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The most recent figures available from the Mortgage Bankers’ Association currently place Washington State 49th in the number of home foreclosures. Although that’s good news for our state as a whole, it’s no consolation to the thousands of Washington homeowners who are facing foreclosure right now—or who have already lost their home in the foreclosure process.

In this issue, I’ll review the work of the Governor’s Task Force on Homeowner Security and present the perspectives of two of my fellow Task Force members who are legal and finance experts, Fred Corbit and Scott Jarvis. I’ve also interviewed four homeowner-ship counselors from across the state to hear what’s happening in their communities. You’ll hear their stories about real homeowners who have been caught up in our country’s unfolding financial crisis. And, as a result of action by the Governor and Legislature, you will learn about some very important new homeowner protections that are now the legal right of every Washington resident.

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The Task Force for Homeowner Security

Last fall, Governor Gregoire took bold measures to set in motion efforts to educate and protect current homeowners who are at risk of losing their homes. But her objectives reached much farther than that. In forming the Task Force for Homeowner Security, she also sought recommendations on measures, including legislative reforms in
lending practices, that would protect future homebuyers.

Task Force member Fred Corbit aptly called us a homeownership security "think tank." We were people representing the entire span of the lending, homebuying, and homeownership advocacy profession—bankers, homeownership counselors, mortgage brokers, Realtors, finance and legal experts, community leaders, and government officials. We met as a group some six times, and also deliberated in subcommittees that focused on specific aspects of the consumer education, borrowing, lending, loan servicing, and loan origination processes.

Late last year, we presented the Governor with 24 recommendations. These included:

- Creating a public awareness and outreach campaign.
- Providing counseling assistance to borrowers at high risk of forfeiture as well as to first-time homebuyers.
- Implementing lender and loan servicer best practices that would ease pressures on borrowers at risk of foreclosures, including improved notice to consumers.
- Creating loan origination best practices, including disclosures—and prohibiting steering towards substandard mortgage products.
- Furthering financial literacy and consumer education.
- Setting standards for borrower protections for nontraditional mortgage products in sub-prime lending.
- Defining mortgage fraud as a crime—making it a Class B felony.

- Creating foreclosure "rescue" scam protections for homeowners.

These recommendations were turned into legislative proposals by both the Governor and members of the legislature that were considered during the 2008 legislative session.

**The legislature responds**

As a long-term participant in the legislative process in Olympia, I was gratified by how enthusiastically and speedily the legislature responded to virtually all of our recommendations. As of this writing, six bills dealing with the recommendations were passed by the legislature and signed by the Governor.

But as important as this legislation is, it is our future, not our present. Over the past decade, sub-prime lending has placed great hardship on many people, and their stories should be heard. Some of these are individuals for whom this new legislation is too late. Happily, many others at risk of foreclosure, often with the aid of homeownership counselors, have been able to renegotiate, get back on their feet, and save their homes.

**Foreclosures have many causes**

It’s always the one rotten egg in the dozen that we notice first. Yet most mortgage loans made in the U.S. are made by reputable lenders, and the majority of mortgage brokers do have borrowers’ best interests in mind. Our country’s mortgage turmoil is the result of a long string of finance and risk management practices that, in retrospect, were ill advised. As the recent demise of Bear Stearns shows, these practices have hurt parties at every stage of the borrowing and financing process, from large financial institutions to the homebuyers themselves.

Because parts of our state, including the greater Seattle and Tri-Cities areas, continue to enjoy relatively strong economies and stable housing markets, their rates of foreclosures due to the “resetting” of adjustable rate mortgages (ARMs) have yet to skyrocket. In fact, in most areas of the state, for a good portion of those homeowners in the process of losing their homes, inappropriate placement into a sub-prime or ARM loan is not necessarily the whole story. There are a spate of other, varying causes, including declines in property values, inaccurate appraisals, loss of income due to a layoff, family emergencies or illness, homebuyers’ poor understanding of debt vs. income ratios—and financial illiteracy in general.

