

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1999

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SENATE BILL 1149
Judiciary I Committee Substitute Adopted 6/16/99
Third Edition Engrossed 6/22/99
House Committee Substitute Favorable 7/6/99

Short Title: Prohibit Predatory Lending.

(Public)

Sponsors:

Referred to:

April 15, 1999

1 A BILL TO BE ENTITLED
2 AN ACT TO MODIFY PERMISSIBLE FEES WHICH MAY BE CHARGED IN
3 CONNECTION WITH HOME LOANS SECURED BY FIRST MORTGAGE OR
4 FIRST DEED OF TRUST, TO IMPOSE RESTRICTIONS AND LIMITATIONS ON
5 HIGH-COST HOME LOANS, TO REVISE THE PERMISSIBLE FEES AND
6 CHARGES ON CERTAIN LOANS, TO PROHIBIT UNFAIR OR DECEPTIVE
7 PRACTICES BY MORTGAGE BROKERS AND LENDERS, AND TO
8 APPROPRIATE FUNDS FOR PUBLIC EDUCATION AND COUNSELING
9 ABOUT PREDATORY LENDERS.
10 The General Assembly of North Carolina enacts:
11 Section 1. G.S. 24-1.1A reads as rewritten:
12 **"§ 24-1.1A. Contract rates on home loans secured by first mortgages or first deeds**
13 **of trust.**
14 (a) Notwithstanding any other provision of this ~~Chapter, Chapter,~~ but subject to the
15 provisions of G.S. 24-1.1E, parties to a home loan may contract in writing as follows:

- 1 (1) Where the principal amount is ten thousand dollars (\$10,000) or more
2 the parties may contract for the payment of interest as agreed upon by
3 the parties;
- 4 (2) Where the principal amount is less than ten thousand dollars (\$10,000)
5 the parties may contract for the payment of interest as agreed upon by
6 the parties, if the lender is either (i) approved as a mortgagee by the
7 Secretary of Housing and Urban Development, the Federal Housing
8 Administration, the ~~Veterans Administration~~, Department of Veterans
9 Affairs, a national mortgage association or any federal agency; or (ii) a
10 local or foreign bank, savings and loan association or service
11 corporation wholly owned by one or more savings and loan associations
12 and permitted by law to make home loans, credit union or insurance
13 company; or (iii) a State or federal agency;
- 14 (3) Where the principal amount is less than ten thousand dollars (\$10,000)
15 and the lender is not a lender described in the preceding subdivision (2)
16 the parties may contract for the payment of interest not in excess of
17 sixteen percent (16%) per annum.
- 18 (4) Notwithstanding any other provision of law, where the lender is an
19 affiliate operating in the same office or subsidiary operating in the same
20 office of a licensee under the North Carolina Consumer Finance Act, the
21 lender may charge interest to be computed only on the following basis:
22 monthly on the outstanding principal balance at a rate not to exceed the
23 rate provided in this subdivision.

24 On the fifteenth day of each month, the Commissioner of Banks
25 shall announce and publish the maximum rate of interest permitted by
26 this subdivision. Such rate shall be the latest published noncompetitive
27 rate for U.S. Treasury bills with a six-month maturity as of the fifteenth
28 day of the month plus six percent (6%), rounded upward or downward,
29 as the case may be, to the nearest one-half of one percent (1/2 of 1%) or
30 fifteen percent (15%), whichever is greater. If there is no nearest one-
31 half of one percent (1/2 of 1%), the Commissioner shall round
32 downward to the lower one-half of one percent (1/2 of 1%). The rate so
33 announced shall be the maximum rate permitted for the term of loans
34 made under this section during the following calendar month when the
35 parties to such loans have agreed that the rate of interest to be charged
36 by the lender and paid by the borrower shall not vary or be adjusted
37 during the term of the loan. The parties to a loan made under this section
38 may agree to a rate of interest which shall vary or be adjusted during the
39 term of the loan in which case the maximum rate of interest permitted
40 on such loans during a month during the term of the loan shall be the
41 rate announced by the Commissioner in the preceding calendar month.

42 An affiliate operating in the same office or subsidiary operating in
43 the same office of a licensee under the North Carolina Consumer

1 Finance Act may not make a home loan for a term in excess of six (6)
2 months which provides for a balloon payment. For purposes of this
3 subdivision, a balloon payment means any scheduled payment that is
4 more than twice as large as the average of earlier scheduled payments.
5 This subsection does not apply to equity lines of credit as defined in
6 G.S. 45-81.

7 (b) ~~No prepayment fees shall be contracted by the borrower and lender with~~
8 ~~respect to any home loan where the principal amount borrowed is one hundred thousand~~
9 ~~dollars (\$100,000) or less; otherwise a lender and a borrower may agree on any terms as~~
10 ~~to the prepayment of a home loan. Except as provided in subdivision (1) of this~~
11 ~~subsection, a lender and a borrower may agree on any terms as to the prepayment of a~~
12 ~~home loan.~~

13 (1) No prepayment fees or penalties shall be contracted by the borrower and
14 lender with respect to any home loan in which: (i) the principal amount
15 borrowed is one hundred fifty thousand dollars (\$150,000) or less, (ii)
16 the borrower is a natural person, (iii) the debt is incurred by the
17 borrower primarily for personal, family, or household purposes, and (iv)
18 the loan is secured by a first mortgage or first deed of trust on real estate
19 upon which there is located or there is to be located a structure or
20 structures designed principally for occupancy of from one to four
21 families which is or will be occupied by the borrower as the borrower's
22 principal dwelling.

