



STATE OF WISCONSIN

OFFICE OF COMMISSIONER OF SAVINGS AND LOAN


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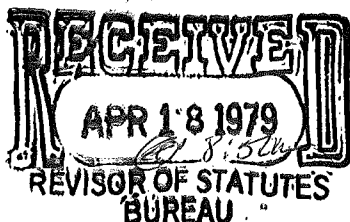
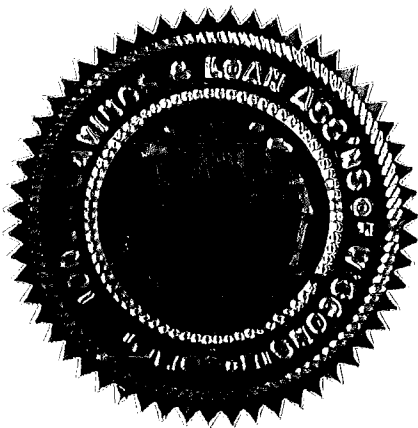
ORDER NO. 109

I, R. J. McMahon, Commissioner of Savings and Loan and custodian of the official records of the Office of Commissioner of Savings and Loan, do hereby certify that the annexed Order No. 109 was duly adopted by this office on April 16, 1979.

I further certify that the copy of the Order annexed hereto has been compared by me with the original on file in this office and that the same is a true copy thereof, and the whole of such original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of this office in the City of Madison this 16th day of April, 1979.


 R. J. McMahon, Commissioner



ORDER OF THE
OFFICE OF THE COMMISSIONER OF SAVINGS AND LOAN
ADOPTING, RENUMBERING, AMENDING, AND REPEALING RULES

ORDER NO. 109

WHEREAS, in accordance with section 227.021 of the Wisconsin Statutes official notice of a hearing on the rules embodied by this order was published in the Wisconsin Administrative Register of January 1979; and

WHEREAS, pursuant to that notice a public hearing was held on March 6, 1979, at which a draft of the attached rule was the topic of discussion; and

WHEREAS, following that hearing a final draft of the rule was approved by the Commissioner of Savings and Loan and the Savings and Loan Review Board; and

WHEREAS, on March 7, 1979, members of the appropriate standing committees of the legislature were duly notified of the proposed rule changes in accordance with section 227.018 of the Wisconsin Statutes, and within the more than 30 days that have since intervened no legislative committee has asked to meet with this office to review the proposed rule changes;

Now, Therefore, pursuant to authority vested in the Office of the Commissioner of Savings and Loan under sections 215.02(7)(a), 215.21(1)(intro) and 227.014(2) of the Wisconsin Statutes, the Office of the Commissioner of Savings and Loan hereby adopts rules as follows:

OFFICE OF THE COMMISSIONER OF SAVINGS AND LOAN

A RULE to repeal S-L 18.07(1)(c); to renumber S-L 18.07(2); to amend S-L 18.08(2), as renumbered; to repeal and recreate S-L 18.07(title) and S-L 18.07(1)(title); and to create S-L 18.07(1)(b)(intro) and S-L 18.07(2) of the administrative code, relating to graduated payment mortgages.

Summary

This proposal rewrites existing provisions governing what have become known as "graduated payment mortgages". It enables state chartered savings and loans to permit borrowers purchasing or building a one or two family home to make reduced monthly payments during the first years of a mortgage loan, as long as they continue to occupy the home as their primary residence. Although a limited degree of negative amortization would be permitted under a qualified graduated payment mortgage, its loan to value ratio would still not be permitted to dip below existing limits.

To qualify for special treatment as a "graduated payment mortgage" under the proposal, the mortgage note must provide for periodic scheduled adjustments to the borrower's required monthly payment. A scheduled adjustment may not occur more often than once a year, and may not cause a monthly payment to increase by more than 10% of the payment required before the adjustment was made. After not more than 10 years, scheduled adjustments must bring the required monthly payment to a level sufficient to evenly amortize the remaining balance of the loan over its then remaining term. Except for penalties resulting from the borrower's failure to make payments as required, the interest rate on a graduated payment mortgage may not be increased while the required monthly payment is less than that necessary to evenly amortize the loan.

In addition to making all other mortgage loan disclosures, a lender making a graduated payment mortgage must furnish the borrower with a statement clearly identifying the dates and amounts of scheduled adjustments.

SECTION 1. S-L 18.07(title) and S-L 18.07(1)(title) of the administrative code are repealed and recreated to read:

S-L 18.07 (title) DIRECT REDUCTION LOANS; MAXIMUM TERM AND RELATED PROVISIONS.

S-L 18.07(1)(title) GENERALLY.

SECTION 2. S-L 18.07(1)(b)(intro) of the administrative code is created to read:

S-L 18.07(1)(b)(intro) Except as may otherwise be provided under subsection (2):

SECTION 3. S-L 18.07(1)(c) of the administrative code is repealed.

SECTION 4. S-L 18.07(2) of the administrative code as presently printed is renumbered S-L 18.08, and S-L 18.08(title) as renumbered is amended to read:

S-L 18.08 (title) STRAIGHT LOANS; MAXIMUM TERM AND RELATED PROVISIONS.

SECTION 5. S-L 18.07(2) of the administrative code is created to read:

S-L 18.07(2) EXCEPTION FOR GRADUATED PAYMENT MORTGAGES. An association may permit a borrower to make payments less than those required under paragraph (1)(b) if the loan is made in accordance with this subsection.

(a) Qualifying security. The loan must be made on the security of a mortgage on one or two family home-type property purchased or constructed with the proceeds of the loan and occupied by the borrower as a primary residence.

(b) Loan to value ratio. At no time during the life of the loan may the loan to value ratio of the outstanding balance of the loan to the original appraised value of the qualifying real estate security exceed the applicable loan to value ratio under section S-L 18.05(2) or (3) of the code.

(c) Scheduled adjustments. The mortgage note must provide for scheduled adjustments to the required monthly principal and interest payment. No later than the beginning of the 11th year of the loan that payment must reach and remain at a level sufficient to evenly amortize the remaining balance of the loan over its then remaining term. However, a scheduled adjustment may not:

1. Occur more than once a year; or
2. Cause the required monthly principal and interest payment to exceed that charged during the preceeding year by more than 10%.

(d) Other adjustments. Except for adjustments that may result from the borrower's failure to make complete or timely payments, the mortgage note may not provide for any increase in interest rate before the required monthly principal and interest payment has reached a level sufficient to evenly amortize the remaining balance of the loan over its then remaining term.

(e) Reversion to conventional direct reduction loan. The mortgage note must provide that the required principal and interest payment will be increased to a level that is at least sufficient to evenly amortize the remaining balance of the loan over its then remaining term, if the mortgaged premises are no longer occupied as the primary residence of the borrower or:

1. A member of the borrower's immediate family, in the event of the borrower's death; or
2. The borrower's spouse or former spouse, in the event of the borrower's divorce or separation.

(f) Additional disclosure. In addition to making all other required disclosures, the association must, prior to consummation of the loan, furnish the borrower with a written statement clearly identifying the dates and amounts of scheduled increases in the required monthly principal and interest payment.

(End)

The rule changes contained in this order shall take effect on the first day of the month following its publication in the Wisconsin Administrative Register.

Dated: April 16, 1979

OFFICE OF THE COMMISSIONER OF SAVINGS AND LOAN


R. J. McMahon, Commissioner