

OF AN EXPENSE OR ESCROW ACCOUNT THAT TENDS TO PROTECT THE SECURITY OF THAT LOAN BY ACCUMULATING FUNDS FOR THE PAYMENT OF TAXES, INSURANCE PREMIUMS, OR OTHER EXPENSES, SHALL [EITHER (1) ACCOUNT FOR AND CREDIT PAYMENTS FOR THESE EXPENSES MADE BY OR FOR THE BORROWER BY THE "DIRECT REDUCTION METHOD" IN ACCORDANCE WITH THE PROCEDURES PROVIDED BELOW IN SUBSECTION (F); OR (2)] PAY THE BORROWER INTEREST ON THE FUNDS ACCUMULATED IN THE EXPENSE OR ESCROW ACCOUNT IN ACCORDANCE WITH THE PROCEDURE PROVIDED BELOW [IN SUBSECTION (G)].

(F) IF THE "DIRECT REDUCTION METHOD" IS ELECTED FOR USE BY THE LENDING INSTITUTION, THE FOLLOWING PROCEDURES MUST BE COMPLIED WITH:

(1) IF PAYMENTS ARE MADE BY THE BORROWER TO COVER FUTURE TAXES, INSURANCE PREMIUMS, OR OTHER EXPENSES TO PROTECT THE INTERESTS OF THE BORROWER, THE LENDING INSTITUTION SHALL REDUCE THE OUTSTANDING AMOUNT OF THE LOAN.

(2) IF PAYMENTS ARE MADE BY THE LENDING INSTITUTION TO COVER FUTURE TAXES, INSURANCE PREMIUMS, OR OTHER EXPENSES TO PROTECT THE INTERESTS OF THE BORROWER, THE LENDING INSTITUTION SHALL ADD THE COST OF THESE PAYMENTS TO THE OUTSTANDING AMOUNT OF THE LOAN.

(G) IF THE LENDING INSTITUTION ELECTS TO PAY INTEREST ON THE EXPENSE OR ESCROW ACCOUNT, THE FOLLOWING PROCEDURES MUST BE COMPLIED WITH:]] .

(1) THE LENDING INSTITUTION SHALL PAY INTEREST TO THE BORROWER AT THE RATE REGULARLY PAID BY THE LENDING INSTITUTION ON REGULAR PASS BOOK SAVINGS ACCOUNTS, BUT IN NO CASE SHALL THIS RATE OF INTEREST BE LESS THAN 3%.

(2) THE INTEREST SHALL BE COMPUTED ON THE AVERAGE MONTHLY BALANCE ACCRUED IN THE EXPENSE OR ESCROW ACCOUNT.

(3) THE INTEREST SHALL BE PAID ANNUALLY TO THE BORROWER BY CREDITING THE EXPENSE OR ESCROW ACCOUNT WITH THE AMOUNT OF INTEREST DUE.

(4) THE PROVISIONS OF SECTION 13(B) SHALL NOT APPLY TO LENDING INSTITUTIONS USING THE DIRECT REDUCTION METHOD TO COVER FUTURE TAXES, INSURANCE OR OTHER EXPENSES. IN USING THIS METHOD THE PRINCIPAL SHALL BE CREDITED FOR THESE PAYMENTS.

(H) A LENDER MAY NOT REFUSE LOANS TO ANY PERSON SOLELY ON THE BASIS OF THE GEOGRAPHIC AREA OR NEIGHBORHOOD OR RACE, CREED, COLOR, AGE, SEX, MARITAL