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H.R. 1259, the Helping Expand Lending Practices in Rural Communities Act

FLOOR SITUATION

On Monday, April 13, 2015, the House will consider H.R. 1259, the *Helping Expand Lending Practices in Rural Communities Act,* under a suspension of the rules. The bill was introduced on March 4, 2015 by Rep. Andy Barr (R-KY) and was referred to the Committee on Financial Services, which ordered the bill reported by a vote of 56 to 2 on March 26, 2015.[1]

SUMMARY

H.R. 1259 directs the Consumer Financial Protection Bureau (CFPB), within 90 days of enactment of this bill to develop a temporary program that allows individuals who live or do business in a State to apply to have an area in the State identified as a rural area, if it has not yet been designated as such for the purposes of Federal consumer financial law. The bill limits the term of the program to two-years, starting on the date of enactment. The bill would require applications to be made available for public comment and would direct the CFPB to approve or deny applications within 90 days of the end of the comment period.

BACKGROUND

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) required the originator of a mortgage loan to make a determination that the borrower has the ability to repay the loan. Lower-cost loans that meet certain criteria prescribed by CFPB regulations are treated as "Qualified Mortgages," and afforded a legal safe harbor from penalties associated with the failure to determine that a borrower has the ability to repay. Generally, mortgage loans with balloon payments[2] do not qualify for this safe harbor; however, the Dodd-Frank Act authorized the CFPB to extend the safe harbor protections to balloon mortgage loans with certain characteristics when offered by a creditor operating in a rural or underserved area.

[1] See FC-17

[2] Balloon mortgages are generally defined as mortgages that do not fully amortize over the term full term of the mortgage, thus leaving a balance due at the end of the loan term.

To define the term "rural," the CFPB used the "Urban Influence Codes" developed by the Department of Agriculture's Economic Research Service, which are, in turn, derived from the definitions of "metropolitan" and "micropolitan" developed by the Office of Management and Budget (OMB). Critics of this approach are concerned that by choosing this definition of "rural," the CFPB has excluded many deserving lenders from qualifying for the balloon payment safe harbor. Because creditors will be reluctant to make mortgage loans that are not Qualified Mortgages, the use of this definition of "rural" will reduce the availability of credit in rural areas.

Under the CFPB's definition of "rural," 37 percent of the United States population would be within areas defined as "rural," with an average of 10 lenders serving each area. Critics have said that under the CFPB's definition, "a 'rural' county can have six times the number of people on aggregate and five times the number of people per square mile than a non-rural county with a smaller population."[3]

An identical bill, H.R. 2672, passed the House by voice vote in the 113th Congress on May 6, 2014 (See CR H3420). The Senate did not act on the House-passed bill during the 113th Congress.

COST

CBO estimates that enacting H.R. 1259 would increase direct spending by about $1 million over the 2015-2025 period; therefore, pay-as-you-go procedures apply. CBO estimates that enacting the bill would not affect revenues. Implementing the bill would not affect discretionary costs because the CFPB is permanently authorized to spend amounts transferred from the Federal Reserve System.

STAFF CONTACT

For questions or further information contact the House Republican Policy Committee at 6-5539.

[3] Testimony of Charles A. Vice, Commissioner of the Kentucky Department of Financial Institutions, on behalf of the Conference of State Bank Supervisors, "Examining How the Dodd-Frank Act Hampers Home Ownership," U.S. House Financial Services Committee, Subcommittee on Financial Institutions and Consumer Credit, June 18, 2013, available at: http://financialservices.house.gov/uploadedfiles/hhrg-113-ba15-wstate-cvice-20130618.pdf