

Homeownership

Background

The recent instability of the housing market has had a big impact on our nation's and state's economy. This is in large part due to the loose lending standards that proliferated in the mortgage industry during the past five years, particularly subprime lending. Subprime lending relies on risk-based pricing to serve borrowers who cannot obtain credit in the prime market, where higher degrees of risk for borrowers carry higher costs for loans. Many subprime and prime mortgages were adjustable rate mortgages (ARMs), loans in which interest rates are reset on a regular schedule based on a national economic index and the lender's margin, and most of these loans have or soon will be adjusting upwards, placing stress on many borrowers.

The prevalence of subprime loans and ARMs has resulted in an increase in foreclosures and a decrease of home values in many parts of the country, including parts of our state. The 3rd quarter 2007 Mortgage Bankers Association National Delinquency Survey, however, showed Washington near the bottom in total past due loans of all types in the category of seriously delinquent loans (i.e. loans over 90 days past due or pending foreclosure).

Although Washington found itself in an enviable position relative to the present nationwide problem of foreclosures and falling home values, in September 2007 Gov. Gregoire formed a Task Force on Homeownership to evaluate the instability in the national subprime mortgage market and make recommendations to minimize the impact of this trend in Washington. The task force comprised 17 individuals from the financial industry, construction and real estate industries, non-profit organizations, consumer groups and government. They submitted their report and recommendations to the Governor in December 2007.

Recent Legislation

In the 2008 Session, five bills were passed and signed into law related to mortgages, mortgage brokers, and consumer education about homeownership:

- ❖ **HB 2770** was based on the recommendations of the Task Force for Homeownership task force and unanimously passed the House and Senate. This bill requires additional disclosure to mortgage borrowers, prohibits prepayment penalties that extend beyond 60 days prior to the initial reset of an adjustable rate mortgage in residential loans, prohibits negative amortization for a borrower in residential loans, prohibits the steering of consumers into higher cost loans, and establishes penalties for certain crimes related to mortgage fraud.
- ❖ **SB 6272** provides \$1.5 million for homeownership pre- and post-purchase, education, counseling and support, requires the Department of Financial Institutions to implement a financial literacy and education program, and creates an interagency work group to identify current state funded efforts to support financial literacy. House Republicans thought this money would have been better spent on appropriately funding the Financial Literacy Public-Private Partnership than on creating government bureaucracies to provide financial education. Many of the services the government is trying to provide with the \$1.5 million dollars are already available in the community. (*See below for information on education and counseling available*).

- ❖ **SB 6391** establishes a fiduciary duty for mortgage brokers and defines such duties. The bill as passed was agreed to by all parties, including mortgage brokers.
- ❖ **SB 6471** requires mortgage lenders currently exempt from licensing to be licensed under the Consumer Loan Act. This bill passed the House and Senate unanimously and was signed into law.
- ❖ **SB 6711** creates the Smart Homeownership Choices program to provide “loans” to homeowners delinquent on their mortgage payments to bring their payments current so they can refinance into a different loan product. These homeowners would then repay the loan at the time of refinancing and be required to participate in a mortgage counseling program. House Republicans viewed this as yet another way to get already vulnerable consumers into more debt.

Homeownership Counseling for Constituents

As required by 2008 SB 6272, the Washington Homeownership Information Hotline and Counseling Program provides free homeownership counseling to Washington residents thinking of buying a home and current homeowners who are having trouble with their mortgage. The program includes a toll-free hotline, 1.877.894.HOME (4663), and informational Web site, www.homeownership.wa.gov.