

**SENATE BILL REPORT**

**SB 6389**

**AS OF FEBRUARY 5, 1992**

**Brief Description:** Regulating real estate loan servicing.

**SPONSORS:** Senators Moore and Rasmussen

**SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE**

**Staff:** Tom Fender (786-7414)

**Hearing Dates:** February 6, 1992

**BACKGROUND:**

The underlying security agreement which forms the basis for most residential loan contracts contains provisions requiring the homeowner to make regular monthly deposits in anticipation of tax and insurance payment. As the result of significant increases in both taxes and insurance, the amounts of money held in these so-called "reserve accounts" is significant.

Some lenders voluntarily pay interest on these amounts. Other states require the payment of interest pursuant to state law. Washington is not one of those states.

The imposition of this requirement constitutionally can only be prospective in effect unless the underlying security interest is silent on the matter. Penalties for nonperformance, however, can be imposed by the state pursuant to the state's police power and its ability to regulate consumer affairs.

**SUMMARY:**

Interest is required to be paid on residential loan reserve accounts which are executed after the effective date of this act and on those existing loans which are silent. Penalties for noncompliance are established.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** none requested