Here at the Commission, we require participation in homeownership classes or counseling for those homebuyers who are borrowers from our portfolio. Homebuyers who participate in this kind of financial education process are far less likely to lose their homes to foreclosure than the general populace. Not only are their foreclosure numbers under 1%, but these are typically borrowers who are at the more vulnerable end of the income spectrum. We think this kind of education helps people make better choices about how much of a home loan they can truly afford, based on their personal situations.

And, of course, what kinds of loan instruments are right for them.
Foreclosures on homes in Washington State: What the current landscape looks like—and what’s being done to educate and safeguard homeowners

The most recent national numbers rank Washington State 49th in terms of homes in foreclosure. Over the past two decades, our state has lagged national delinquency numbers as well. This does not mean we are insulated from the credit crisis sweeping the U.S., but, points out Washington State Department of Financial Institutions Director Scott Jarvis, “we’re in much better shape to survive.”
Foreclosures on homes in Washington State: What the current landscape looks like—and what’s being done to educate and safeguard homeowners

A new Hot Line is created:
1-877-894-HOME (4663)

On February 11, Governor Gregoire signed into law Senate Bill 6272, Expanding Financial Literacy Through Education and Counseling to Promote Greater Homeownership Security. The bill earmarked $1.5 million to help educate Washingtonians about homeownership issues; much of it will be distributed by the Commission to qualified counseling agencies across the state. The Washington Homeownership Information Hotline and Counseling Program was launched on March 1. The program funds free homeownership counseling to Washington residents thinking of buying a home as well as current homeowners who are struggling with meeting their mortgage payments, or simply have questions about their loans. People in Washington can call the toll-free number above to access the program. There is also an informational website: www.homeownership.wa.gov.

The Washington State Department of Financial Institutions (DFI) is overseeing implementation of the program. Some of SB 6272’s funding will be applied to outreach efforts, including advertising, to urge people to call to get the information they need to help them make sound financial decisions.

The Tri-Cities: Make the call right away

In the case of foreclosure worries, the key is calling right away. The sooner a homeowner calls, the more time there is available to get to the bottom of what’s going on and get started on working out the best response. People in financial trouble are typically overwhelmed and, not infrequently, simply ignore the problem rather than tackling it head-on.

“It’s great when people come in and it’s not too late,” says Liza Beam. Liza is home ownership director at Consumer Credit Counseling Service of the Tri-Cities (CCCS). Right now, because the Tri-Cities are experiencing a strong economy, “we’re probably eight to nine months behind the rest of the state. But we do see that things are beginning to slow down.” Many people who secured sub-prime loans were told by their loan officer that they could re-finance their ARM after two years—after they improved their credit. “But if the value of their home goes down in that two years, they’re stuck in that ARM with the payment going up beyond what they can afford,” she points out. Since home values are stable in the Tri-Cities, people there are still frequently able to re-finance their ARMs to fixed-rate loans.

The bulk of the foreclosures that CCCS is counseling on have been due to bankruptcies. “We’re starting to see the signs that a financial crunch is heading our way, but it hasn’t really gotten bad yet,” Liza says.

Predatory loans are now illegal

Unfortunately, virtually no community is entirely free of the blight of unprincipled lenders. Here’s a story Liza told me:

A man walked into CCCS’s offices. Because his understanding of English was relatively poor, he’d had trouble understanding the terms of his mortgage. A broker had placed him into a predatory loan. If that weren’t bad enough, a different lender had just offered to ‘help him out’—by refinancing his mortgage into a loan that was even worse. “The fees were outrageous. We referred him to DFI to file a complaint,” Liza says. “We’ve seen a number of cases like this. Non-English speakers seem to be a large target for predatory loans. And they get taken advantage of.”

Fortunately, predatory loans are the exception to the rule. And, happily, under recently passed Senate Bill 6381 [see sidebar], it is now illegal for mortgage brokers to steer people into sub-standard loan agreements that clearly present a conflict of interest.

