Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

BULLETIN
08-BB-01-2/28

TO: ALL DISTRICT LICENSED MORTGAGE LENDERS AND BROKERS

FROM: THOMAS E. HAMPTON, COMMISSIONER

RE: MORTGAGE DISCLOSURE AMENDMENT ACT OF 2007

DATE: FEBRUARY 28, 2008

SUMMARY

This bulletin is being issued to advise you of the passage of the Mortgage Disclosure Amendment Act of 2007 ("Act") that establishes a new mortgage disclosure requirement on non-conventional residential mortgages in the District of Columbia. The disclosure requirement applies to mortgage lenders and calls for a one-page disclosure form regarding loan terms and payment amounts, and is required for all loans applications submitted on or after February 28, 2008. The new disclosure will enable a borrower to better understand the consequences of borrowing funds that might have an adjustable interest rate resulting in higher payments in the future. Additionally, the disclosure form is intended to help the borrower determine if he or she can afford to properly service the loan. This bulletin also provides additional guidance for complying with the Act.

BACKGROUND

The Council of the District of Columbia enacted the Act on November 27, 2007. The Act became effective on January 29, 2008. The Act requires companies that engage in the business of making residential mortgage loans in the District of Columbia ("District") to provide a statutory disclosure notice regarding the terms of a non-conventional residential mortgage loan. The Act makes the required mortgage disclosure applicable to non-conventional residential mortgage loan applications submitted on District residential property on or after February 28, 2008.

PROVISIONS

Under the Act, a non-conventional mortgage loan is any residential mortgage loan that is not a fixed rate mortgage loan with an amortization period of 30 years or less. For such non-conventional loans, the disclosure form must be provided by the lender to the borrower within three (3) days of the filing of a loan application with the lender. No non-conventional mortgage loan shall be consummated unless the borrower has signed the disclosure form and returned it to the lender.

Within five (5) business days of receiving the disclosure form and accompanying definitions, the borrower may cancel the application for a mortgage loan with no loss of any security deposit or any other funds applied to guarantee an interest rate, not including reasonable fees incurred to process the application. The borrower shall be notified by the lender of this right to cancel at the time the lender provides the disclosure form and definitions.

Pursuant to the Act, failure to provide the required disclosure form will constitute a violation of the District of Columbia Mortgage Lender and Broker Act of 1996 ("MLB" Act"), D.C. Official Code §26-1101 *et seq*., and the District of Columbia Consumer Protection Procedures Act, D.C. Official Code §28-3901 *et seq*.,.

COMPLIANCE GUIDANCE

The Department of Insurance, Securities and Banking ("Department") has reviewed the Act and has determined that additional guidance is necessary for compliance with the Act because certain terms were missing in the Act that would affect section 14(a-1)(3)(J) –(L) of the MLB Act[1]. Therefore, the Department requires lenders making a non-conventional residential mortgage loan on District residential property to use the attached Mortgage Disclosure Form as revised by DISB February 2008 instead of the form attached to the Act as printed in the District of Columbia Register.

The Act is available on line at:
http://www.dccouncil.washington.dc.us/images/00001/20071116163817.pdf

Should you have any questions, you may contact us at BankingBureau@dc.gov.

2 Attachments (Sample Form and Definitions)

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[1] DISB interprets section 14(a-1)(3)(J)-(L) of the MLB Act to read as follows:
(J) $______/month = Your principal + beginning interest + property tax + insurance.
(K) $______/month =Your principal + estimated fully-indexed interest (i.e., what you pay after the beginning rate ends) + property tax + insurance.
(L) $_____/month =Your principal + maximum possible interest + property tax + insurance.

MORTGAGE DISCLOSURE FORM

Borrower(s):______________________ Lender: ______________________

Property Address: ______________________ ______________________

Lender Address: ______________________ ______________________

Lender Phone: (__)______________________

Your loan is for $__________, for a term of _______ years. The final maturity date is ________. Your beginning interest rate is ______%. This rate is good for _______ months/years [*circle one*]. This rate and your payment can increase, starting on __[date]_, and may continue to increase, depending on the terms of your mortgage.
Beginning on __[date]_, you will be charged at the fully indexed rate, which is your margin (____%) plus an index value, which for you is _[index name]_. Estimating based on the current rate of the index, which is ___%, your monthly payment at the fully-indexed rate would be $_______. While the index rate does vary, your mortgage provides that the fully-indexed rate will not rise above ____% (maximum possible interest rate). At that rate, your monthly payment would be $_______.

