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HOUSE COMMITTEE REPORT

referred: 3/25/87

FURTHER REFERRALS:

DATE: 4/27/87

The Finance Committee has considered HB 112

"An Act relating to the servicing of certain residential housing mortgage loans purchased by the Alaska Housing Finance Corporation."

RECOMMENDS:

- replace with CS HB 112 (Fin) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published 3/25/87
- zero with analysis

SIGNING DO PASS:

ADAMS Albert Adams

BOYER Mark Boyer

GOLL Peter Goll

FRANK Frank

BROWN Tony Brown

DAVIS Mike Davis

SIGNING OTHER RECOMMENDATIONS:

RIEGER Steve Rieger No Recommendation

FRANK Frank no Rec.

BROWN Tony Brown NO Rec

DAVIS Mike Davis NO REC

Albert Adams

Chairman's signature

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version: CS HB112 (FIN)
Publish Date: _____

Revision Date: _____
Title: HB112 - An Act Relating to the
Servicing of Mortgage Loans of AHFC
Sponsor: Rep. Randy Phillips
Requestor: Revenue

Agency Affected: Revenue
BRU: Alaska Housing Finance
Corporation
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Dr. Ronald D. Lehr *RL* Phone: 276-5599
Division: ALASKA HOUSING FINANCE CORPORATION Date: March 20, 1987

Approved by Commissioner: _____ Date: _____
Agency: _____

- Distribution (by preparer):
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency(ies)
 - Senate Secretary

Attachment to Bill Analysis for HB 112

Under Section b(2)(B) changes in the loan escrow are governed by the Deed of Trust. Loan escrows are also regulated under federal laws.

Section C is to open ended as proposed. There is no limit on the kind of or number of requests a servicer will be required to respond to.

Again, under Section D, Loan Escrows are governed by federal laws.

Section E refers to penalties that can be assessed. It is our understanding that AHFC would not be expected to enforce these penalties, since AHFC is not set up to be an enforcement agency. It may be useful to delineate how the penalties are to be enforced.

Original sponsor: Phillips

1
2 IN THE HOUSE

BY THE FINANCE COMMITTEE

3 CS FOR HOUSE BILL NO. 112 (Finance)

4 IN THE LEGISLATURE OF THE STATE OF ALASKA

5 FIFTEENTH LEGISLATURE - FIRST SESSION

6 A BILL

7 For an Act entitled: "An Act relating to the servicing of certain residen-
8 tial housing mortgage loans purchased by the Alaska
9 Housing Finance Corporation."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 * Section 1. AS 18.56 is amended by adding a new section to read:

12 Sec. 18.56.135. LOAN SERVICING REQUIREMENTS. (a) If the ser-
13 vicing of a loan is sold to another person, the seller shall notify
14 the mortgagor of the sale within 10 days after the actual date of the
15 sale. The notification must include

16 (1) the name, address, and telephone number of the person
17 who will assume responsibility for the servicing and accept payments
18 for the loan;

19 (2) a detailed written financial breakdown of the loan,
20 including the interest rate, monthly payment amount, and current
21 escrow balance.

22 (b) The purchaser of loan servicing under (a) of this section
23 shall

24 (1) issue to the mortgagor corrected coupon or payment
25 books, if used;

26 (2) within 20 days after the due date of the first payment
27 to be made to the purchaser,

28 (A) notify the mortgagor of the name, address, and
29 telephone number of the person from whom the mortgagor can re-
ceive information regarding the servicing of the loan;

1 (B) inform the mortgagor of changes made regarding the
2 loan escrow account or servicing requirements, including the
3 interest rate, monthly payment amount, and current escrow bal-
4 ance.

5 (c) A loan servicing agent shall respond within 15 business days
6 to a written request for information from the mortgagor. The written
7 response must include the telephone number of the agent's representa-
8 tive who can assist the mortgagor.

9 (d) If a mortgagor of a loan is required to maintain funds in an
10 escrow account to cover the payment of the tax or insurance obliga-
11 tions for the mortgaged property, the loan servicing agent shall make
12 each tax or insurance payment in a timely manner as the obligations
13 become due if the funds in the account are sufficient to cover the
14 payment. If the funds in the account are insufficient to make the
15 payment, the loan servicing agent shall promptly notify the mortgagor
16 of the shortage and may make the payment on behalf of the mortgagor.