“It’s great when people come in and it’s not too late.”

—Liza Beam

Liza Beam, Home Ownership Director, Consumer Credit Counseling Service of the Tri-Cities

My View FROM KIM HERMAN, EXECUTIVE DIRECTOR APRIL 2008
Foreclosures on homes in Washington State: What the current landscape looks like—and what’s being done to educate and safeguard homeowners

The 2008 Washington State Legislature passed six new laws to protect, educate, and assist homebuyers

- **The Homeownership Security Act (SHB 2770).** This act includes most of the Task Force’s recommendations on homeownership security, responsible mortgage lending, and improved protections for those who hold residential mortgage loans. This includes the requirement to make full disclosures to homeowners, restricting prepayment penalties, prohibiting steering homebuyers into sub-standard loans, prohibiting negative amortization on sub-prime products, and protecting homeowners against mortgage fraud scams. It also requires mortgage brokers to act in good faith.

- **Expanding Financial Literacy Through Education and Counseling to Promote Greater Homeownership Security (SB 6272).** Provides free homeownership counseling to Washington residents; a financial literacy task force related to this bill will be established.

- **Establishing Fiduciary Duties for Mortgage Brokers (SB 6381).** Creates higher fiduciary standards for mortgage brokers, including the requirement of acting in the best interests of the borrower.

- **Protecting Consumers by Regulating Loans Under the Consumer Loan Act and Mortgage Broker Practices Act (SB 6471).** Expands the licensing requirements for lenders to consumers in Washington State.

- **The Real Estate Settlement Services Act (SSB 6847).** Prohibits real estate licensees, escrow agents, mortgage brokers, and others from giving, soliciting, or receiving kick-backs or inducements for referrals from title insurers; also requires title insurers to publish rates and fees to allow homebuyers to shop for the best value.

- **Creating the Smart Homeownership Choices Program (SSB 6711).** Creates the Smart Homeownership Choices program and makes available $250,000 for mortgage assistance loans to help prevent mortgage defaults.
Foreclosures on homes in Washington State: What the current landscape looks like—and what’s being done to educate and safeguard homeowners

“IT all comes back to the lack of education,” says Liza. “Often clients don’t realize that they may be able to get a better deal through a bank than through a broker. No one has ever told them that. We talk about that at our homebuyer classes, educating them about the yield spread premium—the client believes it’s not costing him anything, yet the bank is paying the broker a commission to put that client into a higher interest rate loan.”

Seattle: First-line defenses for homeowners

For Linda Taylor, housing director of Urban League of Metropolitan Seattle (ULMS), home ownership counseling, clear disclosures from lenders, and financial literacy are all first-line defenses for homeowners. It’s simply not enough to wait for those referrals of homeowners in crisis from HUD, banks, lenders, and community organizations. Linda and other representatives of ULMS are continually taking the message of financial literacy to schools and churches, “and just generally networking with other nonprofit organizations,” she says.

One of Linda’s strongest agendas, which she brought to the Task Force’s Consumer Education and Counseling Committee, is pushing for greater teaching of financial literacy in schools at all grade levels. At a recent Rotary Meeting in Renton, she notes, she spoke with a number of teachers who were implementing these concepts: One was a kindergarten teacher.

Financial literacy “truly is a work in progress in our community,” Linda says. “The Urban League does it now. We have financial literacy classes that we hold in churches. And of course we have childcare: We take that childcare and turn it into some type of financial literacy teaching. Whatever the topic was the week before, we give the parents cue cards to sit and talk over with their children at dinner, which is a big piece of it.”

In her organization’s homeowner counseling capacity, Linda is seeing an ever-increasing need for people to have a full understanding of the terms of their mortgage, their budgets, and how much debt they can realistically take on. Here’s one example:

A woman came into ULMS’s offices for help. She was defaulting on her mortgage. “I called her ‘Miss Neat’,” Linda recalls. “All of her paperwork was in order.” She had written up her budget, and she was $400 over. As Linda helped her go through her monthly payments, the woman discovered that, for many years, she had been unknowingly paying a monthly bill for one of her children. It was an automatic deduction for a student loan. “We called up her kid and gave him that bill. Her budget got in line and she’s now on track. We helped her to take a look at her budget,” Linda sums up. “She came in as a default, but it was a budget issue.”

