

BUREAU OF BANKING

Department of Professional and Financial Regulation

State of Maine

October 25, 1991

BULLETIN #36 HOME MORTGAGE LOANS WITH BIWEEKLY REPAYMENT SCHEDULES

To the Chief Executive Officer Addressed:

For several years, financial institutions in Maine have been offering home mortgage products with biweekly rather than monthly repayment schedules. The Bureau recognizes that these products reduce total interest costs, build equity more rapidly, and may lend themselves to better budgeting of household expenditures. However, biweekly payments are a major digression from the traditional scheme of monthly repayment for virtually all other reoccurring household expenditures. In 1985, the Bureau authorized the use of biweekly mortgage products and issued Bulletin #36 to provide guidelines and recommend safeguards necessary to protect consumers.

Over the past six years, a secondary market for biweekly mortgages has developed. It has come to the Bureau's attention that the one-time conversion option provided for in the 1985 Bulletin #36 is not a standard feature in the biweekly mortgage products that are purchased on the secondary market; Maine financial institutions cannot sell loans that do not meet secondary market standards. The banking industry contends that standardized biweekly mortgages would be less costly to Maine consumers than those that cannot be sold on the secondary market because of the funding mechanism that these investors provide. The Bureau is influenced by those factors; however, the current state of the economy and high rates of unemployment should be weighed in any decision to eliminate consumer protection devices such as the conversion feature.

As a result, this revised Bulletin #36 permits financial institutions, that wish to write biweekly mortgage loans to secondary market standards, may do so, if they also give their customers a choice to select a biweekly loan with a conversion feature. The following guidelines includes this change into the list of consumer issues that should be addressed in the development/maintenance of a biweekly mortgage loan program:

1. If biweekly mortgage payments are automatically transferred from a depositor's account at the financial institution, the consumer shall have the opportunity to select the type of account from any accounts offered by the financial institution which allow automatic transfer of payments.
2. Since payments are required more frequently, the Bureau recognizes that late charges may be imposed on loans which are overdue for a shorter

period of time. However, late charges shall not be imposed on an account unless it is overdue five business or seven calendar days, and charges shall be consistent with those imposed upon loans with monthly repayment schedules.

3. Since a consumer's income source could vary through changes in employment or by changes made by his employer beyond his control, a financial institution offering biweekly mortgage loans shall permit the consumer to chose either of the following:
 - a. a standardized biweekly mortgage loan written to secondary market specifications; or
 - b. a biweekly which offers a one-time conversion option without penalty or additional fees.

Any interest rate differential between monthly and biweekly mortgage products which existed at the time the mortgage was originated may be imposed at the time of conversion, provided those terms and conditions are properly disclosed, in writing, at the closing of the mortgage.

The Bureau recognizes that the rates and terms of the mortgages written to secondary market standards and other biweekly mortgages may vary due to the influence of the secondary market. However, lenders are cautioned that such rates and terms should not be unreasonably divergent so as to unduly influence consumer's choice.

4. Delinquent mortgage customers shall be provided with the traditional 30-day notice period before being deemed in default.
5. All other notices, restrictions and disclosure requirements contained in Title 9-B M.R.S.A. and applicable to home mortgages shall be applicable to all mortgages irrespective of the monthly repayment schedule, unless otherwise exempted by law, rule or order of the Superintendent.
6. If a new mortgage product, featuring biweekly payments, is an ARM or other alternative mortgage instrument (VRM, GPARM, RRM, etc.), the notification requirement of Regulation 19 (Chapter 119) is applicable.
7. If you are contemplating offering a new mortgage product with unique features, the Bureau would be pleased to review it for compliance, in confidence, prior to its introduction.

/s/ H. Donald DeMatteis
Superintendent

*Replaces Bulletin #36 issued June 10, 1985