23 (2) The limitations on prepayment fees and penalties contained in
24 subdivision (b)(1) of this section shall not apply to the extent state law
25 limitations on prepayment fees and penalties are preempted by federal
26 law or regulation.

27 (c) ~~Except as limited by subsection (b) above, a lender may charge to the borrower~~
28 ~~the fees described in G.S. 24-10. Provided, if the loan is one described in subsection~~
29 ~~(a)(1) or subsection (a)(2) above, the parties may agree to the payment of discount points,~~
30 ~~commitment fees, finance charges, or other similar charges agreed upon by the parties~~
31 ~~notwithstanding the provisions of any state law limiting the amount of discount points,~~
32 ~~commitment fees, finance charges or other similar charges which may be charged, taken,~~
33 ~~received or reserved with respect to a home loan. Provided further, that no lender on~~
34 ~~loans under G.S. 24-1.1A(a)(3) may charge or receive any fees or discount points other~~
35 ~~than the interest permitted in G.S. 24-1.1A(a)(3). If the home loan is one described in~~
36 ~~subdivision (a)(1) or subdivision (a)(2) of this section, the lender may charge the~~
37 ~~borrower the following fees and charges in addition to interest and other fees and charges~~
38 ~~as permitted in this section and late payment charges as permitted in G.S. 24-10.1:~~

39 (1) At or before loan closing, the lender may charge such of the following
40 fees and charges as may be agreed upon by the parties notwithstanding
41 the provisions of any State law, other than G.S. 24-1.1E, limiting the
42 amount of such fees or charges:

43 a. Loan application, origination, and commitment fees;

- 1 b. Discount points, but only to the extent the discount points are
2 paid for the purpose of reducing, and in fact result in a bona fide
3 reduction of the interest rate or time-price differential;
4 c. Assumption fees to the extent permitted by G.S. 24-10(d);
5 d. Appraisal fees to the extent permitted by G.S. 24-10(h);
6 e. To the extent permitted by G.S. 24-8(d), sums for the payment of
7 bona fide loan-related goods, products, and services provided or
8 to be provided by third parties and sums for the payment of taxes,
9 filing fees, recording fees, and other charges, and fees paid or to
10 be paid to public officials; and
11 f. Additional fees and charges, however denominated, payable to
12 the lender which, in the aggregate, do not exceed the greater of
13 (i) one quarter of one percent (1/4 of 1%) of the principal amount
14 of the loan, or (ii) one hundred fifty dollars (\$150.00).

15 (2) Except as provided in subsection (g) of this section with respect to the
16 deferral of loan payments, upon modification, renewal, extension, or
17 amendment of any of the terms of a home loan, the lender may charge
18 such of the following fees and charges as may be agreed upon by the
19 parties notwithstanding the provisions of any State law, other than G.S.
20 24-1.1E, limiting the amount of such fees or charges:

- 21 a. Discount points, but only to the extent the discount points are
22 paid for the purpose of reducing, and in fact result in a bona fide
23 reduction of, the interest rate or time-price differential;
24 b. Assumption fees to the extent permitted by G.S. 24-10(d);
25 c. Appraisal fees to the extent permitted by G.S. 24-10(h);
26 d. To the extent permitted by G.S. 24-8(d), sums for the payment of
27 bona fide loan-related goods, products, and services provided or
28 to be provided by third parties and sums for the payment of taxes,
29 filing fees, recording fees, and other charges, and fees paid or to
30 be paid to public officials; and
31 e. Additional fees and charges, however denominated, payable to
32 the lender which, in the aggregate, do not exceed the greater of
33 (i) one quarter of one percent (1/4 of 1%) of the balance
34 outstanding at the time of the modification, renewal, extension,
35 or amendment of terms, or (ii) one hundred fifty dollars
36 (\$150.00). The fees and charges permitted by this sub-
37 subdivision may be charged only pursuant to a written agreement
38 which states the amount of the fee or charge and is made at the
39 time of the specific modification, renewal, extension, or
40 amendment, or at the time the specific modification, renewal,
41 extension, or amendment is requested.

42 (c1) No lender on home loans under subdivision (a)(3) of this section may charge or
43 receive any interest, fees, charges, or discount points other than: (i) to the extent

1 permitted by G.S. 24-8(d), sums for the payment of bona fide loan-related goods,
2 products, and services provided or to be provided by third parties and sums for the
3 payment of taxes, filing fees, recording fees, and other charges and fees, paid or to be
4 paid to public officials; (ii) interest as permitted in subdivision (a)(3) of this section; and
5 (iii) late payment charges to the extent permitted by G.S. 24-10.1.