ULMS serves not just residents of Seattle, but the greater King County area, as well as Snohomish, Pierce, Island, and Kitsap Counties—and even Spokane. Many individuals are contacting ULMS’s counseling program about ARMs that are resetting; the number of calls coming in for help have more than doubled. “I’m picking up calls off my Blackberry, I’m calling people over the weekends. People are panicking. We have five counselors, which is nowhere near enough,” Linda says.

She points out that, for some low-income Seattle residents, the City of Seattle’s Foreclosure Prevention Program, announced in January, is helping ease the pressure on homeowners at risk of foreclosures. The program is administered through ULMS and Solid Ground. Stabilization loans of up to $5,000 are coupled with counseling. Through the program, homeowners can use the loan to either avoid default by working through a repayment plan to stay in their home, or gain enough time to sell their homes on their own terms.

Right now, Linda explains, negotiating for short sales of homes is a growing trend. A short sale occurs when a home is sold and the lender agrees to accept less than the total amount due, and release the lien secured to the property. ULMS will be offering a class in “short sales” on May 6th; another class will...
be “Beware of Looser Loans.” These classes are geared toward real estate agents and each carries three hours of continuing education credit. You can contact ULMS at (206) 461-3792 for more information.

“We can often still sell homes in our area—it might take a little longer to sell but homeowners are not always selling on their own terms,” Linda says. “We want to assist individuals in empowering them to sell on their own terms, and that’s where, at times, that $5,000 might come in. The funding is there to help people.”

**Spokane: Some egregious practices—but also many upbeat outcomes**

Like Seattle and the Tri-Cities, Spokane’s housing market is enjoying a period of relative stability. “From about 2005 on, our market grew, with good appreciation,” says Ray Rieckers, who directs the Housing Opportunities Division at Spokane Neighborhood Action Programs (SNAP).

“It has continued to do so, particularly at the low end of the market, despite what’s happening nationally. Correspondingly, we have not seen those numbers of foreclosures here.” Spokane did experience a higher rate of foreclosures from about 2002-2005, when the housing market was fairly stagnant, he adds.

Ray has been an affordable housing advocate for three decades, and has seen more than his share of housing tragedies. He saw the writing on the wall about sub-prime mortgages years ago. SNAP commissioned a study in 2002 to examine the impact of sub-prime mortgages on foreclosures in the Spokane area. “It was a tedious process. We looked at foreclosures between 1993 and 2000 and found a huge growth in sub-prime lending. There seemed to be a correlation—of course there were a lot of variables at play—but the growth in sub-prime loans was almost exactly the same as the growth in foreclosures. We printed an initial summary of the report ... and no one in the industry paid attention to it.”

For Ray, some of the “real mortgage horror stories” are related to homebuyers’ stated incomes. “At SNAP, we were being approached regularly with debt-to-income ratios that made us very uncomfortable, by brokers or lenders wanting us to participate in second mortgages. We see things today, people coming in with an income of $2,000 a month and they have house payments of $1,500 a month. Those are the most egregious practices that we were seeing—banks willing to issue on that kind of situation.”

Most typically, the people who are coming in for counseling at SNAP today are homeowners who have lost their jobs and income and are seeking a forbearance from their lender. A forbearance is a deal cut with the bank that will help them catch up. “We’re pretty good at negotiating these,” says Ray. “We saw a little over 200 homeowners last year who averaged four months behind on their mortgage. 118 of them were able to save their homes.”

Ray emphasizes that homeownership counseling, particularly for those facing foreclosure, is much more than just punching in the numbers. “You can’t divorce the person from the problem,” he says. “A lot of our work is not just arranging forbearance agreements, it’s staying with the client and supporting them, helping to restore a loss of confidence.”

