



Bulletin 17-41

Texas Section 50(a)(6) Transactions Updates (aka Texas Cash-Out/Texas Equity)

The Texas Legislature recently amended the requirements of Texas Section 50(a)(6) that are effective with transactions closed on and after January 1, 2018.

The changes include:

- The permissible fees limitation was lowered from 3% to 2% however more fees are excluded from the fee calculation
- Agricultural properties are now eligible (previously ineligible)
- A Texas equity is now eligible for a rate/term option subject to specific requirements (previously once a Texas equity always a Texas equity)

Permissible Fee Limitation

The following fees are now **excluded** from the 2% cap:

- Bona fide discount points (now expressly stated in the amendment),
- Homeowners insurance,
- Title insurance premium and endorsement fees,
- Survey costs, and
- Third party appraisal fees

The following fees are **NOT** excluded from the 2% cap:

- Escrow fees,
- Delivery fees,
- Non-insurance charges,
- Appraisal fees if affiliated with lender
- AMC fees (breakdown of costs between appraiser and AMC will be required)

Agricultural Properties

Properties that currently have an agricultural use designation are now eligible.

NOTE: The borrower **cannot** obtain an agricultural use designation **after** they have originated a Texas equity transaction (state of Texas restriction)

12-Day Notice

The current 12-Day Notice will be updated to incorporate the applicable changes regarding the fee limitation and agricultural properties.

Rate/Term Transactions

Texas equity transactions can be refinanced as a rate/term transaction subject to the following:

- A minimum of one (1) year has passed since the home equity loan closed
- The borrower cannot receive any cash at close
- Maximum 80% CLTV still applies

A new Notice is required when borrowers are refinancing from a Texas cash-out to a rate/term transaction advising them the rate/term transaction does **not** have the same protections as an equity transaction in Texas (rate/term permits foreclosure without a court order and a rate/term has recourse for personal liability to the borrower). An example of the Notice is attached for reference.

The Notice **must be signed** by the borrower(s) within 3 business days of application (exclude Sundays and legal holidays when determining 3-day requirement) **and** at least 12 calendar days before closing.

Additionally, the borrower(s) will be required to sign a new affidavit at loan closing acknowledging that they are aware they are refinancing from an equity loan to a non-equity (rate/term) loan.

Important Information Regarding Loans Currently in the Pipeline

Texas equity loans that do **not close** prior to December 31, 2017 are subject to the new requirements and the borrower must be provided the new 12-day Notice. The updated 12-day Notice **cannot** be issued until January 1, 2018 or later so Texas equity loans that do not close as of December 31 cannot close until January 13th 2018 or later to satisfy the 12-day "cooling off" period

The applicable HomeBridge guidelines will be updated in the near future and posted on the HomeBridge website at www.HomeBridgeWholesale.com.

If you have any questions, please contact your Account Executive.

NOTICE CONCERNING REFINANCE OF EXISTING HOME EQUITY LOAN TO NON-HOME EQUITY LOAN UNDER SECTION 50(f)(2), ARTICLE XVI, TEXAS CONSTITUTION:

YOUR EXISTING LOAN THAT YOU DESIRE TO REFINANCE IS A HOME EQUITY LOAN. YOU MAY HAVE THE OPTION TO REFINANCE YOUR HOME EQUITY LOAN AS EITHER A HOME EQUITY LOAN OR AS A NON-HOME EQUITY LOAN, IF OFFERED BY YOUR LENDER.

HOME EQUITY LOANS HAVE IMPORTANT CONSUMER PROTECTIONS. A LENDER MAY ONLY FORECLOSE A HOME EQUITY LOAN BASED ON A COURT ORDER. A HOME EQUITY LOAN MUST BE WITHOUT RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE.

IF YOU HAVE APPLIED TO REFINANCE YOUR EXISTING HOME EQUITY LOAN AS A NON-HOME EQUITY LOAN, YOU WILL LOSE CERTAIN CONSUMER PROTECTIONS. A NON-HOME EQUITY REFINANCED LOAN:

- (1) WILL PERMIT THE LENDER TO FORECLOSE WITHOUT A COURT ORDER;
- (2) WILL BE WITH RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE; AND
- (3) MAY ALSO CONTAIN OTHER TERMS OR CONDITIONS THAT MAY NOT BE PERMITTED IN A TRADITIONAL HOME EQUITY LOAN.

BEFORE YOU REFINANCE YOUR EXISTING HOME EQUITY LOAN TO MAKE IT A NON-HOME EQUITY LOAN, YOU SHOULD MAKE SURE YOU UNDERSTAND THAT YOU ARE WAIVING IMPORTANT PROTECTIONS THAT HOME EQUITY LOANS PROVIDE UNDER THE LAW AND SHOULD CONSIDER CONSULTING WITH AN ATTORNEY OF YOUR CHOOSING REGARDING THESE PROTECTIONS.

YOU MAY WISH TO ASK YOUR LENDER TO REFINANCE YOUR LOAN AS A HOME EQUITY LOAN. HOWEVER, A HOME EQUITY LOAN MAY HAVE A HIGHER INTEREST RATE AND CLOSING COSTS THAN A NON-HOME EQUITY LOAN.