6 (c2) No lender on home loans under subdivision (a)(4) of this section may charge or
7 receive any interest, fees, charges, or discount points other than: (i) the fees described in
8 G.S. 24-10; (ii) to the extent permitted by G.S. 24-8(d), sums for the payment of bona
9 fide loan-related goods, products, and services provided or to be provided by third parties
10 and sums for the payment of taxes, filing fees, recording fees, and other charges and fees,
11 paid or to be paid to public officials; (iii) interest as permitted in subdivision (a)(4) of this
12 section; and (iv) late payment charges to the extent permitted by G.S. 24-10.1.

13 (d) The loan or investments regulated by G.S. 53-45 shall not be subject to the
14 provisions of this section.

15 (e) The term "home loan" shall mean a ~~loan~~ loan, other than an open-end credit
16 plan, where the principal amount is less than three hundred thousand dollars (\$300,000)
17 secured by a first mortgage or first deed of trust on real estate upon which there is located
18 or there is to be located one or more single-family dwellings or dwelling units.

19 (f) Any home loan obligation existing before June 13, 1977, shall be construed
20 with regard to the law existing at the time the home loan or commitment to lend was
21 made and this act shall only apply to home loans or loan commitments made from and
22 after June 13, 1977; provided, however, that variable rate home loan obligations executed
23 prior to April 3, 1974, which by their terms provide that the interest rate shall be
24 decreased and may be increased in accordance with a stated cost of money formula or
25 other index shall be enforceable according to the terms and tenor of said written
26 obligations.

27 (g) The parties to a home loan governed by ~~G.S. 24-1.1A(a) (1) or (2)~~ subdivision
28 (a)(1) or (2) of this section may contract in writing to defer payments of interest—the
29 payment of all or part of one or more unpaid installments and for payment of interest on
30 deferred interest as agreed upon by the parties. The parties may agree in writing that said
31 deferred interest may be added to the principal balance of the loan. This subsection shall
32 not be construed to limit payment of interest upon interest in connection with other types
33 of loans. Except as restricted by G.S. 24-1.1E, the lender may charge deferral fees as
34 may be agreed upon by the parties to defer the payment of one or more unpaid
35 installments. If the home loan is of a type described in subdivision (1) of this subsection,
36 the deferral fees shall be subject to the limitations set forth in subdivision (2) of this
37 subsection:

38 (1) A home loan will be subject to the deferral fee limitations set forth in
39 subdivision (2) of this subsection if:

40 a. The borrower is a natural person;

41 b. The debt is incurred by the borrower primarily for personal,
42 family, or household purposes; and

- 1 c. The loan is secured by a first mortgage or first deed of trust on
2 real estate upon which there is located or there is to be located a
3 structure or structures designed principally for occupancy of
4 from one to four families which is or will be occupied by the
5 borrower as the borrower's principal dwelling.
- 6 (2) Deferral fees for home loans identified in subdivision (1) of this
7 subsection shall be subject to the following limitations:
- 8 a. Deferral fees may be charged only pursuant to an agreement
9 which states the amount of the fee and is made at the time of the
10 specific deferral or at the time the specific deferral is requested;
11 provided, that if the agreement relates to an installment which is
12 then past due for 15 days or more, the agreement must be in
13 writing and signed by at least one of the borrowers. For purposes
14 of this subdivision an agreement will be considered a signed
15 writing if the lender receives from at least one of the borrowers a
16 facsimile or computer-generated message confirming or
17 otherwise accepting the agreement.
- 18 b. Deferral fees may not exceed the greater of five percent (5%) of
19 each installment deferred or fifty dollars (\$50.00), multiplied by
20 the number of complete months in the deferral period. A month
21 shall be measured from the date an installment is due. The
22 deferral period is that period during which no payment is
23 required or made as measured from the date on which the
24 deferred installment would otherwise have been due to the date
25 the next installment is due under the terms of the note or the
26 deferral agreement.
- 27 c. If a deferral fee has once been imposed with respect to a
28 particular installment, no deferral fee may be imposed with
29 respect to any future payment which would have been timely and
30 sufficient but for the previous deferral.
- 31 d. If a deferral fee is charged pursuant to a deferral agreement, a
32 late charge may be imposed with respect to the deferred payment
33 only if the amount deferred is not paid when due under the terms
34 of the deferral agreement and no new deferral agreement is
35 entered into with respect to that installment.
- 36 e. No lender may charge a deferral fee for modifying or extending
37 the maturity date of a loan or the date a balloon payment is due;
38 provided, however, that any such modification or extension of
39 the loan maturity date or the date a balloon payment is due shall,
40 to the extent applicable, be considered a modification or
41 extension subject to the provisions of subdivision (c)(2) of this
42 section.