17 (e) If a person wilfully or negligently fails to comply with
18 this section, the person is liable to the mortgagor for

- 19 (1) the actual damages caused by the failure; and
20 (2) \$500 for each failure to comply.

21 (f) In this section

22 (1) "loan" means a mortgage loan purchased by the corpo-
23 ration under a residential housing loan program authorized by this
24 chapter;

25 (2) "loan servicing agent" means an institution other than
26 the Alaska Housing Finance Corporation that services a loan.

ALASKA MORTGAGE BANKERS ASSOCIATION

P.O. BOX 9-2891 / ANCHORAGE, ALASKA 99508-2891

April 24, 1987

House Finance Committee
Alaska State Legislature

Re: House Bill 112

The Alaska Mortgage Bankers Association has reviewed House Bill 112 and wishes to enter the following comments.

The bill would set certain notice requirements upon sale of mortgage loan servicing of Alaska Housing loans. The bill also addresses timely payment of taxes and insurance on loans which have accounts established for collection of those items.

It is in the best interest of all parties to be certain the borrower has timely and sufficient information on the loan.

It is in the lenders' best interests to respond as promptly as possible to inquiries from mortgagors, and standard procedures are in place to handle such inquiries in a timely manner.

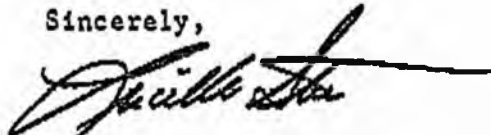
When a loan involves collection of taxes and insurance in a reserve account, the Deed of Trust requires payment of those items when due; if payment is not made due to an error on the part of a lender, the lender must assume the responsibility for non-payment.

1986 was an abnormal year in that interest rates were the lowest in some 7 or 8 years; refinance loans taxed the capabilities of many lenders. Lending institutions have implemented training programs, increased staff and invested in costly and sophisticated systems that can meet borrowers' needs. We feel the problems of 1986 will not recur and the situation is under control. .

Mechanisms are in place at Alaska Housing Finance Corporation to assure that sale of servicing on loans purchased by AHFC is limited to servicers with representatives in-state. Servicing Agreements between AHFC and lenders contain requirements which meet the needs addressed in HB 112. The Alaska Mortgage Bankers Association believes there is no need for legislation to enforce what is already prudent and common business practice or can be handled administratively through AHFC.

Thank you for the opportunity to comment.

Sincerely,



Lucille Stietz
President

Alaska HOUSING  FINANCE CORPORATION

April 15, 1987

The Honorable Senator Patrick M. Rodey
P.O. Box V
Juneau, AK 99811

Dear Senator:

I apologize for taking some time to respond to your letter regarding AHFC Seller/Serviceers.

As indicated in the attached list of the 45 AHFC Seller/Serviceers, only two do not have offices or representatives located in Alaska. Of those two, Seafirst Mortgage Corporation does not have an 800, toll-free number available for use by borrowers.

Many of the complaints AHFC has received regarding Outside Seller/Serviceers centered around Manufacturers Hanover Mortgage Corporation, now known as Fireman's Fund, which services some 5,300 AHFC loans. For your information, Intercontinental Mortgage Corporation located in Anchorage is the Fireman's Fund representative in Alaska.

While I definitely understand borrowers' problems and the push for local hire and local services, there are other sides of this issue I believe I should point out. First, the buying and selling of mortgage loan servicing is an integral part of mortgage lending nationwide. For example, it is not unusual for a bank in Connecticut to sell servicing to a California bank. Particularly in these economic times when many lenders and serviceers would just as soon not be in Alaska, legally requiring offices and toll-free numbers may provide them with an excuse to pull out of Alaska totally.

Second, many Alaskan borrowers do not mail their payments early enough to reach their banks or lenders on time. Dropping a payment in the mail on the 31st of the month when the payment is due the first of the month usually results in a late payment, the resulting late payment charge, and further complications.

To solve this problem, AHFC has been actively requesting lenders to open offices in Alaska or provide toll-free numbers. But rather than making offices or numbers a requirement, AHFC has been pointing out the good business practice of providing better service to the bank's customers through those offices.

Senator Patrick M. Rodey
April 15, 1987
Page Two

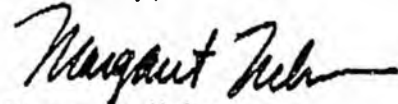
In addition, AHFC recently instituted Section 1001.02 J in our Seller/Service Guide (see attached), which states; "To be approved as an AHFC Seller or Servicer, the applicant must have an origination and servicing facility located in Alaska." This new requirement takes care that if any servicing is sold out-of-state, the purchaser has a facility in Alaska.

