HOUSE BILL REPORT

ESHB 1717

As Passed House
March 15, 1991

Title: An act relating to mortgage insurance.

Brief Description: Requiring disclosure of the right to cancel mortgage insurance.

Sponsor(s): By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Mielke, Day, Tate, Dellwo, Moyer, Belcher, Wood, Padden, Zellinsky, Bowman, Paris, Morton, Anderson, Holland, Broback, Ferguson, Ballard, P. Johnson, Brumsickle, Betrozoff, Chandler, Fuhrman, Nealey, Casada, D. Sommers, Forner, Horn, Wineberry, Scott, Wang, Van Luven, Winsley, Wynne, Brough, Miller, May and Mitchell).

Brief History:
Reported by House Committee on:
Financial Institutions & Insurance, March 5, 1991, DPS;
House Second Reading, March 13, 1991;
Passed House, March 15, 1991, 97-1.

HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: *That Substitute House Bill No. 1717 be substituted therefor, and the substitute bill do pass.* Signed by 11 members: Representatives Dellwo, Chair; Broback, Ranking Minority Member; Mielke, Assistant Ranking Minority Member; Anderson; Dorn; Inslee; R. Johnson; R. Meyers; Paris; Schmidt; and Scott.

Minority Report: *Do not pass.* Signed by 2 members: Representatives Zellinsky, Vice Chair and Winsley.

Staff: John Conniff (786-7119).

Background: When a borrower seeks a home mortgage loan, the lender requires the borrower to meet certain financial standards. Among these standards is the requirement that the borrower be able to make a down payment for a certain percentage of the purchase price of the home. This percentage can vary from 0 to 20 percent depending upon the type of mortgage loan being granted, e.g. Veterans' Administration, Federal Housing Authority, or conventional loan. Until the borrower's equity in the home reaches a certain percentage, e.g. 20-25 percent, the borrower may be required to pay for mortgage insurance that protects the lender from borrower default. Some loan programs permit the borrower to cancel the mortgage insurance when the borrower's equity reaches the required level. Other loan programs require mortgage insurance for the full loan term.

Obtaining a home mortgage loan involves many complex documents and contracts. Often the borrower's first opportunity to read these documents comes at the time of loan closing when the borrower must sign the contracts.

Summary of Bill: If mortgage insurance is required for a residential mortgage loan, the lender must notify the borrower in writing: that the borrower should contact the loan servicing agent for conditions and procedures for cancellation of mortgage insurance; and of the most common equity requirement needed to become eligible for cancellation of such coverage.

Home mortgage lenders must advise borrowers at the time of a loan application that the borrower has a right to request and obtain copies of closing documents at least 24 hours before loan closing.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: None.

Testimony Against: (Original bill) Most mortgage lenders sell mortgage loans to other public and private corporations who have varying standards with respect to required mortgage guaranty insurance. When a loan is made, the lender may not immediately know who will be purchasing the loan. Requiring lenders to advise borrowers of mortgage insurance cancellation procedures would impose burdensome new requirements on an already complicated loan transaction. At a minimum, the legislation should be clarified.

Witnesses: Don Brazier, Washington Savings League; Larry Shannon, Washington Mortgage Bankers Assn. (Con); Dean Morgan, Escrow Association (Con) and Trevor Sandison, Bankers Association.