PART III. SAVINGS ASSOCIATION BUREAU

CHAPTER 31. INVESTMENT OPERATIONS

Authority

The provisions of this Chapter 31 issued under section 903(c) of the Savings Association Code of 1967 (15 P. S. § 5903(3)), unless otherwise noted.

Source

The provisions of this Chapter 31 adopted August 14, 1971, unless otherwise noted.

§ 31.1. Maximum principal amount of loans over 80% of fair market value.

(a) The principal of the obligation on loans in excess of 80% of the fair market value of one family residential property to be encumbered shall not exceed $40,000 provided, however, that there shall be no amount limitation if at least the top 20% of such loan is insured or guaranteed by a mortgage insurance company which has been approved by the Department and licensed by the Insurance Department of the Commonwealth.

(b) Such loans shall not exceed 90% of fair market value.

Source

The provisions of this § 31.1 amended through June 6, 1975, 5 Pa.B. 1452. Immediately preceding text appears at serial page (4103).

Cross References

The provisions of this section cited in 10 Pa. Code § 31.2 (relating to loans in excess of statutory authorization on one-family residential properties).

§ 31.2. Loans in excess of statutory authorization on one-family residential properties.

(a) The limitation of 90% which exceeds the 80% as set forth in section 903 of the act (15 P. S. § 5903(3)) shall be 95% in the case of any loan with respect to which the additional following requirements are met:

(1) The amount of the loan does not exceed the lesser of 95% of the value of the real estate securing the loan, or 95% of the purchase price of the security property.

(2) Not less than the top 20% of such loan shall be insured or guaranteed by a mortgage insurance company which has been approved by the Department and licensed by the Insurance Department of the Commonwealth.

(b) The aggregate of the principal amount of all loans made under § 31.1 (relating to maximum principal amount of loans over 80% of fair market value) which are not insured by a private mortgage guarantee company, exclusive of loans on which the unpaid balance is less than 80% of the fair market value at the date of the making of the loan, and all loans made under the provisions of this section, exclusive of loans with respect to which the unpaid principal balance has been reduced to an amount not in excess of 90% of the value or purchase price of the real estate, whichever is less, determined at the time the loans were made, shall not exceed 30% of the assets of the association.

Source

The provisions of this § 31.2 added May 19, 1972, effective May 20, 1972, 2 Pa.B. 897, amended June 6, 1975, effective June 7, 1975, 5 Pa.B. 1452. Immediately preceding text appears at serial page (4104).

§ 31.3. Over 75% loans on properties for residential use by five or more families.

The principal of the obligation on loans secured by properties designed primarily for residential use by five or more families or upon the security of real estate on which such a building is to be erected or upon the security of real estate on which a building consisting of dwelling units used to house persons affiliated with a college, university, hospital, or other institution is erected or to be erected may not exceed 90% of the fair market value of such property.

Authority

The provisions of this § 31.3 issued under section 144 of the Savings Association Code of 1967 (7 P. S. § 6020-144).

Source

The provisions of this § 31.3 adopted May 19, 1972, effective May 20, 1972, 2 Pa.B. 897, amended February 12, 1982, effective February 13, 1982, 12 Pa.B. 644. Immediately preceding text appears at serial page (50773).

§ 31.4. Terms of mortgage.

(a) The first monthly payment date on direct reduction loans to finance new construction may be postponed to a date not later than 36 months after the date of the first advance made on the loan, provided that the interest on said loan shall be payable not less frequently than semiannually.

(b) Term construction loan mortgages for the purpose of financing new construction of a one to four-family residential property and residential property designed for use by more than four families may be made for a term not exceeding 36 months without requiring amortization. Interest shall be payable not less frequently than semiannually. Said loans shall not exceed 80% of the fair market value of the property.

Source

The provisions of this § 31.4 adopted May 19, 1972, effective May 20, 1972, 2 Pa.B. 897.

§ 31.5. Alternatives to direct reduction loans.

Loans other than those set forth in section 915(b)—(f) of the Savings Association Code of 1967 (7 P. S. § 6020-155(b)—(f)) and any others which by statute demand, require or permit a specific method of payment shall be written on a direct reduction loan basis or may be written on any of the following terms and conditions on all of which cases interest shall be payable monthly:

(1) May be written for a period not exceeding 10 years provided not less than 1.0% per year of the principal of the loan is amortized within the term of the loan on a monthly basis and the entire balance of the loan is due and payable at the maturity date.