A Spokane-area woman was laid off from work. She’d been at that particular job for a while—“just barely making it,” Ray says. The woman was facing losing her home because she wasn’t making the payments. She was encouraged by her SNAP counselor to enlist the services of the local employment security agency and get some job training. In the end, she was able to secure a better job and hold onto her home.

Ray tells another story with an upbeat outcome. The local offices of Windermere Real Estate, through a program that distributes 2% of brokers’ fees to help the community, donated $10,000 to SNAP. The initial intent was to assist two families in meeting their mortgage payments. But these families were able to resume payment on their own, and the remaining funds were used to assist additional families in need. More than six families
The experience of losing one’s home to foreclosure can be a nightmare. Often homeowners are facing stark choices. This stress can be compounded by family illness, divorce, or death. Foreclosure notices are often written in dense, difficult legal language. Foreclosure scammers may be besieging homeowners’ doors. And trying to get loan servicers on the phone, and to be treated by them in a civil manner, is the stuff of legend.

There’s a very simple step in making the foreclosure process more straightforward and less stressful: Enlisting the help of a housing counselor. The counselor can help the client arrange a forbearance agreement. Or if the home can’t be saved, the counselor can help homeowners get perspective and exit with as much dignity, security—and, hopefully, equity—as possible.

Housing Counselors: Opening the doors of communication during the foreclosure process

Liza Beam: “We sit with the client and walk them through the legal language. Everyone in default wants to know what the foreclosure process is, what their options are. They don’t realize that the mortgage companies have departments dedicated to getting them help. They do have options. Collections agencies often tell people that they have no choice other than to get current with their payments. That’s not so. Usually when the loan is three months delinquent, it goes to a whole different department. And this department wants to help people.

“Homeowners don’t realize that just coming to us can open the doors of communication between them and their lender. They’re not as nice to the client as they are to the counselor. Mortgage companies will talk to us, and most of them try to work something out as long as it’s feasible. It costs mortgage companies so much more to foreclose on a house than to work out a repayment plan. It’s in everyone’s best interests.”

Ray Rieckers: “Frankly, without a housing counselor, the attitudes of servicing organizations are not all that positive. This changes substantially when we call in participation with one of our clients.

“The process is extremely time consuming. You’re often dealing with a servicing outfit in Indianapolis or somewhere in the Midwest. The supervisor could be in another state, the attorney elsewhere still. You call back; the waits are substantial. Basically, with the frontline servicers, their job is to get the client to pay—they don’t have the power to negotiate. So then you’ve got to get to the supervisor for approval. It takes at least two or three calls to servicing organizations to arrange a forbearance agreement.”

Marvelle Lahmeyer: “A lot of people sit here and cry because they don’t want to lose their home. But I ask them: ‘Wouldn’t you feel better if you could afford to buy groceries for your kids?’ Once you put it into perspective, most people say something like: ‘Okay. We got screwed. But we can live through this.’

“And the process often does work. Even if families are six months to a year behind, it still works—if they want to keep their house and they have equity in it. I’m glad I have a speakerphone. Some servicers put you on hold for an hour. They are overtaxed. A loan officer today told me he had 300 active files. They’re overworked, and they’re understaffed. We think we have a hard job. The mortgage companies are having a hard time too. But they’re very willing to work it out.”

Linda Taylor: “I think the financial institutions that are negotiating with the consumers are doing better. A lot of them are recognizing the need for housing counselors and have established dedicated lines for us. We’re seeing that more and more—they’re more available. But then they are also at capacity.