1 (h) The parties to a home loan governed by ~~G.S. 24-1.1A(a)(1) or (2)~~ subdivision
2 (a)(1) or (2) of this section may agree in writing to a mortgage or deed of trust which
3 provides that periodic payments may be graduated during parts of or over the entire term
4 of the loan. The parties to such a loan may also agree in writing to a mortgage or deed of
5 trust which provides that periodic disbursements of part of the loan proceeds may be
6 made by the lender over a period of time agreed upon by the parties, or over a period of
7 time agreed upon by the parties ending with the death of the borrower(s). Such mortgages
8 or deeds of trust may include provisions for adding deferred interest to principal or
9 otherwise providing for charging of interest on deferred interest as agreed upon by the
10 parties. This subsection shall not be construed to limit other types of mortgages or deeds
11 of trust or methods or plans of disbursement or repayment of loans that may be agreed
12 upon by the parties.

13 (i) Nothing in this section shall be construed to authorize or prohibit a lender, a
14 borrower, or any other party to pay compensation to a mortgage broker or a mortgage
15 banker for services provided by the mortgage broker or the mortgage banker in
16 connection with a home loan."

17 Section 2. Chapter 24 of the General Statutes is amended by adding a new
18 section to read:

19 "**§ 24-1.1E. Restrictions and limitations on high-cost home loans.**

20 (a) Definitions. – The following definitions apply for the purposes of this section:

21 (1) 'Affiliate' means any company that controls, is controlled by, or is under
22 common control with another company, as set forth in the Bank Holding
23 Company Act of 1956 (12 U.S.C. § 1841 et seq.), as amended from time
24 to time.

25 (2) 'Annual percentage rate' means the annual percentage rate for the loan
26 calculated according to the provisions of the federal Truth-in-Lending
27 Act (15 U.S.C. § 1601, et seq.), and the regulations promulgated
28 thereunder by the Federal Reserve Board (as said Act and regulations
29 are amended from time to time).

30 (3) 'Bona fide loan discount points' means loan discount points knowingly
31 paid by the borrower for the purpose of reducing, and which in fact
32 result in a bona fide reduction of, the interest rate or time-price
33 differential applicable to the loan, provided the amount of the interest
34 rate reduction purchased by the discount points is reasonably consistent
35 with established industry norms and practices for secondary mortgage
36 market transactions.

37 (4) A 'high-cost home loan' means a loan other than an open-end credit plan
38 or a reverse mortgage transaction in which:

39 a. The principal amount of the loan does not exceed the lesser of (i)
40 the conforming loan size limit for a single-family dwelling as
41 established from time to time by the Federal National Mortgage
42 Association, or (ii) three hundred thousand dollars (\$300,000);

43 b. The borrower is a natural person;

- 1 c. The debt is incurred by the borrower primarily for personal,
2 family, or household purposes;
3 d. The loan is secured by either (i) a security interest in a
4 manufactured home (as defined in G.S. 143-147(7)) which is or
5 will be occupied by the borrower as the borrower's principal
6 dwelling, or (ii) a mortgage or deed of trust on real estate upon
7 which there is located or there is to be located a structure or
8 structures designed principally for occupancy of from one to four
9 families which is or will be occupied by the borrower as the
10 borrower's principal dwelling; and
11 e. The terms of the loan exceed one or more of the thresholds as
12 defined in subdivision (6) of this section.

13 (5) 'Points and fees' means:

- 14 a. All items required to be disclosed under sections 226.4(a) and
15 226.4(b) of Title 12 of the Code of Federal Regulations, as
16 amended from time to time, except interest or the time-price
17 differential;
18 b. All charges for items listed under section 226.4(c)(7) of Title 12
19 of the Code of Federal Regulations, as amended from time to
20 time, but only if the lender receives direct or indirect
21 compensation in connection with the charge or the charge is paid
22 to an affiliate of the lender; otherwise, the charges are not
23 included within the meaning of the phrase 'points and fees';
24 c. All compensation paid directly by the borrower to a mortgage
25 broker not otherwise included in sub-subdivision a. or b. of this
26 subdivision;
27 d. The maximum prepayment fees and penalties which may be
28 charged or collected under the terms of the loan documents; and
29 e. 'Points and fees' shall not include (i) taxes, filing fees, recording
30 and other charges and fees paid or to be paid to public officials
31 for determining the existence of or for perfecting, releasing, or
32 satisfying a security interest; and (ii) fees paid to a person other
33 than a lender or an affiliate of the lender or to the mortgage
34 broker or an affiliate of the mortgage broker for the following:
35 fees for tax payment services; fees for flood certification; fees for
36 pest infestation and flood determinations; appraisal fees; fees for
37 inspections performed prior to closing; credit reports; surveys;
38 attorneys' fees (if the borrower has the right to select the attorney
39 from an approved list or otherwise); notary fees; escrow charges,
40 so long as not otherwise included under sub-subdivision a. of this
41 subdivision; title insurance premiums; and fire insurance and
42 flood insurance premiums, provided that the conditions in section

1 226.4(d)(2) of Title 12 of the Code of Federal Regulations are
2 met.