(2) May be written to require interest payments only during the first 2 years of the mortgage loan and thereafter on a direct reduction basis.

(3) May be written on a monthly payment basis to require interest and reduced payments of the principal, not less, however, than 1/2 of 1.0% of principal per year, for a period of 5 years and thereafter on a direct reduction loan basis.

(4) A direct reduction loan may be written to require payment of the principal at any stated time. The loan documents may contain provisions for renegotiations or ''rollovers'' of the mortgage upon expiration of the term for which the mortgage was written or extended, subject to substantially the same

terms, conditions, requirements, and consumer protective provisions which are applicable in the case of Federal savings and loan associations as set forth in 12 CFR 545.6-4a, as published at 45 FR 24111 (April 9, 1980), in accordance with § 31.6 (relating to renegotiable rate mortgage loans).

Authority

The provisions of this § 31.5 issued under section 202 of the Department of Banking Code (71 P. S. § 733-202); and sections 103, 701(a)(22), 901 and 915 of the act of December 14, 1967 (P. L. 746, No. 345) (7 P. S. §§ 6020-3, 6020-101(a)(22), 6020-141 and 6020-155).

Source

The provisions of this § 31.5 adopted May 19, 1972, effective May 20, 1972, 2 Pa.B. 897, amended June 27, 1980, effective June 28, 1980, 10 Pa.B. 2574.

§ 31.6. Renegotiable rate mortgage loans.

(a) *Authorization.* A savings association may make, purchase or participate in a renegotiable rate mortgage loan program under the authority contained in sections 701(a)(22), 901 and 915 of the Savings Association Code of 1967 (7 P. S. §§ 6020-101(a)(22), 6020-141 and 6020-155) if the loan complies with the provisions of 12 CFR 545.6-2(a)—as set forth at 45 FR 24111 (April 9, 1980) except where adherence to such rules and regulations is inconsistent with Pennsylvania law, especially section 915(g)(7) of the Savings Association Code of 1967 (7 P. S. § 6020-155(g)(7)).

(b) *Description.* For purposes of this section, a renegotiable rate mortgage loan is a loan issued for a term of three, four, or five years, secured by a long-term mortgage of up to 30 years and automatically renewable at equal intervals except as provided in subsection (c)(1). The loan must be repayable in equal monthly installments of principal and interest during the loan term, in an amount at least sufficient to amortize a loan with the same principal and at the same interest rate over the remaining term of the mortgage. At renewal, no change other than in the interest rate may be made in the terms or conditions of the initial loan. Prepayment in full or on part of the loan balance secured by the mortgage may be made without penalty at any time on those loans defined as residential mortgages in the act of January 30, 1974 (P. L. 13, No. 6) (41 P. S. § 101).

(c) *Interest-rate changes at renewal.*

(1) The interest rate offered at renewal shall reflect the movement, in reference to the date of the original loan, of the contract interest rate on the purchase of previously-occupied homes in the Federal Home Loan Bank Board's most recent monthly National average mortgage rate index for all major lenders; provided that an association may alter the initial terms of loans originated within a 6-month period so that they mature on the same date 3, 4 or 5 years after the end of that period, in which case the interest rate offered at

renewal shall reflect the movement of the index from the end of that period, that is, as though all loans in the group had originated at the end of the period.

(2) The maximum rate increase or decrease shall be 0.5% per year multiplied by the number of years in the loan term, with a maximum increase or decrease of 5.0% over the life of the mortgage. Associations may offer a borrower a renegotiable rate mortgage loan with maximum annual and total interest rate decreases smaller than the maximum set out in this paragraph; provided, however, that in such a case the maximum annual and total interest rate increases offered shall not exceed the maximum annual and total decreases set out in the loan contract.

(3) Interest rate decreases from the previous loan term are mandatory. Interest rate increases are optional with association, but the association may obligate itself to a third party to take the maximum increase permitted by this subsection.

(d) *Cost of renewal.* The borrower may not be charged any costs or fees in connection with the renewal of such loan.

