



Charles G. Cooper  
Commissioner

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## **TEXAS DEPARTMENT OF BANKING**

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### **INDUSTRY NOTICE 2017-10**

*Date: October 2, 2017*

#### **Texas Banking Department Provides Support and Guidance for Financial Institutions and Borrowers Affected by Hurricane Harvey – Home Equity Loans and Home Repairs**

The Texas Department of Banking recognizes the impact that natural disasters such as Hurricane Harvey have on both customers and financial institutions. The Department fully anticipates that lenders will be making new loans to assist in recovery efforts and may need to adjust terms or temporarily extend maturities of existing loans where circumstances warrant and safety and soundness is not compromised. Financial institutions should identify distressed borrowers and monitor their progress to resolve financial difficulties caused by Hurricane Harvey. The Department is supportive of measures that will help borrowers recover and provide an opportunity to ultimately repay their debt. The purpose of this notice is to provide additional guidance to banks about the options and potential problem areas of extending new loans and renewing or modifying existing consumer loans.

#### **Loans for Home Repair**

Many homes in declared disaster areas need repairs and rehabilitation, and homeowners may seek to borrow funds for that purpose. A customer may seek a home equity loan, a home equity line of credit (HELOC), or a home improvement loan. Customers with an existing home equity loan may seek assistance if the loan is in danger of default in the form of a modification or a refinance, with or without additional cash advanced. These situations have constitutional implications, and banks should proceed with caution before modifying a home equity loan.

#### **Loan Options – New versus Existing Loan**

*New Loans* - For a new home equity loan or HELOC, the funds advanced, when added to the outstanding principal balance of all other loans secured by the homestead, may not exceed 80% of the homestead's fair market value (FMV) at the time the loan is made, as determined by a current appraisal. However, the FMV of flooded property will likely have declined due to the resulting damage, which may make this option unavailable.

Alternatively, a homeowner could apply for a home improvement loan to make repairs to the homestead. A home improvement loan is not subject to a loan-to-value (LTV) requirement but is typically evaluated based on the expected value after improvements are completed. Further, the closing for a home improvement loan is subject to a shorter waiting period (five days) than a home equity loan or HELOC. However, obtaining an adequate appraisal may be difficult during recovery efforts when resources are stretched thin. In such cases, institutions may adopt reasonable guidelines to allow rational flexibility in arriving at property values.

*Existing HELOC* – A homeowner with an existing HELOC may be able to obtain an additional advance on the HELOC. Because the maximum amount of a HELOC is determined at the time the HELOC was closed, additional draws are possible if the current outstanding balance on the HELOC is less than 50% of the FMV at closing. The minimum draw on an existing HELOC may not be less than \$4,000.

*Refinance of Existing Home Equity Loan* – Although no additional funds are available to be drawn under an existing home equity loan, additional funds might be available through a refinance, provided the current FMV of the homestead will support the amount financed. An existing home equity loan may be refinanced without regard to the one-year seasoning requirement if the homestead is located within an area that has been declared a "disaster" by the Governor or the President of the United States, and if the homeowner requests the closing less than one year from the original closing due to the emergency or disaster.

*Modification of Existing Home Equity Loan* – An existing home equity loan may be modified at the request of the homeowner without violating the Texas Constitution if the modification is consistent with the opinion of the Texas Supreme Court in *Sims v. Carrington Mortgage Services, L.L.C.*, 440 S.W.3d 10 (2014). In the context of an existing home equity loan in default, the court held that a new agreement with the borrower that capitalizes past-due interest, fees (late charges), property taxes, and insurance premiums into the principal of the loan (all past-due amounts owed under the terms of the initial loan) and a lowering of the interest rate and the amount of installment payments, but does not involve the satisfaction or replacement of the original note, an advancement of new funds, or an increase in the obligations created by the original note, is not a new extension of credit for purposes of section 50 of Article XVI of the Texas Constitution.

As noted in 7 TAC §153.14(2), a home equity loan and a subsequent modification are considered a single transaction for purposes of the home equity lending requirements of Section 50(a)(6), including the percentage cap on loan fees.

Although the *Sims* case did not explicitly involve traditional payment deferrals or an extension of the term of the original note, we believe these to be permissible under the Court's holding that "[t]he Constitution does not prohibit the restructuring of a home equity loan that already meets its requirements in order to avoid foreclosure while maintaining the terms of the original extension of credit." However, we recommend that bank management consult with legal counsel before engaging in these types of loan modifications for home equity loans.

This Industry Notice is not an interpretation of the Texas Constitution and is not being issued under Texas Finance Code §11.308 and §15.413. State-chartered banks with questions related to home equity lending activity with customers affected by Hurricane Harvey should contact the Texas Department of Banking via [email](#) or 512- 475-1300.

### **Additional Resources**

[IBAT – Post Harvey Resources](#)

[IBAT – Home Improvement and Home Equity Loans: Bona Fide Emergencies](#)

[TBA – Hurricane Harvey Resources](#)