We believe all of these problems of servicing loans can be handled administratively through AHFC. Again, we do not want to make too many requirements of banks thereby giving them an excuse not to do business in Alaska.

As long as we're addressing this situation, please note HB 112 sponsored by Rep. Randy Phillips and our position paper (see attached).

Thank you for giving AHFC the opportunity to respond to your concerns.

Sincerely,



Margaret Nelson
Special Assistant/Public Information Officer

Attachments

ALASKA HOUSING FINANCE CORPORATION

Seller/Serviceers

Alaska Continental Bank	38
Alaska Federal Savings & Loan	1,056
Alaska Mutual Bank	5,591
Alaska National Bank of the North	163
Alaska Pacific Mortgage Company	1,458
Alaska Statebank	234
Alaska USA Federal Credit Union	1,918
AVCP Housing Authority	90
B. M. Behrends Bank	450
Centrust Mortgage Corporation	18
City Mortgage Corporation	1,447
Columbia Mortgage Corporation	8
Commonwealth Western Mortgage Corporation	763
Denali Federal Credit Union	165
Denali State Bank	7
FedAlaska Federal Credit Union	19
First Bank	130
First Federal Bank of Alaska	428
First Federal DVA Only	1,602
First Guaranty Mortgage Company of Alaska	414
First Interstate Bank Alaska	1,616
First National Bank of Anchorage	8,213
First National Bank of Fairbanks	2,196
Frontier Alaska State Credit Union	377
Frontier Mortgage Corporation	1
Frontier Savings & Loan	96
G.M.A.C. Mortgage Corporation of PA	388
Home Savings & Loan	1,354
Intercontinental Mortgage Corporation	28
Interior Regional Housing Authority	7
Kodiak Island Housing Authority	55
Lomas & Nettleton Company	200
Manufacturers Hanover Mortgage Corporation	5,358
Mt. McKinley Mutual Savings	6'
Nana Regional Housing Authority	
National Bank of Alaska	
Rainier Bank Alaska, N.A.	
Rainier Mortgage Corporation	
* Seafirst Mortgage Corporation	
Security Pacific Mortgage Company	
Spokane Mortgage Company	
Tlingit-Haida Regional Housing Authr	
United Bank Alaska	
Washington Mortgage Company, Inc	
* Western Mortgage Loan Corpore+	

Total Num.

* Those Seller/Serviceers that do not have offices

3/87

- 1.4 -

Section 1001

- J. A detailed description of loan servicing capabilities. To be approved as an AHFC Seller or Servicer, the applicant must have an origination and servicing facility located in Alaska. If any portion of the servicing facilities are moved to a location not in Alaska, this event shall be considered a breach of the servicing agreement and the servicing agreement may be terminated by AHFC without any waiting period and without payment to servicer of any penalty or other amount. The one exception to this requirement is that data processing facilities may be located other than in Alaska.
- K. Any other documentation which may be helpful to verify, clarify, or substantiate information and/or documentation in the submission package so AHFC may make a prudent determination.

AHFC will notify the applicant in writing of the approval or disapproval of the application.

*don't cover
 those who sold
 servicing to
 outside COS
 before this section
 of guide implemented*



Official Business

Alaska State Legislature

House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members, House Labor and Commerce Committee
FROM: Rep. Randy Phillips *R.E.P.*
DATE: March 13, 1987
RE: HB 112

As you may be aware, there have been a number of difficulties experienced by Alaskans who have had their home mortgages sold to out of state mortgage companies. I have introduced HB 112 to provide some protection for the consumer. It is modelled after a recently adopted Minnesota law, which I have attached. The main features of the bill are:

- * Limited to AHFC mortgages
- * The selling lender shall notify the mortgagor of the sale no less than ten days after the actual transfer.
- * Notification must include the name, address and telephone number of the person who will assume responsibility for the servicing, and accept payments for the mortgage loan.
- * Notification must include a detailed written financial breakdown including, but not limited to, interest rate, payment amount and current escrow balance.
- * The purchasing lender shall respond within fifteen business days to written requests for information from a mortgagor. A written response must include the telephone number of a company representative who can assist the mortgagor.
- * Payments made from an escrow account for taxes and insurance must be made in a timely manner as they become due, provided there are sufficient funds for payment. If there is a shortage of funds the lender shall promptly notify the mortgagor.
- * If a lender fails to make payments, lender is liable for actual damages caused by the failure to make payments when

due, as well as a \$500 fine.

