

HOUSE BILL REPORT

HB 2829

As Reported by House Committee On:

Insurance, Financial Services & Consumer Protection

Title: An act relating to expanding financial literacy through education and counseling to promote greater homeownership security.

Brief Description: Expanding financial literacy through education and counseling to promote greater homeownership security.

Sponsors: Representatives Kelley, Williams, Eddy, Rolfes, Lantz, Lias, Linville, Upthegrove, Green, Anderson, Nelson, Morrell, Fromhold, Kenney, Darneille, McIntire, Kirby, Haigh, Simpson, Hasegawa, O'Brien and Ormsby; by request of Governor Gregoire.

Brief History:

Committee Activity:

Insurance, Financial Services & Consumer Protection: 1/22/08, 1/30/08 [DPS].

Brief Summary of Substitute Bill

- Creates the Homeownership Security Account (Account) for the purposes of preventing predatory lending and providing homeownership education, information, and counseling.
- Allows for contributions from private or nonprofit organizations.
- Requires that over 50 percent of the funds are used to assist persons at or below 80 percent of county median income.

HOUSE COMMITTEE ON INSURANCE, FINANCIAL SERVICES & CONSUMER PROTECTION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Kirby, Chair; Kelley, Vice Chair; Roach, Ranking Minority Member; Hurst, Loomis, Santos, Simpson and Smith.

Staff: Jon Hedegard (786-7127).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background:

The Department of Financial Institutions (DFI) regulates state-chartered financial institutions, state licensed consumer loan companies, and mortgage brokers. The DFI also provides education and outreach to protect consumers from financial fraud.

In September 2007 Governor Gregoire established the Task Force for Homeowner Security (Task Force) to evaluate instability in the mortgage market and minimize the impact in Washington. The Task Force met six times between September and mid-December. The Task Force issued a report on December 21, 2007. The report included approximately 24 recommendations, including recommendations for:

- homeowner counseling prior to purchase;
- homeowner counseling prior to foreclosure;
- consumer education and outreach; and
- financial literacy.

Summary of Substitute Bill:

The Homeownership Security Account (Account) is created for the purposes of preventing predatory lending and providing homeownership education, information, and counseling. Only the Director of the DFI or the director's designee may authorize expenditures from the Account. Contributions from private or nonprofit organizations may be deposited in the Account. Over 50 percent of the funds in the Account must be used to assist persons at or below 80 percent of county median income. Private contributors to the Account may request that the DFI provide an accounting of their annual contributions to the Account.

The Director of the DFI may provide funds for the establishment, administration, and implementation of financial literacy and/or consumer education programs that assist citizens of all ages in understanding saving, investing, and budgeting, and other skills necessary to obtain individual financial independence, fiscal responsibility, and financial management skills.

The DFI may use grants, contracts, or interagency agreements with governments and nongovernmental organizations to deliver the financial literacy or consumer education programs. The DFI may coordinate with ongoing efforts by other public and private sector agencies.

Substitute Bill Compared to Original Bill:

The Account is created for the purposes of preventing predatory lending and providing homeownership education, information, and counseling. Contributions from private or nonprofit organizations are allowed. Over 50 percent of the funds must be used to assist persons at or below 80 percent of county median income. Modifications are made to the financial literacy and education programs that are allowed under the bill. The appropriation and the emergency clause are removed. The provisions requiring the Director of DFI to

disseminate information, provide certain assistance, convene an interagency workgroup, and report to the Legislature are removed.

Appropriation: The sum of \$700,000 is appropriated from the State General Fund to the Department of Financial Institutions for the fiscal year ending June 30, 2008. The sum of \$800,000 is appropriated from the State General Fund to the Department of Financial Institutions for the fiscal year ending June 30, 2009.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is the second part of the Governor's Task Force legislation. It has bipartisan support. Financial education and counseling are critical components to addressing the problems. Not just counseling for people before they buy, but there is also a need to help people who have problems with their loans. There is a tendency for people to stick their head in the sand when they have a problem with their lender. That is not the right approach. They will end up losing their home.

The DFI would use the funds to do things like utilize an advertising campaign to raise public awareness. Talking to their lender is the single most important thing for a person who is behind in their loan payments or believes that they will fall behind. A borrower's first reaction is often to avoid communicating with their lender at that time. The DFI wants to help people get the information that they need. The DFI is unlikely to do direct counseling. Borrowers would be referred out to qualified counselors in the community. It is important to have dollars to pay those counselors. The Housing Finance Commission (HFC) has done a great job working with counselors. The DFI would work with the HFC on these issues. The HFC does not want to accept money directly from the Legislature for this issue because of a potential interaction with unrelated bonding concerns. The HFC can receive the money via DFI and provide services that are authorized in the bill.

(Opposed) None.

Persons Testifying: Representative Kelley, prime sponsor; Deb Bortner, Department of Financial Institutions; and Kim Herman, Washington State Housing Finance Commission.

Persons Signed In To Testify But Not Testifying: None.