“Often, when people come in for counseling, they haven’t necessarily been served a notice, they’re just trying to figure out what kind of loan they already have. I often think of this process as a homebuyer class—but after the fact.”
Foreclosures on homes in Washington State: What the current landscape looks like—and what’s being done to educate and safeguard homeowners

A couple living in Tahuya, on the Hood Canal, were six months behind on their mortgage payment. They held an ARM, and the interest was going to adjust up to 11%. The lender didn’t refinance, but they did a loan modification—when you’re behind, the whole structure of the loan can’t be modified, but the finance portion can. The lender took the six months’ past due, which was almost $18,000, tacked it onto the end of the loan, and lowered the interest rate to 8% term fixed. “That was a great success story,” says Marvelle. “It only took about three weeks from start to finish. The loan company was great throughout the transaction.”

Sometimes, if clients aren’t too deep in the hole, Marvelle says, they’ve been able to draw on funding from the counties through the state’s Homeless Housing and Assistance Act (HB 2163). Up to $1,000 can be made available to help qualifying families get back on their feet and save their homes to prevent homelessness. This is a stopgap measure, however, that covers only one month’s worth of mortgage payments at best. “If you’re going to do a loan modification or forbearance agreement, the lender wants a downpayment. You have to come in with something—especially if you haven’t made a payment for six months. Sometimes that $1,000 can be a

of modest means were given enough funding to meet one or more back payments and save their homes.

**The Olympic Peninsula:** Depressed housing markets hinder re-fi’s

Marvelle Lahmeyer, who is lead housing counselor with Kitsap County Consolidated Housing Authority (KCCHA), has already been getting calls coming in on the Washington Homeownership Information Hotline. “The 800 number is helping people who just have a lot of questions, like ‘I’m not behind but my ARM interest is going to adjust.’ Or ‘I have an 80/20 loan and I’m really having trouble making ends meet.’ So the number is helping a lot of people who have questions before they get into foreclosure,” she says.

All told, Marvelle’s agency counseled some 50-60 people in default in all of 2007. “And we’re well above triple for that already—and we’re only into our second quarter.” KCCHA covers Kitsap, Mason, Jefferson, and Clallam Counties on the Olympic Peninsula, and housing counselors are working over the phone with callers from Tacoma and Seattle as well. The housing market on the Peninsula is depressed. Properties are sitting on the market for a long time. “A couple who lost their home to foreclosure called me the other day,” Marvelle says. “Their house was put up for auction, but no one even put in a bid.”

Marvelle is seeing a lot of people with ARMs that are set to adjust. Two-year ARMs began adjusting in the latter half of 2007, and “now the three-year ARMs are all coming up this year,” she says. “All of these loans were done in 2004 to 2006, so I don’t think we’re going to see our way completely out of it until 2010, since some are five-year ARMs.”

A big portion of the people she’s counseling are under 35, first-time homebuyers who got ARMs or 80/20 loans. “They weren’t able to pay from day one, and have hung in for a year, or a year and a half. They’re upside down on their equity. Most of them are doing what’s called a sale in lieu of foreclosure. And they’re the lucky ones, because they get to sell their homes—the lender doesn’t necessarily agree to take less, but I haven’t seen any of them sue the homeowner for the difference. The homeowners are basically walking away from the home and moving into a rental.”

One bright spot, says Marvelle, has been the FHA loans made available by the federal government. “The FHA loans are working, and people are able to refinance. These loans are at a very good interest rate right now. They will take care of people who are not in default—but you can’t be in default and refinance with an FHA loan.” Like all the experts I spoke with, she’s urging people to call before they’re in trouble. Currently the FHA is not looking at credit scores, so as long as homeowners don’t have lopsided debt ratios and are not in default, ARM holders can refinance to a conventional loan if their timing is right.

A lot of ARMs, explains Marvelle, carry significant prepayment penalties. Six months’ interest on a loan can be $12,000-15,000. “If you come to get refinancing 30 to 45 days before the ARM is going to adjust, that gives the lender enough time, and they’ll close the new loan on the day their prepayment penalty expires.”

The news from the Peninsula and KCCHA isn’t all bad. “I had a success just today,” Marvelle says:

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**My View**

My View of modest means were given enough funding to meet one or more back payments and save their homes.