- * The lender is permitted to make payments on behalf of mortgagor, even if there are not sufficient funds in the escrow account.
- * If lender fails to comply with these requirements, the lender is liable to the mortgagor for \$500 per occurrence, in addition to actual damages caused by the violation.

I believe that HB 112 will help alleviate some of the problems which have been associated with the sale of Alaskan's mortgages to out of state mortgage firms.



*Effective
August 1, 1986*

MINNESOTA
Regular Session
Chapter 358, Laws 1986
House Bill No. 1984

AN ACT

1
2 relating to commerce; regulating securities;
3 regulating the assignment of certain real property
4 loans and the administration of certain escrow
5 accounts; providing certain exemptions; regulating
6 real estate brokers and salespersons; modifying
7 re-examination requirements; providing trust account
8 requirements for licensees acting as principals;
9 granting certain enforcement powers to the
10 commissioner; providing certain remedies; requiring
11 storage of abstracts of title within Minnesota;
12 amending Minnesota Statutes 1984, sections 47.20,
13 subdivision 9; 80A.14, subdivision 18; 80A.15,
14 subdivision 1; 82.17, subdivision 4; 82.22,
15 subdivisions 3, 6, and 13; 82.24, subdivision 2;
16 82.26; 82.27, subdivision 1; 82.33, subdivision 2;
17 386.375; and Minnesota Statutes 1985 Supplement,
18 sections 80A.13, subdivision 1; 80A.15, subdivision 2;
19 and 82.19, subdivision 3; proposing coding for new law
20 in Minnesota Statutes, chapter 47.

21
22 BE. IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
23 Section 1. [47.205] [ASSIGNMENT OF MORTGAGE; DUTIES;
24 PENALTIES.]
25 Subdivision 1. [DEFINITIONS.] For the purposes of this
26 section, the terms defined in this subdivision have the meanings
27 given them.
28 (a) "Lender" means all state banks and trust companies,
29 national banking associations, state and federally chartered
30 savings and loan associations, mortgage banks, mutual savings
31 banks, insurance companies, credit unions making a loan, or any
32 person making a conventional loan as defined under section
33 47.20, subdivision 2, clause (3) or cooperative apartment loan

1 as defined under section 47.20, subdivision 2, clause (4). A
2 selling lender" is a lender who sells, assigns, or transfers
3 the servicing of a loan, to a "purchasing lender or a servicing
4 agent."

5 (b) "Loan" means all loans and advances of credit
6 authorized under section 47.20, subdivision 1, clauses (1) to
7 (4) and conventional loans as defined under section 47.20,
8 subdivision 2, clause (3) or cooperative apartment loan as
9 defined under section 47.20, subdivision 2, clause (4).

10 (c) "Escrow account" means escrow, agency, or similar
11 account for the payment of taxes or insurance premiums with
12 respect to a mortgaged one-to-four family, owner occupied
13 residence located in this state.

14 (d) "Person" means an individual, corporation, business
15 trust, partnership or association, or any other legal entity.

16 Subd. 2. [ASSIGNMENT OR SALE OF MORTGAGE LOANS.] If the
17 servicing of mortgage loans financing one-to-four family owner
18 occupied residences located in this state is sold or assigned to
19 another person:

20 (1) the selling lender shall notify the mortgagor of the
21 sale no less than ten days after the actual date of transfer.
22 The notification must include the name, address, and telephone
23 number of the person who will assume responsibility for
24 servicing and accept payments for the mortgage loan and the
25 notification must also include a detailed written financial
26 breakdown, including but not limited to, interest rate, monthly
27 payment amount, and current escrow balance:

28 (2) the purchasing lender shall issue corrected coupon or
29 payment books, if used, and shall provide notification to the
30 mortgagor within 20 days after the first payment to the
31 purchasing lender is due, of the name, address, and telephone
32 number of the person from whom the mortgagor can receive
33 information regarding the servicing of the loan, and shall
34 inform the mortgagor of any changes made regarding the mortgage
35 escrow accounts or servicing requirements including, but not
36 limited to, interest rate, monthly payment amount, and current

1 escrow balance; and

2 (3) the purchasing lender shall respond within 15 business
3 days to a written request for information from a mortgagor. A
4 written response must include the telephone number of the
5 company representative who can assist the mortgagor.

