



OFFICE OF THE GOVERNOR

# NEWS

ROD R. BLAGOJEVICH – GOVERNOR

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## **Governor Blagojevich announces new rules to help protect homebuyers in Cook County**

*New consumer protections to predatory lending pilot program will reduce foreclosures countywide*

**CHICAGO** –Governor Rod R. Blagojevich today directed the Illinois Department of Financial and Professional Regulation (IDFPR) to increase protections to homebuyers and more effectively fight predatory lending by filing new rules to the Illinois Predatory Lending Database Pilot Program, also known as HB 4050. The new rules will help protect consumers by focusing scrutiny on the lenders and their loans rather than consumers and their credit history. These rules will provide first time homebuyers and homeowners who are refinancing their homes with counseling to protect them against predatory or other non-traditional types of loans.

The Governor also directed the Department to designate the pilot area to be all of Cook County once the rules are approved by the legislature. Last month, Gov. Blagojevich temporarily halted implementation of the original program that was drafted to only apply in certain Cook County neighborhoods after community organizations and civic leaders raised serious concerns.

“The goals of HB 4050 are important and can spare consumers who are going after the American Dream from the financial devastation caused by predatory mortgages. It’s critical that we get this right, and the original rules raised enough red flags that it made sense to take a step back and make sure we are not inadvertently hurting the communities where predatory lending has been most prevalent. After weeks of discussions with community organizations, community leaders and legislators, I’m directing IDFPR to file new rules that will help protect consumers and will apply evenly to all potentially-predatory mortgages, regardless of which community the borrower lives in,” said Gov. Blagojevich.

HB 4050 was meant to protect consumers and their communities from the financial and personal costs of predatory lending. The new rules will increase protections effectively by focusing on

predatory loans rather than a borrower's credit history. Predatory lenders often use loans with unusual provisions such as 'teaser rates' (artificially low rates that are raised to market average or above, shortly after the mortgage is approved), little or no income documentation or excessively high fees and interest charges to entice homebuyers. These loans frequently result in foreclosures.

Under the proposed rules for HB 4050, first time homebuyers and owners opting to refinance their primary residence will be recommended for counseling if the loan they are considering contains any of the following provisions:

- Permits interest-only payments;
- Allows payments that results in negative amortization;
- Total points and fees payable by the borrower exceed 5% of the amount of the mortgage;
- Approval of the loan relies on the stated income of the borrower;
- A pre-payment penalty is included; or
- The financing transaction includes a second lien on the property, often known as an 80/20 loan.

Initial implementation of HB 4050 created uncertainty for lenders, limiting their interest in offering products to consumers in certain neighborhoods where the new rules applied. Furthermore, a report from the University of Illinois Urbana-Champaign showed that housing sales in the HB 4050 zip codes dropped by nearly half over the fall of 2006. Comparable zip codes in which the pilot program was not being applied saw a decline of just 20 percent. The report also stated that the pilot program did not offer borrowers additional consumer protections.

Once today's rule has been filed with the Secretary of State, there is a 45-day 1<sup>st</sup> Notice period, during which industry groups, advocates and other concerned members of the public may file comments or request a public hearing. During the 2<sup>nd</sup> Notice period, also 45 days long, the rule and any modifications or amendments, will be reviewed by the Joint Committee on Administrative Rules (JCAR). JCAR can request additional clarification or information from the Department that must be supplied during JCAR's review. At the end of that time, if JCAR takes no action, the rule becomes permanent and any further changes must be filed through a new rulemaking process. Once the new rules have become permanent, the pilot program will be restarted, and the new designation for the pilot area will become effective.