete "engage in a pattern or practice of making" and
3 substitute "make".

4

(END)

**ASSEMBLY AMENDMENT 6,
TO ASSEMBLY SUBSTITUTE AMENDMENT 1,
TO 2003 ASSEMBLY BILL 792**

March 2, 2004 - Offered by Representative J. FITZGERALD.

1 At the locations indicated, amend the substitute amendment as follows:

2 ✓ 1. Page 5, line 16: after "amount." insert "For purposes of this subdivision,
3 "total points and fees" does not include reasonable fees paid to affiliates or
4 nonaffiliates of the lender for bona fide services listed in 12 CFR 226.4 (c) (7)."

5 (END)

✓
5-16