6 Subd. 3. [ADMINISTRATION OF ESCROW ACCOUNTS.] Each lender
7 requiring funds of a mortgagor to be paid into an escrow account
8 for payment of taxes or insurance premiums with respect to a
9 mortgaged one-to-four family owner occupied residence located in
10 this state shall make payments for the taxes or insurance from
11 the escrow account in a timely manner as these obligations
12 become due provided that funds paid into the account by the
13 mortgagor are sufficient for the payment. If there is a
14 shortage of funds, the lender shall promptly notify the
15 mortgagor of the shortage. If the lender fails to make timely
16 payments, the lender is liable to the mortgagor for actual
17 damages caused by the failure to pay the amounts then due and is
18 subject to penalties provided in subdivision 4, except that the
19 lender may present any legal defense in any subsequent hearing.
20 The lender is permitted to make a payment on behalf of the
21 mortgagor even though there are not sufficient funds in a
22 particular account to cover the payment.

23 Subd. 4. [PENALTIES.] If a lender fails to comply with the
24 requirements of subdivisions 2 and 3, the lender is liable to
25 the mortgagor for \$500 per occurrence, in addition to actual
26 damages caused by the violation.

27 Sec. 2. Minnesota Statutes 1984, section 47.20,
28 subdivision 9, is amended to read:

29 Subd. 9. (1) For purposes of this subdivision the term
30 "mortgagee" shall mean all state banks and trust companies,
31 national banking associations, state and federally chartered
32 savings and loan associations, mortgage banks, mutual savings
33 banks, insurance companies, credit unions or assignees of the
34 above. Each mortgagee requiring funds of a mortgagor to be paid
35 into an escrow, agency or similar account for the payment of
36 taxes or insurance premiums with respect to a mortgaged one to

Alaska borrowers fume as accounts peddled Outside

BY JIM ERICKSON
Daily News business reporter

Anchorage resident Leonard Hamilton said he doesn't anger easily, but he got "really frosted" when earlier this year the Outside company servicing his home loan lost his monthly mortgage payment.

"They assumed I didn't send it, and they did everything but accuse me of lying about it when I said I did," Hamilton said.

To make matters worse, Hamilton said he had to straighten out the mistake over long-distance telephone lines. The local bank that previously handled his home loan — a bank Hamilton said he chose for convenience — transferred his Alaska Housing Finance Corp. loan to Manufacturers Hanover Mortgage Corp. of Farmington Hills, Mich. That firm services more than 360,000 home loans, and is one of the largest mortgage companies in the world.

"What upsets me most is, this is an Alaska loan, but it's being serviced outside the state, by someone that I can't just go and see and resolve any issue I might have," Hamilton said.

Hamilton is one of hundreds of Alaska homeowners who have discovered to their surprise that the bank, savings and loan, credit union or mortgage company they select to close their home loan may not be the one that services it over the years. And his is one of a growing litany of complaints about the service some of the giant Outside companies provide.

In simpler times, homeowners borrowed money directly from a local bank or mortgage company. The mortgage stayed with the bank until it was paid off.

But due to changes in the financial services marketplace, lucrative home loan servicing portfolios now are freely traded among financial institutions nationwide.

What that means to borrowers is an institution far from home may be collecting the monthly mortgage checks and handling escrow accounts for taxes and insurance. Homeowners have no say whether their mortgage will be sold, or to whom. Borrowers like Hamilton say that, as a result, they can never be assured of the quality or convenience of service they will receive, no matter how

See Page H-4, SOLD OUT

Candidates have

Well, one election down and one to go. Then Alaska will have a new governor. Despite less money, both Steve Cowper and Arliss Sturgulewski upset the "known quantities" in the primary election — defeating an incumbent

SOLD OUT: Practice of selling loa

Continued from Page H-1

carefully they choose a local financial institution.

The practice has become widespread both inside and outside Alaska. As the practice has grown, it has touched off a controversy between homeowners who say they are entitled to a say in what happens to their mortgage and servicers who claim the right to sell mortgages at will.

At the end of 1983, about \$363 million in home loans funded by AHFC were serviced by Outside companies, about one out of 10 the agency's total loans.

By last July, the value of loans serviced Outside had increased to \$888 million of the agency's \$4.3 billion in loans. That's about one out of five. Manufacturers Hanover alone accounted for more than \$547 million in AHFC loans.