3 (6) 'Thresholds' means:

4 a. Without regard to whether the loan transaction is or may be a
5 'residential mortgage transaction' (as the term 'residential
6 mortgage transaction' is defined in section 226.2(a)(24) of Title
7 12 of the Code of Federal Regulations, as amended from time to
8 time), the annual percentage rate of the loan at the time the loan
9 is consummated is such that the loan is considered a 'mortgage'
10 under section 152 of the Home Ownership and Equity Protection
11 Act of 1994 (Pub. Law 103-25, [15 U.S.C. § 1602(aa)]), as the
12 same may be amended from time to time, and regulations
13 adopted pursuant thereto by the Federal Reserve Board, including
14 section 226.32 of Title 12 of the Code of Federal Regulations, as
15 the same may be amended from time to time;

16 b. The total points and fees payable by the borrower at or before the
17 loan closing exceed (i) five percent (5%) of the total loan amount
18 if the total loan amount is twenty thousand dollars (\$20,000) or
19 more, or (ii) the lesser of eight percent (8%) of the total loan
20 amount or one thousand dollars (\$1,000), if the total loan amount
21 is less than twenty thousand dollars (\$20,000); provided, the
22 following discount points and prepayment fees and penalties
23 shall be excluded from the calculation of the total points and fees
24 payable by the borrower:

25 1. Up to and including two bona fide loan discount points
26 payable by the borrower in connection with the loan
27 transaction, but only if the interest rate from which the
28 loan's interest rate will be discounted does not exceed by
29 more than one percentage point (1%) the required net
30 yield for a 90-day standard mandatory delivery
31 commitment for a reasonably comparable loan from either
32 the Federal National Mortgage Association or the Federal
33 Home Loan Mortgage Corporation, whichever is greater;

34 2. Up to and including one bona fide loan discount point
35 payable by the borrower in connection with the loan
36 transaction, but only if the interest rate from which the
37 loan's interest rate will be discounted does not exceed by
38 more than two percentage points (2%) the required net
39 yield for a 90-day standard mandatory delivery
40 commitment for a reasonably comparable loan from either
41 the Federal National Mortgage Association or the Federal
42 Home Loan Mortgage Corporation, whichever is greater;

- 1 3. Prepayment fees and penalties which may be charged or
2 collected under the terms of the loan documents which do
3 not exceed one percent (1%) of the amount prepaid,
4 provided the loan documents do not permit the lender to
5 charge or collect any prepayment fees or penalties more
6 than 30 months after the loan closing; or
- 7 c. The loan documents permit the lender to charge or collect
8 prepayment fees or penalties more than 30 months after the loan
9 closing or which exceed, in the aggregate, more than two percent
10 (2%) of the amount prepaid.
- 11 (7) 'Total loan amount' means the same as the term 'total loan amount' as
12 used in section 226.32 of Title 12 of the Code of Federal Regulations,
13 and the same shall be calculated in accordance with the Federal Reserve
14 Board's Official Staff Commentary thereto.
- 15 (b) Limitations. – A high-cost home loan shall be subject to the following
16 limitations:
- 17 (1) No call provision. – No high-cost home loan may contain a provision
18 which permits the lender, in its sole discretion, to accelerate the
19 indebtedness. This provision does not apply when repayment of the
20 loan has been accelerated by default, pursuant to a due-on-sale
21 provision, or pursuant to some other provision of the loan documents
22 unrelated to the payment schedule.
- 23 (2) No balloon payment. – No high-cost home loan may contain a
24 scheduled payment that is more than twice as large as the average of
25 earlier scheduled payments. This provision does not apply when the
26 payment schedule is adjusted to the seasonal or irregular income of the
27 borrower.
- 28 (3) No negative amortization. – No high-cost home loan may contain a
29 payment schedule with regular periodic payments that cause the
30 principal balance to increase.
- 31 (4) No increased interest rate. – No high-cost home loan may contain a
32 provision which increases the interest rate after default. This provision
33 does not apply to interest rate changes in a variable rate loan otherwise
34 consistent with the provisions of the loan documents, provided the
35 change in the interest rate is not triggered by the event of default or the
36 acceleration of the indebtedness.
- 37 (5) No advance payments. – No high-cost home loan may include terms
38 under which more than two periodic payments required under the loan
39 are consolidated and paid in advance from the loan proceeds provided to
40 the borrower.
- 41 (6) No modification or deferral fees. – A lender may not charge a borrower
42 any fees to modify, renew, extend, or amend a high-cost home loan or to
43 defer any payment due under the terms of a high-cost home loan.

1 (c) Prohibited Acts and Practices. – The following acts and practices are
2 prohibited in the making of a high-cost home loan:

3 (1) No lending without home-ownership counseling. – A lender may not
4 make a high-cost home loan without first receiving certification from a
5 counselor approved by the North Carolina Housing Finance Agency that
6 the borrower has received counseling on the advisability of the loan
7 transaction and the appropriate loan for the borrower.

