

Homeowner Security Task Force Meeting  
Washington Housing Finance Commission Boardroom  
1000 Second Avenue, Suite 2700, Seattle  
October 26, 2007, 10:00 a.m.–2:00 p.m.  
Meeting Notes

Members of the task force present:

- Kim Herman
- Michaela Albon
- Tricia McKay
- Aiko Schaefer
- Don Riley
- Allison Butcher, sub for David Main
- Scott Jarvis
- Carol Nelson
- Fred Corbit
- Aaron Bresko, sub for Gary Oakland
- Linda Taylor, sub for James Kelly
- Adam Stein
- Dwayne Aberle

Other staff present:

- Deb Bortner and Susan Putzier, DFI

**Welcome and Review of Minutes**

The review of the minutes was postponed.

**Data Update/Discussion**

DFI provided several delinquency comparison charts with information taken from the most recent Mortgage Bankers Association survey. The data was broken down for the 10 western states, the 10 worst states for all loans, and the 10 worst states for subprime ARMs. DFI is seeking more information. One source contacted would charge \$70,000 to provide information on sub-prime loans for Washington broken down by census tracks or zip code.

DFI noted an article in The Wall Street Journal on October 11, 2007 titled “The United States of Subprime.” DFI has requested permission to use the information and tables for the Task Force report. The article also contained interactive charts and numerous tables, including tables for Tacoma and other Washington cities sorted by number of high rate loans and high rate loans as a percent of total volume. High rate loans are defined as three percentage points over U.S. Treasuries of comparable duration. Tacoma/Pierce County has the most exposure; then Yakima. There are also maps of metropolitan areas that contain statistical information on loans.

HMDA data goes down to metropolitan statistical areas, not zip code. The metropolitan areas information could be used for consumer education and outreach. Regulators don't get loan portfolio information broken down by markets from banks; and banks do not maintain that data, either. The HMDA data would be a best source for information.

### **Best Practices (for Lenders)**

For discussion purposes, Scott Jarvis provided draft best practices for lenders which were taken from the Homeownership Preservation Summit Statement of Principles.

Often, there are significant complications and challenges when a loan goes into default. Among these challenges are: servicers don't have authority to make loan modifications or don't know who to contact (the loan is securitized or is held by a trust); some loans are held by pools—the lender enters into a servicing and pooling agreement; if it is an 80/20 loan (100% financing by two lenders), that complicates things; sometimes a 2<sup>nd</sup> lien holder won't subordinate. You have to look at the ability to repay; the borrower may be in too deep. Each borrower needs to be worked with on case-by-case basis. There are a lot of other factors involved (ARMs). Also, waiving pre-payment penalties is not automatic; it depends on the loan.

The long-term modifications in the Best Practices should include “subject to contract limitations.” The purpose of the best practices document is to raise the issue; it is up to lenders whether to use it or not. Keep all the information in it; present all possibilities.

There are a number of things in the draft best practices that organizations aren't going to be able to agree to. It would be helpful for non-profits to know what's out there. Every bank and institution is different and has different programs. More lender input is needed on the best practices—what are they willing to do? DFI could work with the trade groups. The best practices are for lenders. It should be expanded to cover origination activities by brokers.

Many servicers and lenders are doing outreach, but they are reaching less than 50% of the borrowers. Borrowers don't want to talk to lenders when they're in trouble. That is why lender partnerships with non-profits are important to work with and counsel the borrower. Also, is the communication between lenders and borrowers helpful or intimidating? Lenders and non-profits should work on parallel tracks to help borrowers.

It was suggested that lenders send information on loss mitigation and contact information to all borrowers, including ones not in trouble. Customers should be contacted before the reset period.

Washington law requires a notice of default be sent out 120 days before foreclosure. At that point options need to be provided to the borrower. We need to get to borrowers at the very beginning of default. A “fair” notice could be sent out before the “formal” notice of default of who to contact for assistance (non-profits, etc.). Borrowers should be provided all the information they need so they can avoid foreclosure scams.

It was suggested that DFI or non-profits draft a pamphlet to include with default notices that provides options for borrowers and organizations to contact. Seeking revenue to provide counseling and for partnerships should be considered.

It was decided to expand the discussion we should do sub-committee work between meetings. There will be three sub-committees: best practices for origination; best practices for servicers and lenders; and education and counseling/outreach.

The WaMu document for mortgage brokers is required when doing business with WaMu. It is a disclosure for the borrower of fees and loan terms. They receive it with the application package. The loan is not processed without it. It is required prior to going to docs; it has to be done before closing. When a broker is involved, the lender can't communicate with the borrower. The Fed may include it in a new HOEPA document. Other lenders are looking at using the document. They are getting pressure from the OCC and OTS.

Does the borrower understand the adjustment cap under ARM? It was recommended that the broker disclosure form include what the payment for an ARM is and what it can raise to.

HUD's definition of Yield Spread Premium (YSP) is payment for goods and services performed. The average borrower doesn't understand YSP; it confuses them and they make bad choices. The public needs to know what YSP is and understand what they're doing. It is a good idea to disclose it. There was some disagreement with the first sentence under #2 on the WaMu broker form about YSP. Should it be rewritten?

We need to get resources to non-profit counseling organizations; they are overwhelmed with the need. The Housing Finance Commission does grants with HUD for public, private, and non-profit counseling agencies for pre-purchase and post-purchase counseling. The Washington Homeownership Center does referrals across the state for counseling. It is a great network for counseling. HFC channels money to them. We could expand and build on those services. There are opportunities to fund counseling; HUD provides no consistent level of funding. Counseling was provided for 5,000+ people last year. We need a stream of funding to keep the non-profits going; we are limited by funding. There is more need than capacity can handle. A possible recommendation would be for the legislature to provide a B&O tax credit to organizations that make a donation to a fund for homeowner counseling. B&O tax credit legislation for funding could be drafted.

One idea is to have a panel of counseling agencies during the legislative session to discuss what they do and funding.

The Washington Homeownership Center is a statewide agency that has an 800 number; that number could be used for contacts and referrals. They keep a database of almost all counseling agencies and organizations that provide counseling.

It would be helpful for the counseling agencies to collect anecdotal information of the root causes of the borrower's problem. Find out what the borrower is experiencing and their circumstance; what types of loans are involved; what the trigger was for the problem.

## **Task Force Report Structure**

The report will most likely include:

- The Task Force's charge (goal/mission)
- Background in Washington
- Sub-committees
- What we can recommend; not recommend
- What can't be done
- Legislative drafts, if any

## **Next Meeting**

The next meeting is November 9 at the HFC office, from 10 a.m. to 2 p.m. The topic is consumer education. The sub-committee for that area can provide discussion material.

November 16 – Holding date for meeting if needed.

November 30 – Potential reforms needed.

December 14 – Final meeting.

## **Public Comment**

None.

## **To Do's:**

- Schedule conference calls for sub-committees.

## **Housekeeping Items:**

Washington Mutual can provide a meeting room for the last three meetings; they will provide lunch.

Meeting adjourned at 1:00 p.m.