At least seven local lenders — Alaska Statebank, First Guaranty Mortgage Company of Alaska, Home Savings and Loan, Alaska Continental Bank, Security National Bank, City Mortgage Corp. and Alaska National Bank of the North — now have so-called "pass-through" agreements with Manufacturers Hanover. Until recently, AHFC loans closed by those institutions were transferred automatically out of state, although borrowers weren't necessarily told at closing that their loan would not be serviced by an Alaska firm.

"There's been a fundamental change in the business in the last three years," said Don Elliott, controller for the Alaska Housing Finance Corp.

The reason is simple. Large companies like Manufacturers Hanover can use computers and economies of scale to reap long-term profits from fees they are paid to service home loans, and they are willing to pay top dollar to local institutions that originate the mortgages.

Jim Crawford, president of Anchorage-based City Mortgage, said some companies will pay 700 percent of what a servicing portfolio would earn in a year for the right to take over those loans.

"And there's no overhead. I can't kick about that, and I don't see how you can compete with that kind of pricing" by keeping the loans.

City Mortgage, which Crawford describes as kind of a home loan supermarket, services some types of loans, and sells others, depending on what is most profitable for the company. He said his firm tells buyers the loan may be serviced elsewhere.

According to AHFC officials, many people are initially angry when they learn their mortgage has been sold without their consent, but they settle down if the Outside servicer does a good job.

Some people, however, have found dealing with a large, impersonal Outside company to be a frustrating and sometimes costly experience.

Gary Stiller was set to close on an assumable AHFC loan he had already qualified for through a local lender. But after moving into his new home, Manufacturers Hanover abruptly vetoed his application. Despite numerous frantic phone calls to the company's headquarters, Stiller said he could not get a satisfactory explanation of why he was turned down.

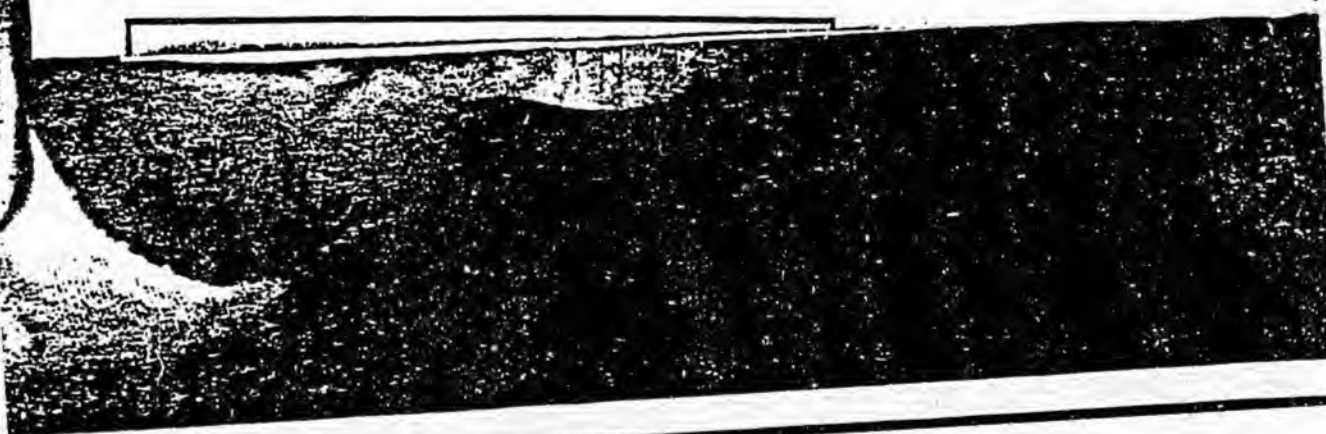
"I never could get the boss to call me back," he said. His loan was later approved by a local lender.

"What really upset us was, they demanded we send them \$700 and some dollars to get a credit check," Stiller said. Although he thought the price was way too high, Stiller said he sent them the money because he knew his credit was good and he was anxious to close on the house. After firing off some angry letters, Manufacturers Hanover refunded half of the money.

"I'll never have anything to do with them ever again," he said.

Another Anchorage resident, Don Seelinger, suffered a nightmare of foul-ups when Home Savings and Loan sold his mortgage to Manufacturers Hanover early this year.

The first problem cropped up when Seelinger sent off his March payment. Shortly afterward, Seelinger received urgent messages from two different departments at Manufacturers Hanover. One letter, dated March 10,



ns Outside steams Alaska borrowers

told him his check had been received, but the company didn't know what it was for. The other, dated March 13, notified Seelinger that his payment was overdue and his account was being assessed a \$61 late fee.