8 (2) No lending without due regard to repayment ability. – As used in this
9 subsection, the term 'obligor' refers to each borrower, co-borrower,
10 cosigner, or guarantor obligated to repay a loan. A lender may not make
11 a high-cost home loan unless the lender reasonably believes at the time
12 the loan is consummated that one or more of the obligors, when
13 considered individually or collectively, will be able to make the
14 scheduled payments to repay the obligation based upon a consideration
15 of their current and expected income, current obligations, employment
16 status, and other financial resources (other than the borrower's equity in
17 the dwelling which secures repayment of the loan). An obligor shall be
18 presumed to be able to make the scheduled payments to repay the
19 obligation if, at the time the loan is consummated, the obligor's total
20 monthly debts, including amounts owed under the loan, do not exceed
21 fifty percent (50%) of the obligor's monthly gross income as verified by
22 the credit application, the obligor's financial statement, a credit report,
23 financial information provided to the lender by or on behalf of the
24 obligor, or any other reasonable means; provided, no presumption of
25 inability to make the scheduled payments to repay the obligation shall
26 arise solely from the fact that, at the time the loan is consummated, the
27 obligor's total monthly debts (including amounts owed under the loan)
28 exceed fifty percent (50%) of the obligor's monthly gross income.

29 (3) No financing of fees or charges. – In making a high-cost home loan, a
30 lender may not directly or indirectly finance:

31 a. Any prepayment fees or penalties payable by the borrower in a
32 refinancing transaction if the lender or an affiliate of the lender is
33 the noteholder of the note being refinanced;

34 b. Any points and fees; or

35 c. Any other charges payable to third parties.

36 (4) No benefit from refinancing existing high-cost home loan with new
37 high-cost home loan. – A lender may not charge a borrower points and
38 fees in connection with a high-cost home loan if the proceeds of the
39 high-cost home loan are used to refinance an existing high-cost home
40 loan held by the same lender as noteholder.

41 (5) Restrictions on home-improvement contracts. – A lender may not pay a
42 contractor under a home-improvement contract from the proceeds of a
43 high-cost home loan other than (i) by an instrument payable to the

1 borrower or jointly to the borrower and the contractor, or (ii) at the
2 election of the borrower, through a third-party escrow agent in
3 accordance with terms established in a written agreement signed by the
4 borrower, the lender, and the contractor prior to the disbursement.

5 (d) Unfair and Deceptive Acts or Practices. – Except as provided in subsection (e)
6 of this section, the making of a high-cost home loan which violates any provisions of
7 subsection (b) or (c) of this section is hereby declared usurious in violation of the
8 provisions of this Chapter and unlawful as an unfair or deceptive act or practice in or
9 affecting commerce in violation of the provisions of G.S. 75-1.1. The provisions of this
10 section shall apply to any person who in bad faith attempts to avoid the application of this
11 section by (i) the structuring of a loan transaction as an open-end credit plan for the
12 purpose and with the intent of evading the provisions of this section when the loan would
13 have been a high-cost home loan if the loan had been structured as a closed-end loan, or
14 (ii) dividing any loan transaction into separate parts for the purpose and with the intent of
15 evading the provisions of this section, or (iii) any other such subterfuge. The Attorney
16 General, the Commissioner of Banks, or any party to a high-cost home loan may enforce
17 the provisions of this section. Any person seeking damages or penalties under the
18 provisions of this section may recover damages under either this Chapter or Chapter 75,
19 but not both.

20 (e) Corrections and Unintentional Violations. – A lender in a high-cost home loan
21 who, when acting in good faith, fails to comply with subsections (b) or (c) of this section,
22 will not be deemed to have violated this section if the lender establishes that either:

23 (1) Within 30 days of the loan closing and prior to the institution of any
24 action under this section, the borrower is notified of the compliance
25 failure, appropriate restitution is made, and whatever adjustments are
26 necessary are made to the loan to either, at the choice of the borrower,
27 (i) make the high-cost home loan satisfy the requirements of subsections
28 (b) and (c) of this section, or (ii) change the terms of the loan in a
29 manner beneficial to the borrower so that the loan will no longer be
30 considered a high-cost home loan subject to the provisions of this
31 section; or

32 (2) The compliance failure was not intentional and resulted from a bona
33 fide error notwithstanding the maintenance of procedures reasonably
34 adapted to avoid such errors, and within 60 days after the discovery of
35 the compliance failure and prior to the institution of any action under
36 this section or the receipt of written notice of the compliance failure, the
37 borrower is notified of the compliance failure, appropriate restitution is
38 made, and whatever adjustments are necessary are made to the loan to
39 either, at the choice of the borrower, (i) make the high-cost home loan
40 satisfy the requirements of subsections (b) and (c) of this section, or (ii)
41 change the terms of the loan in a manner beneficial to the borrower so
42 that the loan will no longer be considered a high-cost home loan subject
43 to the provisions of this section. Examples of a bona fide error include

1 clerical, calculation, computer malfunction and programming, and
2 printing errors. An error of legal judgment with respect to a person's
3 obligations under this section is not a bona fide error.

4 (f) Severability. – The provisions of this section shall be severable, and if any
5 phrase, clause, sentence, or provision is declared to be invalid or is preempted by federal
6 law or regulation, the validity of the remainder of this section shall not be affected
7 thereby. If any provision of this section is declared to be inapplicable to any specific
8 category, type, or kind of points and fees, the provisions of this section shall nonetheless
9 continue to apply with respect to all other points and fees."

