



## WISCONSIN LEGISLATIVE COUNCIL AMENDMENT MEMO

**2005 Assembly Bill 456**

**Assembly Substitute  
Amendment 1**

*Memo published:* October 27, 2005

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*Current law* generally prohibits charging a prepayment penalty in conjunction with a variable rate loan where the lender utilizes an approved index to calculate increases or decreases in the loan interest rate.

*2005 Assembly Bill 456* eliminates existing prepayment penalty requirements for variable rate loans. It permits prepayment penalties on variable rate loans if:

1. The lender first offers the borrower a variable rate loan without a prepayment penalty;
2. The prepayment penalty applies to prepayment within the first three years of the loan and is not in connection with the sale of the home; and
3. The prepayment penalty does not exceed 3% in the first year, 2% in the second year, or 1% in the third year of the amount by which the prepayment exceeds 80% of the principle balance (top 20%).

*Assembly Substitute Amendment 1* eliminates the specified percentage limits on the prepayment penalties and permits a prepayment penalty if the following are satisfied:

1. The lender makes variable rate loans without prepayment penalties and provides the borrower with a written statement of that fact;
2. The borrower acknowledges in writing that he or she received the statement;
3. Prepayment penalties are limited to the first three years of the loan; and
4. Prepayment penalties are not charged in connection with the sale of a home.

**Legislative History**

Assembly Substitute Amendment 1 was recommended for adoption by the Assembly Committee on Financial Institutions on October 27, 2005, by a vote of Ayes, 13; Noes, 0. The committee recommended passage of the bill as amended by a vote of Ayes, 13; Noes, 0.

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