

**Testimony of the Wisconsin Bankers Association**

**Michael Semmann, SVP/COO WBA**

**Heather MacKinnon, Director of Legal, WBA**

**Assembly Committee on Financial Institutions**

**Assembly Bill 24**

**February 11, 2015**

Chairman Craig and Members of the Committee:

Thank you for the opportunity to testify in support of Assembly Bill 24.

My name is Michael Semmann, SVP/COO for the Wisconsin Bankers Association, the state's largest financial industry trade association. We represent 275 commercial banks and savings institutions, their nearly 2,300 branch offices and over 30,000 employees. With me is WBA's Legal Director Heather MacKinnon. I'll give an overview and Heather can delve into some history and more specifics.

This bill applies to variable rate consumer-purpose loans which are secured by a first lien real estate mortgage on, or an equivalent security interest in, a 1-4 family dwelling that the borrower uses as a principal residence—this includes a manufactured or mobile home. Current law imposes requirements and limitations on these variable rate loans, including limitations on adjustments to the interest rate for the loan. Current law also requires that if the interest rate adjustments correspond to an index, the index must be an approved index. This bill would allow a lender making a variable rate loan based on an approved index to include a lower or "discounted" initial interest rate. At the expiration of the initial interest rate period, provisions of current law related to the adjustments in an interest rate as related to the approved index will apply. The bill also eliminates the provision that interest rate decreases may be limited only if interest rate increases are limited to at least the same extent.

Currently, one of the adjustment requirements is that the initial index value must be the most recently available value of the approved index prior to the date of the loan closing. This structure prohibits a state bank from the opportunity to offer a lower or "discounted" initial interest rate to consumers. Federally chartered institutions; however, are able to offer discounted initial interest rates for the very same type of loan.

Example: A State Bank offers a 30-year ARM product for which the interest rate adjustments correspond to an approved index. At time of loan closing the approved index is 5%. Because of current law, the State Bank would not be permitted to offer a lower, discounted initial rate (i.e., 2%). However, a federally chartered institution would be permitted to offer a discounted initial rate for the very same loan product at loan closing.

A national bank may make adjustable rate mortgage loans and is exempt from any restrictions under state law. We believe this allows for an unfair advantage for nationally chartered institutions and unnecessarily restricts the opportunity for state banks to offer their consumers the same benefit of a lower initial interest rate on an adjustable rate mortgage loan.

Federal law does allow for state-chartered banks to enter into adjustable rate mortgage loans on the same terms as national banks via the Alternative Mortgage Transaction Parity Act (AMPTA). To offer the same terms, however, the state bank must preempt out of state law into AMPTA.

The Dodd-Frank Act allows for an adjustable rate mortgage loan to have a lower or “discounted” initial interest rate. So too does the Bureau of Consumer Financial Protection under its federal regulations. As federal regulators continue to push financial institutions into offering adjustable rate mortgages, we believe state law should allow state banks to offer consumers the same beneficial term of a lower or “discounted” initial interest rate that federally chartered institutions may offer—without having to preempt out of state law.

As mentioned earlier, the bill also eliminates the provision that interest rate decreases may be limited only if interest rate increases are limited to at least the same extent. We believe the sentence confusing and federal law has no such condition. Consumers are still protected in that they are given comprehensive federal Truth in Lending Act disclosure at time of loan application and again at time of loan closing. State and federal law also requires notices after the loan has closed regarding rate change increases, corresponding payment changes and options available to consumers.

I will be happy to answer any questions.



# TERRY KATSMMA

STATE REPRESENTATIVE • 26<sup>th</sup> ASSEMBLY DISTRICT

Phone: (608) 266-0656  
Toll-Free: (888) 529-0026  
Rep.Katsma@legis.wi.gov

P.O. Box 8952  
Madison, WI 53708-8952

## **Prepared Remarks of Rep. Terry Katsma on Assembly Bill 24 Legislation to level the playing field for variable-rate consumer loans**

**Assembly Financial Institutions Committee  
Wednesday, February 11, 2015**

Chairman Craig and colleagues of the Committee on Financial Institutions—thank you for the opportunity to testify today on Assembly Bill (AB) 24.

Under current law, the state of Wisconsin effectively prohibits financial institutions headquartered within the state from offering promotional discounts on variable-rate residential mortgage loans. But federal law makes no such prohibition. As a result, large out-of-state banks with branch locations in Wisconsin have an unfair advantage in the marketplace. This is a perfect example of an outdated and unnecessary regulation that is hurting Wisconsin's small businesses and home buyers and ought to be removed. My intent in writing this legislation is simple: to put state-chartered banks and credit unions on a more equal regulatory footing with federally chartered banks by empowering all of them equally to offer loans at competitive prices.

I am sensitive to the deep, painful and enduring impacts to Wisconsin's economy created by the "housing bust" of 2008. It is crucial that we elected officials act with prudent caution when considering any proposal to alter mortgage lending laws.

Thus—speaking from 33 years of professional experience in the banking industry before I was elected to public office—let me emphasize that AB 24 will in no way negatively affect the rights or protections of consumers. Federal truth-in-lending laws require lenders to fully and clearly disclose the terms of residential mortgage loans to their customers—including the interest rate of the loan, what index the interest rate is based upon, how the interest rate can change, what effects a changing interest rate will have on payments, and many other terms as well—and AB 24 will not change any of that. In fact, one of the most important takeaways from the aftermath of the 2008 crisis is that Wisconsin's banks and credit unions depend entirely on building and preserving the trust of their customers.

With the passage of AB 24, any lender offering a variable-rate residential mortgage loan based upon an approved index will be permitted to offer a lower, discounted initial rate. In small-town Wisconsin, that means more opportunities not only for small businesses to compete with out-of-state corporations to provide local services but also for middle-class consumers to find loans "on sale."

I look forward to answering your questions.