(e) *Renewal notice.* At least 90 days before the due date of the loan, the association shall send written notification in the following form to the borrower:

NOTICE

Your loan with Savings and Loan Association, secured by a (mortgage/deed of trust) on property located at (address), is due and payable on (90 days from date of notice).

If you do not pay by that date, your loan will be renewed automatically for years, upon the same terms and condition as the current loan, except that the interest rate will be %. (See accompanying Truth-in-Lending statement for further credit information.)

Your monthly payment, based on that rate, will be $, beginning with the payment due on , 19 .

You may pay off the entire loan or a part of it without penalty at any time.

If you have questions about this notice, please contact (title and telephone number of association employe).

(f) *Application disclosure.* An applicant for a renegotiable rate mortgage loan must be given, at the time he requests an application, a disclosure notice in the following form:

INFORMATION ABOUT THE RENEGOTIABLE-RATE MORTGAGE

You have received an application form for a renegotiable-rate mortgage (''RRM''). The RRM differs from the fixed-rate mortgage with which you may be familiar. In the fixed-rate mortgage the length of the loan and the length of the underlying mortgage are the same, but in the RRM the loan is short-term (3-5 years) and is automatically renewable for a period equal to the mortgage (up to 30 years). Therefore, instead of having an interest rate that is set at the beginning of the mortgage and remains the same, the RRM has an interest rate that may increase or decrease at each renewal of the short-term loan. This means that the amount of your monthly payment may also increase or decrease.

The term of the RRM loan is   years, and the length of the underlying mortgage is   years. The initial loan term may be up to six months longer than later terms.

The lender must offer to renew the loan, and the only loan provision that may be changed at renewal is the interest rate. The interest rate offered at renewal is based on changes in an index rate. The index used is computed monthly by the Federal Home Loan Bank Board, an agency of the Federal government. The index is based on the national average contract rate for all major lenders for the purchase of previously-occupied, single-family homes.

At renewal, if the index has moved higher than it was at the beginning of the mortgage, the lender has the right to offer a renewal of the loan at an interest rate equalling the original interest rate plus the increase in the index rate. This is the maximum increase permitted to the lender. Although taking such an increase is optional with the lender, you should be aware that the lender has this right and may become contractually obligated to exercise it.

If the index has moved down, the lender must at renewal reduce the original interest rate by the decrease in the index rate. No matter how much the index rate increases or decreases, THE LENDER, AT RENEWAL, MAY NOT INCREASE OR DECREASE THE INTEREST RATE ON YOUR RRM LOAN BY AN AMOUNT GREATER THAN   OF ONE PERCENTAGE POINT PER YEAR OF THE LOAN, AND THE TOTAL INCREASE OR DECREASE OVER THE LIFE OF THE MORTGAGE MAY NOT BE MORE THAN   PERCENTAGE POINTS.

As the borrower, you have the right to decline the lender's offer of renewal. If you decide not to renew, you will, of course, have to pay off the remaining balance of the mortgage. Even if you decide to renew, you have the right to prepay the loan in part or in full without penalty at any time. To give you enough time to make this decision, the lender, ninety (90) days before renewal, will send a notice stating the due date of the loan, the new interest rate and the monthly payment amount. If you do not respond to the notice, the loan will be automatically renewed at the new rate. You will not have to pay any fees or charges at renewal time.

The maximum interest-rate increases at the first renewal is percentage points. On a $50,000 mortgage with an original term of years and an original interest rate of [lender's current commitment rate] percent, this rate change would increase the monthly payment (principal and interest) from $ to $. Using the same example, the highest interest rate you might have to pay over the life of the mortgage would be percent, and the lowest would be percent.

Authority

The provisions of this § 31.6 issued under section 202 of the Department of Banking Code (71 P. S. § 733-202); and sections 103, 701(a)(22), 901 and 915 of the Savings Association Code of 1967 (7 P. S. §§ 6020-3, 6020-101(a)(22), 6020-141 and 6020-155).

Source

The provisions of this § 31.6 adopted June 27, 1980, effective June 28, 1980, 10 Pa.B. 2574.

Cross References

This section cited in 10 Pa. Code § 31.5 (relating to alternatives to direct reduction loans).

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