YOU HAVE INDICATED THAT YOUR GROSS MONTHLY INCOME IS $______________.

WARNING: Industry standards suggest that a homeowner should spend **no more than 28%** of his or her gross monthly income on mortgage costs.

$__________/month = Your principal + beginning interest + property tax and insurance.
$__________/month = Your principal + estimated fully indexed interest (i.e., what you pay after the beginning rate ends) + property tax and insurance.
$_____/month =Your principal + maximum possible interest + property tax and insurance.
$__________/month = 28% of your current gross monthly income (the recommended limit).

Your gross monthly income may rise or fall over time, but if either of the first 3 amounts exceeds the fourth, you may want to reconsider the suitability of this loan for your needs. You may cancel this loan application within 5 business days of receiving this form.

Check if applicable:
□ Your mortgage carries a balloon payment. This means that on _[date]_, you will have to fully pay the remaining balance on the loan.

□ Your loan has a prepayment penalty. This means that if you pay off your mortgage in the first _____ years, you will have to pay a penalty of $ ______. If you refinance your mortgage in that period, you will be required to pay this amount.

See definitions of underlined terms on reverse side.

DO NOT SIGN THIS IF YOU DO NOT UNDERSTAND IT!

______________________________ ______________________________
Lender Date Borrower Date

____
(DISB Revised 2/2008) Borrower Date

Underlined and Other Useful Definitions

1. **Beginning interest rate**: means the interest rate the borrower pays at the beginning of the loan. In many types of loans, this rate is good for only a few years and may increase significantly.

2. **Fully indexed rate**: is an indicator of what will happen to the interest rate on the loan and the monthly payments. It is today's estimate of how high the interest rate on an adjustable rate mortgage will go. It is calculated by taking a defined index rate and adding a certain number of percentage points, called the margin. Since the index rate can go up or down, the borrower cannot be sure what the future adjustable interest rate will be. Borrowers must make sure they can afford the fully indexed interest rate and not just the initial interest rate.

3. **Maximum possible interest rate**: means the highest your interest rate can go. Most loans with adjustable rates have a defined maximum rate or lifetime cap. Borrowers need to think about how likely it may be that the interest rate can go this high.

4. **Gross monthly income**: means the borrower's gross, pre-tax income per month. Borrowers should make sure the monthly household income amount shown on the form is correct.

5. **Monthly mortgage payment including taxes and insurance**: means the amount the borrower must pay every month for interest, repayment of loan principal, home insurance premiums, and property taxes owed to the District of Columbia. Over time, in addition to any possible increases in the loan's interest rate, the insurance premiums and property taxes are likely to increase.

6. **Prepayment penalty**: means any additional fee imposed by the mortgage lender on the borrower if the borrower pays off the loan early. Borrowers must make sure they know whether their loan has a prepayment penalty fee and how it works.

7. **Balloon payment**: means that a large repayment of loan principal is due at the end of the loan. This almost always means that the borrower has to get a new loan to make the balloon payment.

8. **Payment option loan**: means a mortgage loan that allows the borrower to pay less than the interest being charged on the loan. The unpaid interest is added to the loan, so the loan amount grows larger. Borrowers must make sure they know whether their loan is a payment option loan and how it works.

9. **Points**: means the fee, expressed as a percentage of the loan, a borrower pays to the mortgage lender at closing, usually in exchange for a lower interest rate.

10. **Default**: means a borrower has failed to make the payments due on the mortgage loan. Once a borrower is in default on the loan, the mortgage lender can seek to foreclose on the property.

11. **Foreclosure**: means the legal process in which the mortgage lender can seize the borrower's property if the borrower continually fails to make the payments due on the mortgage loan.

12. **Property tax**: means the taxes owed to the District of Columbia as a result of the borrower owning the property.

13. **Insurance**: means property insurance that covers private homes and residences. It is required by mortgage loans in order to protect the mortgage lender if the home is destroyed.

14. **Monthly condominium/co-operative/homeowner association fees**: means the monthly fees that must be paid by the borrower if the borrower's property is a condominium, cooperative, or subject to a homeowner association. These fees usually are collected on a monthly basis. Failure to pay these fees can result in a lawsuit against the borrower by the condominium, co-operative, or homeowner association. As with property taxes and homeowners' insurance, these fees are likely to increase over time.