

SHB 2770 Rulemaking - "Disclosure Summary" Comments

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Comments:

I represent TwinStar Credit Union. I testified at the July 2 hearing in Renton and am following up on my comments at that time. Thank you for soliciting and listening to our comments and suggestions.

The bill states (section 10) that a "Residential mortgage loan" means an extension of credit secured by residential real property located in this state upon which is constructed or intended to be constructed, a single-family dwelling or multiple-family dwelling of four or less units."

I urge the Department of Financial Institutions to interpret this as a mortgage loan used to purchase a residence or refinance an existing mortgage loan. Extending the interpretation to a closed end home equity loan (many years ago referred to as a "second mortgage") appears to be unnecessary. The intent of a home equity loan is to borrow against existing equity in order to improve the property or use for personal reasons. Credit Unions and other lenders are already scrutinized to verify the type of first mortgage on the property.

When I read the required elements to be on the disclosure, 95% of those do not apply to any closed end (fixed amount; rate; term; and payment) home equity loan that TwinStar makes and I suspect, many other lenders make. I really do not think this new disclosure is applicable to home equity loans which also require: early disclosure; and a 3-day rescission period after signing/closing during which a consumer can cancel the loan without any obligation or cost.

Another example of how this disclosure can cause issues for a home equity loan is the reference to "reduced documentation." Home equity loans typically do not require the same level of documentation, especially when the loan value is 80% or less, as a purchase residential mortgage loan. TwinStar does not verify income for every consumer or home equity loan request. Many of our borrowers are existing members who have borrowed from the credit union before. We verify income based on employment stability; debt structure; and other factors. Not verifying income for a member who has been employed at the same company for several years is not "reduced documentation." It is the way we do business as a credit union. So applying this term to a consumer type of loan, closed end home equity, is confusing and misleading.

I also urge the department to remove any signature line. The disclosure is intended to be part of an application and should be an estimate similar to the HUD statement.

I also agree that the disclosure should only be given again if any material terms change that are adverse to the borrower. A change in requested dollar amount is not adverse to the borrower in my opinion.

I also agree that a default rate applied if a loan enters a default situation, as defined in the deed of trust and sometimes in the closing note, should not be defined as the highest rate that could apply.

I also agree that "less is more" and recommend any judgmental type of text be removed from the disclosure. Stating whether or not a specific required element applies to the loan or not is sufficient; any any percent or dollar amount that applies.

Thank you. I look forward to working with the Department as we implement this new disclosure requirement.