"I sent them a check, and they didn't even know what to do with it," he said. The problem went away — Seelinger doesn't know exactly how it was resolved — but not before Manufacturers Hanover sent him an ominous delinquent mortgage notice.

About two months later, Seelinger got another nonsensical letter from Manufacturers Hanover. This time, the company said Alaska Statebank had not provided any proof that Seelinger's home had the necessary property insurance when the loan was transferred. Seelinger's loan had been transferred from Home Savings and Loan, not Alaska Statebank.

"I finally said, the hell with them," Seelinger said. "I had to have (the insurance) when I bought the house, and payments for it are included in the house payment. I told them, 'you prove that I don't have it.'"

Instead, Seelinger said the company purchased a policy for him at a cost of more than \$1,000 annually, even though he already was covered by a policy costing \$320 annually. They sent him a bill, which he has never paid.

Representatives for Manufacturers Hanover said they resolved the problem when Seelinger furnished proof of insurance. They canceled the \$1,000 policy and stopped billing him.

But Seelinger isn't exactly satisfied.

"Had I had any indication this was going to happen to me I would have done things differently ... in the future, I have got to have the assurance (from the bank that closes the loan) that they won't transfer it out of the state of Alaska."

That assurance, except in rare cases, cannot be given, said Janet Frank, residential finance director for the Mortgage Bankers Association, a national industry group.

"The point is, these things are freely transferable, and they need to be for the good of the institution involved," Frank said. Banks, savings and loans and other lenders

have the right to sell servicing portfolios, she said, and must be able to do so if they need cash.

Ralph Miller, a Manufacturers Hanover senior vice president, acknowledged that his company sometimes bobbles transactions. He maintained his company's record is as good as any, and that in many cases the problems originate with the selling institution, not Manufacturers Hanover.

"When you look at the numbers we deal with, you have to recognize there are going to be some problems. You have to anticipate them and do what you can to fix them. I think we do a real good job in that respect."

AHFC doesn't have statistics to directly measure the performance of Outside vs. in-state loan servicers.

Elliott noted just because a company is located out of state doesn't mean it does a bad job handling local mortgages. For example, the delinquency rate for loans handled by Spokane Mortgage Co. is 6.26 percent, less than the overall average of all AHFC servicers of 9.92 percent. By comparison, the delinquency rate at Manufacturers Hanover is 13.19 percent, high enough to result in the suspension of the company from servicing any new AHFC loans until the rate is reduced.

The problem has placed AHFC in the position of trying to balance the needs of borrowers and lenders. AHFC can bounce from the program companies that do not provide an acceptable level of service, and the agency requires each Outside servicer to have an in-state representative. Disgruntled homeowners said local reps act as little more than mail drops and are ineffective in problem-solving.

But Lehr said the agency is hesitant to restrict the sale of AHFC loans Outside.

"I'm on the side of the borrowers," Lehr said. "But I have to think about the lending community, too." Because of the state's troubled economy, lenders may have cut back on personnel and can no longer handle servicing.

"Sometimes they need to sell off those things because they need the money pretty

18.0
18.5
SOURCE: Census Bureau
(News America Syndicate, 1988)

agriculture, services, foreign investment and protection against copyright and patent piracy.
Striking a tough bargain-

the staunchest supporter of a new round of talks to modernize the 40-year-old procedures of the General Agreement of Tariffs and Trade.

SOLD OUT: Outside banks buy up loans

Continued from Page H-4

badly," Lehr said.
In some parts of the country, the practice has produced more than grumbling.
An uproar from borrowers in Minnesota produced some legal protection for consumers. The Minnesota law does nothing to restrict sales. Mainly, it requires proper notification to borrowers when mortgages are sold, a service many institutions already provide. It also makes servicers pay \$500 penalties to borrowers if tax or insurance payments aren't made on time, or if the homeowner isn't notified.
State Rep. Randy Phillips, R-Eagle River, plans to introduce legislation next year that would go beyond the Minnesota law.
Phillips — whose own mortgage was sold to an Outside company about 18 months ago — said he wants to give consumers the right to keep their loan in Alaska. Legislation now being researched would require companies contemplating the sale of a mortgage loan portfolio to give each homeowner the option of pulling his mortgage from the package being sold.
And companies with pass-through agreements would be required to tell borrowers that their mortgage will be serviced elsewhere before the loan is closed.
"I know the banks will come unglued" if the legislation is introduced, Phillips said. "But they've got to have some social responsi-

