

SENATE BILL REPORT

SB 6272

As Passed Senate, January 18, 2008

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: Senators Berkey, Hobbs, Fairley, Keiser, Kilmer, McDermott, Kauffman, Kohl-Welles, Murray, Shin, Regala, Kline, Spanel, Rasmussen and Franklin; by request of Governor Gregoire.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/15/08 [DP-WM].

Ways & Means: 1/16/08, 1/17/08 [DP].

Passed Senate: 1/18/08, 48-0.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Benton, Ranking Minority Member; Franklin, Parlette, Prentice and Schoesler.

Staff: Diane Smith (786-7410)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Maria Hovde (786-7710)

Background: The Governor created a task force to evaluate instability in the national subprime mortgage market and to make recommendations to minimize the impact of this national trend in Washington. One charge of the task force was to provide recommendations for consumer education to those in foreclosure or at risk of foreclosure, and to potential new home buyers.

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.

On December 14, 2007, the final report of the Washington Task Force for Homeowner Security made 24 recommendations in eight subject categories.

Those recommendations concerning financial literacy and education include provisions for consumer education, outreach, and counseling programs.

Summary of Bill: The Department of Financial Institutions (DFI) is directed to disseminate information to the public about the laws regulating financial institutions and to assist the public in obtaining information about financial products.

The DFI is authorized to establish and implement at least two programs. One program includes education and outreach that promote financial literacy. This program is designed to foster financial independence, fiscal responsibility, and financial management skills in Washington's citizens. The other program includes counseling, marketing, and outreach about financial products or practices in the marketplace that relate to homeownership.

The DFI is required to convene an interagency work group on the status of state-funded financial literacy efforts; to assess whether there are opportunities to create a centralized location for information about these efforts; and to explore expansion of partnerships with community entities providing financial literacy services. A report to the Legislature and the Governor on the findings and recommendations of the work group is required by December 1, 2008.

Appropriation: \$1,500,000.

Fiscal Note: Available.

Committee/Commission/Task Force Created: Yes.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony (Financial Institutions & Insurance): PRO: The members of the task force were a diverse group who engaged in spirited debate through the process of arriving by consensus at the recommendations in the final report. The task force members were carefully chosen by the Governor to represent all facets of the homeownership debate as focused on the subprime mortgage market. While Washington is not at the absolute level of foreclosure experienced by other states, our foreclosures are rising at a comparable rate. As of September 30, 2007, 6,229 of the 70,186 subprime adjustable rate (ARM) loans in Washington were over 90 days past due or in foreclosure.

Both immediate and long-term actions are recommended to address current market conditions, including the increase in residential foreclosures that is beginning to occur. Long-term actions are recommended to establish systems, standards, and processes to minimize the scope and impact of any similar future mortgage market disruptions.

There is no one definitive source for national mortgage data, though the DFI tends to rely most on the data from the Mortgage Bankers' Association. By mid-summer this year we should see the peak of the ARM subprime mortgages reset to higher interest rates.

Counseling and financial literacy are vital. While much is being done piecemeal, the issue is a delivery system so that individuals in trouble, or planning a home purchase, can reach

resources available to them. Funds for counseling are drastically reduced at the federal level. Mortgage rescue "scams" are well funded and well implemented, however. These are often the only outreach received by troubled mortgage holders and the elderly. Those who are notified of pending foreclosure often are embarrassed by their situation and do not approach those who could otherwise be of help, especially the lender itself.

Washington's economy is strong. Home prices seem to be holding fairly well at this time. Fewer subprime ARMs were issued here than elsewhere. Nevertheless, the Governor does not want to proceed with complacency. The opportunity to learn from the experiences elsewhere should be maximized. Two bills are coming to this committee. This one is targeted to counseling, education and financial literacy. The expectation is that this bill will move quickly. The larger, omnibus bill incorporates the rest of the task force's recommendations and is expected to generate more debate.

As a stand-alone appropriations bill, this bill funds an immediate issue. The Governor wants people to be able to buy homes, but to do so wisely, making choices that are in their best interest. Early implementation is important due to the 2008 ARM resets.

Persons Testifying (Financial Institutions & Insurance): PRO: Carol Nelson, Cascade Bank, Chair, Homeownership Task Force; Scott Jarvis, Director, DFI; James Kelley, Seattle Urban League; Fred Corbit, Task Force; Arturo Gonzalez, El Centro de la Raza Homeownership Center; Linda Taylor, Urban League; Adam Stein, Washington Association of Mortgage Brokers; Kim Herman, Housing Finance Commission; Kari Burrell, Governor's Office; Bob Mitchell, Washington Realtors; Christine Robison, Eagle Home Mortgage; Jeffery Caden, Washington Homeownership Resource Center.

Staff Summary of Public Testimony (Ways & Means): PRO: This bill is a result of the Governor's Task Force on Homeowner Security which looked at the subprime lending and mortgage foreclosure crisis that is hitting America. Washington State has not experienced the same impact as the rest of the country, but there are loans that are about to reset to higher interest rates and many cannot afford their payments. Additionally, public awareness is very low in regards to the subprime lending products. This bill will help increase this awareness by providing assistance for pre- and post-purchase counseling resources.

Persons Testifying (Ways & Means): PRO: Scott Jarvis, DFI.