

SENATE BILL REPORT

SB 6124

AS REPORTED BY COMMITTEE ON LABOR & COMMERCE, FEBRUARY 4, 1994

Brief Description: Protecting homeowners' equity.

SPONSORS: Senators Prentice, Newhouse, Fraser, Haugen, Winsley, Franklin and Oke

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: That Substitute Senate Bill No. 6124 be substituted therefor, and the substitute bill do pass.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Amondson, Fraser, McAuliffe, Newhouse, Prince, Sutherland, Vognild and Wojahn.

Staff: Dave Cheal (786-7576)

Hearing Dates: January 26, 1994; February 4, 1994

BACKGROUND:

Some roofing and siding contractors solicit business among elderly and low-income homeowners, door to door. In addition to their repair and remodel service, they often assure homeowners that they can arrange financing. At the request of the contractor, work is sometimes begun before the financing is arranged and truth-in-lending disclosures are made. Arrangements for financing are then made with very high interest rate lenders, which makes the contract unaffordable, and leads to foreclosure.

If work has commenced before the homeowner realizes the full cost, the contractor may already have lien rights for the work which forces the homeowner to go ahead with the contract and high interest rate loan regardless of the cost.

SUMMARY:

Roofing and siding contracts must be in legible written form and a copy provided to the homeowner at the time of signing. Work must be itemized and grade or quality of materials designated. Subcontracting arrangements must be disclosed.

Roofing and siding contracts must require the homeowner to disclose whether he or she intends to obtain a loan for part or all of the payment due under the contract. If the customer indicates an intent to obtain a loan, the customer has a right to rescind the contract within three business days of receiving truth-in-lending disclosures, or three days of receiving notification that the loan application was denied, whichever is later.

If a customer indicates an intent to obtain a loan to pay for the work, the roofing or siding contractor shall not begin work until after the homeowner's rescission rights have expired. If work is commenced prior to this time, the contractor is prohibited from enforcing the terms of the contract under any security interest or statutory lien created by the transaction. The same provisions apply to assignees of any roofing or siding contract.

Violations are made a violation of the Consumer Protection Act. Violators are liable to the homeowner for actual damages. Roofing and siding contracts, contractors, and roofing or siding salespersons are defined.

Mortgage broker fees are limited. A fee may not be charged in excess of 1 percent of the loan amount for a consumer credit loan secured by the principal residence of the borrower where the interest rate exceeds the statutory usury rate. This limitation does not apply to purchase money mortgage loans.

EFFECT OF PROPOSED SUBSTITUTE:

Roofing and siding contracts are defined to exclude: (1) contracts where the roofing and siding component is less than 20 percent of the total contract; (2) contracts for new construction or additions; and (3) repair following a natural disaster.

The square foot or unit price no longer must be disclosed.

The specific subcontractor need not be identified in the contract, only whether any of the work will be subcontracted.

The mortgage broker fee provision is redrafted to exclude mortgage bankers.

Appropriation: none

Revenue: none

Fiscal Note: requested

TESTIMONY FOR:

Elderly, low-income homeowners are often drawn into contracts they can't possibly afford, which leads to foreclosure and loss of their homes. This happens because they are not made aware of the high interest rates and fees on the loans that the contractors arrange until after the work has begun. By then, the contractor has lien rights and the homeowner has no choice but to go ahead with the loan.

TESTIMONY AGAINST:

The bill is too broad and will adversely affect the activities of legitimate contractors.

The mortgage fee cap will make it impossible for some people to get home improvement loans. The mortgage brokers licensing and fair practices laws will take care of these problems and should be allowed to work. The real problem is the high interest rates and fees charged by lenders, not mortgage brokers.

TESTIFIED: Evan Iverson, Senior Lobby (pro); Barbara Isenhour, Evergreen Legal Services (pro); Jim Fitzgerald, Emerald Financial Services/WA Mortgage Brokers Commission (con); Larry Shannon, WA Mortgage Lenders Association; Patricia Lou Clark-Scott(pro); Dick Box, BIAW/OMB; Brian Minnich, BIAW; Diane Pospisil, BIAW/MBA of Snohomish & King Counties; Scott Nelson, Mortgage Brokers Association