10 Section 3. Chapter 24 of the General Statutes is amended by adding a new
11 section to read:

12 **"§ 24-2.5. Mortgage bankers and mortgage brokers.**

13 A mortgage broker or a mortgage banker originating a loan in a table-funded loan
14 transaction in which the mortgage broker or mortgage banker is identified as the original
15 payee of the note shall be considered a lender for purposes of this Chapter."

16 Section 4. G.S. 24-8 reads as rewritten:

17 **"§ 24-8. Loans not in excess of \$300,000; what interest, fees and charges permitted.**

18 ~~No lender shall charge or receive from any borrower or require in connection with a~~
19 ~~loan any borrower, directly or indirectly, to pay, deliver, transfer or convey or otherwise~~
20 ~~confer upon or for the benefit of the lender or any other person, firm or corporation any~~
21 ~~sum of money, thing of value or other consideration other than that which is pledged as~~
22 ~~security or collateral to secure the repayment of the full principal of the loan, together~~
23 ~~with fees and interest provided for in this Chapter or Chapter 53 of the North Carolina~~
24 ~~General Statutes, where the principal amount of a loan is not in excess of three hundred~~
25 ~~thousand dollars (\$300,000.00); provided, this section shall not prevent a borrower from~~
26 ~~selling, transferring, or conveying property other than security or collateral to any person,~~
27 ~~firm or corporation for a fair consideration so long as such transaction is not made a~~
28 ~~condition or requirement for any loan; provided that this shall not prevent the lender from~~
29 ~~collecting from the borrower for remittance to others, money in payment of taxes,~~
30 ~~assessments, cost of upkeep, recording fees, surveys, attorneys' fees, fire, title, life,~~
31 ~~accident and health, unemployment, and mortgage insurance premiums and other such~~
32 ~~fees and costs, nor from receiving the proceeds from any insurance policies where a loss~~
33 ~~occurs under the terms of such policies. This section shall not be applicable to any~~
34 ~~corporation licensed as a "Small Business Investment Company" under the provisions of~~
35 ~~the United States Code Annotated, Title 15, section 661, et seq. nor shall it be applicable~~
36 ~~to the sale or purchase of convertible debentures, nor to the sale or purchase of any debt~~
37 ~~security with accompanying warrants, nor to the sale or purchase of other securities~~
38 ~~through an organized securities exchange.~~

39 (a) If the principal amount of a loan is less than three hundred thousand dollars
40 (\$300,000), no lender shall charge or receive from any borrower or require in connection
41 with any loan any borrower, directly or indirectly, to pay, deliver, transfer, or convey or
42 otherwise confer upon or for the benefit of the lender or any other person, firm, or
43 corporation any sum of money, thing of value, or other consideration other than that

1 which is pledged as security or collateral to secure the repayment of the full principal of
2 the loan, together with fees and interest provided for in this Chapter or Chapter 53 of the
3 General Statutes.

4 (b) Notwithstanding any contrary provision of State law, if the principal amount of
5 a loan is three hundred thousand dollars (\$300,000) or more, any borrower may agree to
6 pay, and any lender or other person may charge and collect from the borrower, interest,
7 fees, and other charges as may be agreed upon between the parties, and the borrower and
8 anyone claiming by or through the borrower is prohibited from asserting usury as a claim
9 or defense.

10 (c) The provisions of this section shall not prevent a borrower from selling,
11 transferring, or conveying property other than security or collateral to any person, firm, or
12 corporation for a fair consideration so long as such transaction is not made a condition or
13 requirement for any loan.

14 (d) Notwithstanding any contrary provision of State law, any lender may collect
15 money from the borrower for the payment of (i) bona fide loan-related goods, products,
16 and services provided or to be provided by third parties, and (ii) taxes, filing fees,
17 recording fees, and other charges and fees paid or to be paid to public officials. No third
18 party shall charge or receive (i) any unreasonable compensation for loan-related goods,
19 products, and services, or (ii) any compensation for which no loan-related goods and
20 products are provided or for which no or only nominal loan-related services are
21 performed. Loan-related goods, products, and services include fees for tax payment
22 services, fees for flood certification, fees for pest-infestation determinations, mortgage
23 brokers' fees, appraisal fees, inspection fees, environmental assessment fees, fees for
24 credit report services, assessments, costs of upkeep, surveys, attorneys' fees, notary fees,
25 escrow charges, and insurance premiums (including, for example, fire, title, life, accident
26 and health, disability, unemployment, flood, and mortgage insurance).

27 (e) Notwithstanding any contrary provision of State law, any lender may receive
28 the proceeds from any insurance policies where loss occurs under the terms of such
29 policies.

30 (f) This section shall not be applicable to any corporation licensed as a 'Small
31 Business Investment Company' under the provisions of the United States Code
32 Annotated, Title 15, section 66, et seq., nor shall it be applicable to the sale or purchase
33 of convertible debentures, nor to the sale or purchase of any debt security with
34 accompanying warrants, nor to the sale or purchase of other securities through an
35 organized securities exchange."

