Testimony on the "Rocket Mortgage" Amendment to SB 464

My name is Erin Macey. I am the director of the Indiana Community Action Poverty Institute and Co-Chair of Hoosiers for Responsible Lending. HRL has not yet had an opportunity to vote on our position on this bill, so today I am also expressing concern today on behalf of Habitat for Humanity, Citizens Action Coalition, Prosperity Indiana, Homestead Resources, Brightpoint, and the Northwest Indiana Reinvestment Alliance.

I want to start with what the code currently allows regarding second mortgages (otherwise known as home equity loans or home equity lines of credit).

- Loan finance charge for consumer loans have a maximum finance charge of 25% annually on the unpaid principal. That can be a combination of points and/or interest.
- In addition, lenders can charge a 2% nonrefundable prepaid finance charge. That would change to 3% if this amendment is incorporated.
- That 2% is not a hard cap on prepaid finance charges or points, it's just a limitation on the amount that's earned immediately upon consummation of the loan.
- DFI's guidance from 2020 speaks to this directly. I will read from their guidance: "Subordinate lien consumer loans are not subject to a 'hard cap' and lenders retain the ability to charge a

> prepaid finance charge above the maximum nonrefundable prepaid finance percentage permitted by law. A lender that chooses to charge a refundable prepaid finance charge above the nonrefundable percentage amount permitted must test the calculation at consummation against a max rate…and such amount remains subject to refund upon a consumer's prepayment." So lenders are not restricted to 2% for points and origination charges.

This amendment also raises a question about the value of points to purchase a lower interest rate. While not an exhaustive search, there is at least some evidence to suggest that consumers tend to either miscalculate or overestimate how long they will keep a mortgage or second mortgage. It can take several years in some cases to reach the breakeven point for points to be worthwhile.

Maintaining limits on nonrefundable charges and max rates offers some protection to these borrowers.

Meanwhile, qualified mortgages are a federal designation that differ in significant ways from what's allowed in code – for example, they have tighter caps on the total finance charges, and these may change. The code needs to consider other types of lenders beyond those making qualified mortgages.

Finally, in HB 1174, we moved the max rate to 36% and here we would be moving the nonrefundable fee that can be charged over and above that rate to 3%. Together, these represent a significant and alarming increase in what's allowed. In light of this, at a minimum, we'd like to see these two changes discussed together given the potential for a dramatic change to what is allowable to second mortgages.