

Resolution No. 31023

The City of Seattle – Legislative Department

Resolution sponsored by: McIver by ID

A RESOLUTION whereby the City of Seattle calls on the Federal Reserve to use its authority to take action against predatory lending practices.

Related Legislation File: _____

Date Introduced and Referred: <u>10-29-07</u>	To: (committee): <u>Full Council</u>
Date Re-referred:	To: (committee):
Date Re-referred:	To: (committee):
Date of Final Action: <u>10-29-07</u>	Date Presented to Mayor: _____
Date Signed by Mayor:	Date Returned to City Clerk: <u>10/29/07</u>
Published by Title Only <u>X3</u>	Date Returned Without Concurrence: <u>[Signature]</u>
Published in Full Text _____	

Committee Action:

Date	Recommendation	Vote

This file is complete and ready for presentation to Full Council. _____

Full Council Action:

Date	Decision	Vote
<u>10-29-07</u>	<u>Adopted</u>	<u>9-0</u>

RESOLUTION 31023

1
2 A RESOLUTION whereby the City of Seattle calls on the Federal Reserve to use its authority to
3 take action against predatory lending practices.

4 WHEREAS, data from 66% of the lending industry shows that 14.2% of mortgage loans made in
5 Seattle during the last year were subprime loans; and

6 WHEREAS, some mortgage brokers and subprime lenders aggressively market these high-cost
7 home loans through a technique called "Target Practice" by the lending industry which
8 involves soliciting borrowers through the mail and placing them on a "Hot List" of potential
9 prospects; and

10 WHEREAS, some subprime mortgages involve unfair credit practices designed to lure unqualified
11 and unformed borrowers, including undisclosed prepayment penalties and interest rates that
12 rise sharply over time stripping borrowers of the equity in their homes; and

13 WHEREAS, approximately 80% of subprime mortgage loans have prepayment penalties and
14 adjustable interest rates that increase after 2 years versus only 2% of prime loans; and

15 WHEREAS, undisclosed high interest rates and prepayment penalties can range from \$3,000 to
16 \$6,000 and trap borrowers into the loan by keeping them from shopping for a mortgage with
17 a lower interest rate thus stripping them of any accumulated equity; and

18 WHEREAS, some subprime lenders make these loans without an assessment of whether or not the
19 borrower will be able to afford the payments after the interest rate increases; and

20 WHEREAS, less than half of all subprime loans include property taxes and insurance in the
21 monthly payment, and some lenders fail to adequately inform consumers of these expenses;
22 and

23 WHEREAS, some borrowers of subprime loans want to have their property taxes and insurance
24 included in their monthly payment, and many borrowers have been misled to believe that
25 their payments includesuch taxes and insurance; and

26 WHEREAS, in Seattle it is estimated that 16.8% of subprime loans made over the last 2 years will
27 end up in foreclosure when borrowers have to make a lump sum payment of their property
28 taxes and insurance; and

WHEREAS, 2006 alone resulted in 450 foreclosures in the City of Seattle resulting in close to a \$23
million reduction in property values due to vacant homes; and

WHEREAS, these predatory loans have led to an increase in foreclosure rates which in turn hurts
families that end up losing their homes; and



1 WHEREAS, Seattle borrowers who lose their homes will lose over \$3 million in equity and down
2 payments; and

3 WHEREAS, these practices are commonly referred to as “predatory lending”; and

4 WHEREAS, the Federal Home Ownership and Equity Protection Act (HOEPA) instructs the
5 Federal Reserve Board to protect consumers from predatory lending (15 U.S.C. § 1639 (L)
(2)); and

6 WHEREAS, regulations issued by the Federal Reserve could assist Seattle homeowners who
7 otherwise could fall prey to predatory lending practices;

8 **NOW THEREFORE,**

9 **BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE THAT:**

10 The Seattle City Council calls on the Federal Reserve to take all action within its authority to:

11 Section 1. Prohibit lenders from marketing the kinds of adjustable rate home mortgages
12 (ARMs) that are designed to lure unqualified and uninformed borrowers by offering low initial
13 interest rates that increase to unaffordably high adjustable rates for the remainder of the loan;

14 Section 2. Prohibit banks and mortgage companies from including substantial
15 prepayment penalties and exit penalties in ARM loans made to home buyers or home owners;
16 and
17

18 Section 3. Designate as an unfair and deceptive practice the failure to fully inform
19 consumers about whether property taxes and insurance have been included in any mortgage
20 payment or calculation for a first mortgage home loan.
21



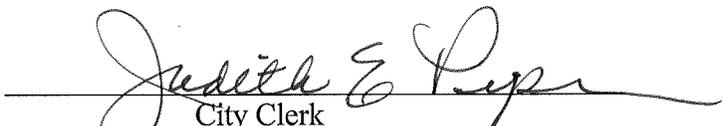
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Adopted by the City Council the 29th day of October, 2007, and signed by me
in open session in authentication of its adoption this 29th day of October, 2007.



President _____ of the City Council

Filed by me this 29 day of October, 2007.



City Clerk

(Seal)



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
Legislative	Myisha Chambers 684-5323	N/A

Legislation Title:

A RESOLUTION relating to prohibiting predatory lending in the City of Seattle by calling on the Federal Reserve to use its authority to take action against such lending practices.

• **Summary of the Legislation:**

A resolution relating to prohibiting predatory lending in the City of Seattle by calling on the Federal Reserve to use its authority to take action against such lending practices.

• **Background:**

The Subprime lending industry in Seattle has grown exponentially during the last 5 years with some mortgage brokers and lenders aggressively marketing these high cost loans that include high interest rates and prepayment penalties. These penalties keep buyers from refinancing to a lower interest rate and in many cases this leads to foreclosure. The City of Seattle calls on the Federal Reserve to use its authority to prohibit lenders from making such mortgages.

- *Please check one of the following:*

X This legislation does not have any financial implications.



STATE OF WASHINGTON – KING COUNTY

--SS.

217087
CITY OF SEATTLE, CLERKS OFFICE

No.

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

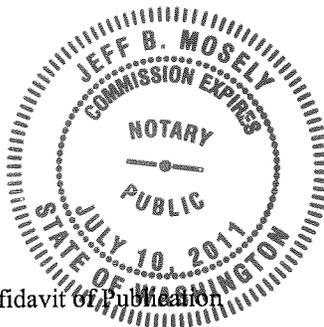
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:TITLE ONLY RES 31023

was published on

11/02/07

The amount of the fee charged for the foregoing publication is the sum of \$ 27.90, which amount has been paid in full.



Affidavit of Publication

Jeff B. Mosely

Subscribed and sworn to before me on

11/02/07

Jeff B. Mosely

Notary public for the State of Washington,
residing in Seattle

State of Washington, King County

City of Seattle

TITLE-ONLY PUBLICATION

The full text of the following resolutions, passed by the City Council

on October 29, 2007, and published here by title only, will be mailed, at no cost, on request for two months after this publication. For further information, contact the Seattle City Clerk at 684-8344.

RESOLUTION NO. 31023

A RESOLUTION whereby the City of Seattle calls on the Federal Reserve to use its authority to take action against predatory lending

practices.

Date of publication in the Seattle Daily Journal of Commerce, November 2, 2007.
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