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downpayment to get an agreement, to help a family keep their home.

“It is going to get better,” she concludes. “Two more years and I think we’ll be through this.”

Defending people in foreclosure against scams

As a Seattle-based attorney with Northwest Justice Project, Fred Corbit frequently represents homeowners of limited means who have been defrauded while facing foreclosure. Before taking on his current role last year, he was a partner for 20 years at the international law firm of Heller Ehrman, and chaired the WSBA Creditor/Debtor Section. Fred has seen just about every dirty trick in the scammers’ handbook. “If I could have just two minutes to speak with people in foreclosure,” he says, “I can help prevent them from making a lot of bad decisions.”

Unfortunately for many, those two minutes have come too late. By law, 90 days before a foreclosure, the executing trustee has to file public notice. Anyone can read these published notices, check out the homes in question, and cook up a plan to defraud vulnerable homeowners of their homes and savings. Frequently, a homeowner under this kind of foreclosure pressure doesn’t understand the process and “thinks they’re going to lose everything,” says Fred. Here’s the case of one of his clients:

A single mom with two young twin daughters moved in with her ill grandmother in West Seattle to take care of her. The grandmother eventually passed away, and the woman inherited her house, which was small and needed work, but was in a nice area on a quiet street in the Admiral neighborhood. The mom had a bad back from an injury at work, was not making a lot of money at the time, and got behind on the $50,000 mortgage on the home.

The house went into foreclosure, and the woman was too embarrassed to tell her family that she was in peril of losing her grandmother’s home. 90 days before the foreclosure, the notice was publicly filed. At the time, no house in the Admiral district was worth less than $200,000, and this home was going to go into foreclosure for less than $50,000.

Several young, well-dressed men began showing up at the homeowner’s door, asking her what she was going to do. They were polite men who came repeatedly, runners for a man who bought properties. They gave her a brochure that read, ‘We don’t want to buy your house—we want to make sure you can keep your lights on. We’ve got options for you, we’re affiliated with nonprofits, we’re here to help.’ She wanted to keep her home, and she wanted it to be true. “She was sold a bill of goods,” says Fred. They took title to the property, which allowed them to pay off the mortgage and keep the rest. She got an option to repurchase the property, along with a used Ford, a laptop computer, and the promise of being taught the business of currency trading from her home.

They were good salesmen. Maybe this was too good to believe, but they told her it could happen … and she believed them.

The silver lining to this story is that, although she lost her home, at least this young mother was able to secure the representation of an attorney of the caliber of Fred Corbit—and have her day in court. “This was fraud,” he says. “Representations were made that were false, including ‘We don’t want to buy your property,’ and ‘We’re affiliated with nonprofits.’” Through the legal process, Fred was able to get her the ability to live in the home a little longer, and get settlements—of about $90,000 along with unsatisfied judgments for the remainder of her equity in her former home.

Recently passed SHB 2770 “will make it easier to prove these cases in the future,” says Fred. “There are now provisions that would have allowed her to rescind the transaction right after it took place. More disclosures will have to be made. And there are more penalties.”

One of the many good things about SHB 2770 is that now, when residential property owners get their notice of default 120 days before a foreclosure sale (and 30 days before the public notice), clearer language about their rights and options will be required to be stated prominently at the beginning. This includes information about legal rights, the potential

Fred Corbit, Attorney, Northwest Justice Project
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to sell the property to preserve equity, warnings about scammers, and the possibility of free counseling and legal services for those who qualify.

Hopefully, we’ll see fewer mortgage rescue scams with the advent of this bill, but here are a few other scams Fred has seen—and advises people to be on the lookout for:

“We’ll preserve your home and you can buy it back later”: Scammers tout this service, even though, to Fred’s knowledge (and the Attorney General’s) this option has never actually been exercised. Scammers have been known to take title to the home and then refinance the property, loading it up with a greater amount of debt than it originally had.