36 Section 5. Chapter 24 of the General Statutes is amended by adding a new
37 section to read:

38 **"§ 24-10.2. Consumer protections in certain home loans.**

39 (a) For purposes of this section, the term 'consumer home loan' shall mean a loan
40 in which (i) the borrower is a natural person, (ii) the debt is incurred by the borrower
41 primarily for personal, family, or household purposes, and (iii) the loan is secured by a
42 mortgage or deed of trust upon real estate upon which there is located or there is to be
43 located a structure or structures designed principally for occupancy of from one to four

1 families which is or will be occupied by the borrower as the borrower's principal
2 dwelling.

3 (b) Notwithstanding the provisions of G.S. 58-57-35(b), it shall be unlawful for
4 any lender in a consumer home loan to finance, directly or indirectly, any credit life,
5 disability, or unemployment insurance, or any other life or health insurance premiums;
6 provided, that insurance premiums calculated and paid on a monthly basis shall not be
7 considered financed by the lender.

8 (c) No lender may knowingly or intentionally engage in the unfair act or practice
9 of 'flipping' a consumer home loan. 'Flipping' a consumer loan is the making of a
10 consumer home loan to a borrower which refinances an existing consumer home loan
11 when the new loan does not have reasonable, tangible net benefit to the borrower
12 considering all of the circumstances, including the terms of both the new and refinanced
13 loans, the cost of the new loan, and the borrower's circumstances. This provision shall
14 apply regardless of whether the interest rate, points, fees, and charges paid or payable by
15 the borrower in connection with the refinancing exceed those thresholds specified in G.S.
16 24-1.1E(a)(6).

17 (d) No lender shall recommend or encourage default on an existing loan or other
18 debt prior to and in connection with the closing or planned closing of a consumer home
19 loan that refinances all or any portion of such existing loan or debt.

20 (e) The making of a consumer home loan which violates the provisions of this
21 section is hereby declared usurious in violation of the provisions of this Chapter and
22 unlawful as an unfair or deceptive act or practice in or affecting commerce in violation of
23 the provisions of G.S. 75-1.1. The Attorney General, the Commissioner of Banks, or any
24 party to a consumer home loan may enforce the provisions of this section. Any person
25 seeking damages or penalties under the provisions of this section may recover damages
26 under either this Chapter or Chapter 75, but not both.

27 (f) In any suit instituted by a borrower who alleges that the defendant violated this
28 section, the presiding judge may, in the judge's discretion, allow reasonable attorneys'
29 fees to the attorney representing the prevailing party, such attorneys' fees to be taxed as a
30 part of the court costs and payable by the losing party, upon a finding by the presiding
31 judge that:

32 (1) The party charged with the violation has willfully engaged in the act or
33 practice, and there was unwarranted refusal by such party to fully
34 resolve the matter which constitutes the basis of such suit; or

35 (2) The party instituting the action knew, or should have known, that the
36 action was frivolous and malicious.

37 (g) This section establishes specific consumer protections in consumer home loans
38 in addition to other consumer protections that may be otherwise available by law."

39 Section 6.(a) Of the funds appropriated to the Office of Commissioner of Banks
40 for the 1999-2000 fiscal year, the sum of one hundred thousand dollars (\$100,000) shall
41 be used to develop and implement, in consultation with the Attorney General, a program
42 of public education and counseling, designed to inform the public about the methods by
43 which predatory lenders impose unconscionable and noncompetitive fees and charges as

1 part of complex home mortgage transactions, to protect the public from incurring such
2 fees and charges, and otherwise to encourage the informed and responsible use of credit.

3 Section 6.(b) Subsection (a) of this section becomes effective only if the sum
4 of one hundred thousand dollars (\$100,000) for the 1999-2000 fiscal year is appropriated
5 to the Office of Commissioner of Banks for the purpose stated in subsection (a) of this
6 section. This section does not obligate the General Assembly to appropriate funds.

7 Section 7. The Legislative Research Commission shall study the
8 implementation and enforcement of this act including:

- 9 (1) Whether the provisions of this act have a measurable effect on the
10 availability of credit in the State;
- 11 (2) Whether the act is successfully reducing the predatory lending practices
12 proscribed by the act; and
- 13 (3) Whether there are specific circumstances in which consumers would
14 benefit from permitting a lender to finance credit insurance premiums,
15 which practice is prohibited by G.S. 24-10.2(b).

16 The Commission shall report their findings and recommendations on the issue of
17 financing credit insurance premiums to the 2000 Regular Session of the 1999 General
18 Assembly. The Commission may report their findings and recommendations to the 2001
19 General Assembly and shall make a final report to the 2002 Regular Session of the 2001
20 General Assembly.

21 Section 8. Section 2 of this act and G.S. 24-10.2(b), as enacted in Section 5 of
22 this act, become effective July 1, 2000, and apply to loans made or entered into on or
23 after that date. Section 6 of this act becomes effective July 1, 1999. Section 7 of this act
24 is effective when this act becomes law. The remainder of this act becomes effective
25 October 1, 1999, and applies to loans made or entered into, payments deferred, and loans
26 modified, renewed, extended, or amended on or after that date.