“We’ll give you cash right now before foreclosure”: If homeowners don’t realize they have access to equity in the property, they’ll take $5,000 or $10,000 from the scammer for the title, thinking it’s better than nothing. The scammer keeps all the equity in the home.

“Let me cure your credit”: Sweet-talking scammers have been known to take advantage of desperate, defaulting homeowners—leading them to believe that if they cough up their last $1,000, the scammer will fix their credit for them.

Another valuable piece of advice from Fred: Sometimes when the homeowner has no equity in the home and no ability to make the payments, he or she can at least try to regroup. From the date of a notice of first default, a foreclosure sale can’t take place for at least 120 days. And after foreclosure, there’s a 20-day grace period to vacate the property. During that time, Fred says, “You don’t have to make mortgage payments or pay real estate taxes.” This can buy time to save up the first and last months’ rent for a place to move to. “Not everyone is going to save their house. There’s not equity for everybody. People should know what their options are.”

“If I could have just two minutes to speak with people in foreclosure, I can help prevent them from making a lot of bad decisions.” —Fred Corbit

Pressure on housing at every level—but in good shape to survive

The Task Force frequently drew on the wisdom and financial experience of Scott Jarvis, who heads the Washington State Department of Financial Institutions (DFI). Scott has been working in financial regulation in the state for more than 30 years, with the insurance department, as counsel with the state Treasurer, and in two tours at DFI. “I’ve been around for a while, and I’ve seen a lot of business cycles,” Scott says. “The nature of our business economy is that we have excesses that we wring out of the system. But this time, the excesses seem rather extraordinary. There’s no instant solution, but the pressure on housing at every level is extraordinary.”

Scott happens to be extraordinarily articulate, so in conclusion, rather than paraphrasing him, I’m going to share a few of his on-target observations:

The global economy. The world has money to lend. It’s not a question of whether or not the money is out there. The question is whether the investors who lend the money trust the systems we have in place to give them a return.

Consumer protections vs. free markets. As a state, we need to come up with systems that do the job of protecting the public without over constraining the ability of lenders to
Foreclosures on homes in Washington State: What the current landscape looks like—and what’s being done to educate and safeguard homeowners

“As a state, we need to come up with systems that do the job of protecting the public without over constraining the ability of lenders to operate and investors to invest.”

—Scott Jarvis

Our state economy. It’s important to emphasize that a sound economy drives the housing market. That’s why Seattle-area house prices, for example, are stable. Keeping that in mind, our housing market relative to the rest of the country is in good shape. We’re obviously not immune. We will be impacted. But we’re in much better shape to survive this. That’s the framework in which we talk. Having said that, the fact remains that there are people who are struggling in our state who need help.

Financial literacy. Financial literacy and consumer education is an issue that we’ve tried to push for years. It’s been under the radar, but now people are finally paying attention to it, realizing that ‘if you just knew a little more... you might not have done this.’ The next Task Force will give us a lot of suggestions as to how to best do it, but it has to be almost a cradle-to-grave issue.

Federal interventions. Overriding all of our state efforts is the question of what Congress is going to do. And what the U.S. Treasury is going to do. They can pre-empt us or go beyond us. But it’s on the national radar, and lending as we know it will be dramatically different—it’s already different from this time last year. It will be different a year from now.

Act now. I’d like to say, this too shall pass, but it’s going be a painful year or so. The first thing you do is arm yourself with financial education: Before you sign anything on the dotted line, make sure you know what you’re purchasing, that you can afford it, and it’s what you want. And if you’re already in a difficult situation, get help, and get it now. Don’t wait. Every day that ticks by puts you in greater jeopardy.

We can’t give an answer or a solution for every person’s situation. There are some people who will simply not be able to afford their homes, but for others there are opportunities to adjust their contract, look at alternatives, or even leave more gracefully than a foreclosure action, and come back someday for homeownership. Act now. Get informed.

Act now. Get informed: Four crucial words for homeowners.

And keep this number handy for someone you know in Washington State who might benefit from it: 1-877-894-HOME (4663).