bility."
"I think people should at least be given the option. I'm paying good money for a product, and I expect some company loyalty to me in exchange for my loyalty."
Frank of the Mortgage Bankers Association said any plan that allows individual homeowners to decide who services their mortgage is unrealistic, as are suggestions that individual borrowers can prevent a mortgage from being sold by demanding the lender sign a written guarantee at closing.
"These loans are sold in bulk, so (loan underwriters) are not going to be writing in little clauses that differentiate one loan from another," she said.
Crawford said the best borrowers can do is find out at closing if the company plans to service the mortgage. If not, the borrower can then decide whether to choose another loan program or another lender.
No company can guarantee that it will service the loan forever, he said.
"You may talk to banks, and they'll tell you they are always going to service it. But if their earnings go in the toilet, they'll sell it. I wouldn't believe anybody who said they won't sell their servicing."
Frank said she thinks the reservations of consumers will ease with time.
"The growth of the industry was a little faster than could be supported," she said. "It will take awhile to grow into it."

BRADNER: Two candidates' styles differ

Continued from Page H-1

itive, quick-on-the-trigger than Arliss. His critics say Steve has a temper, while his advocates say, "Maybe so, but he might yell at some folks who need yelling at." Arliss, on the other hand, has a reputation for being more cautious and analytical. Her critics say she is more apt to study a problem than "act" on it. Her advocates say, "Maybe so, but she is thorough and fair."
Perhaps Cowper is more

apt to stir the pot a little, just to see what bubbles up, and then adjust his course of action. Sturgulewski may be more apt to think longer about stirring the pot in the first place.
Both approaches are positive or negative attributes, depending on what one wants from government under varying political and economic circumstances. Perhaps the voters' task in November will be

to judge the most appropriate temperament to the demands of our times.

Mike Bradner publishes legislative and economic newsletters.

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Counseling Division
EQUIVEST
INVESTMENT MANAGEMENT CORP.
279-8551

Anchorage Daily News

November 12, 1986

Mortgage bank replies

A recent article in the Daily News, "Sold out: Alaska borrowers fume as accounts peddled Outside," indicates the confusion and misunderstanding surrounding the mortgage lending process and our operations. This confusion exists nationally, and mortgage lenders have to accept some responsibility for it.

Manufacturers Hanover Mortgage Corporation is a mortgage bank, which means we allocate resources between an investor and a homeowner seeking a mortgage loan. In turn, this means we have a joint responsibility to guarantee investors the most secure investment possible and to service mortgagors as responsively as possible.

In Alaska, and throughout the U.S., we and other mortgage banks also buy mortgage loans from financial institutions and occasionally acquire their servicing rights. Many banks and S&Ls cannot take the risk of keeping their own originated loans because of interest rate fluctuations. A large number of institutions are in trouble or have failed because they made loans at 6, 8, or 10 percent and then watched interest rates skyrocket to 14 and 16 percent. By selling mortgage loans to mortgage bankers, banks and S&Ls not only receive a cash payment (which gives them funds for making more loans), but they also avoid interest-related risk.

Further, many banks and S&Ls do not have the resources to efficiently service their own mortgage loans, an activity that is both personnel and computer-intensive. In these cases, it's usually more cost effective for a national servicer, such as MHMC, to handle payments, escrows, payoffs, delinquencies, and foreclosures. For performing this service, we're compensated by the investor. We must be doing something right: We're the fourth largest mortgage servicer in the U.S.

A word about foreclosure. Our delinquency and foreclosure percentage is too high. This is cause for both concern and regret; we too are a major financial victim of every foreclosure. But the reason for this problem reflects directly on Alaska's present economic situation: Homeowners we and other institutions assumed would be good credit risks have proven otherwise. In retrospect, our underwriting procedures should have been more rigorous. On the other hand, the entire lending industry is witnessing the same situation in every energy-based economy state — which indicates that even the most thorough underwriting cannot guarantee acceptable delinquency rates.

We have great faith in Alaska and Alaskans. Which is why we've brought financial resources of Wall Street to provide for Alaska housing; why we've established on-site servicing representation in Anchorage; why we've established a major internal customer relations program to improve our responsiveness; and why I and other senior MHMC executives personally answer all customer calls and letters addressed to us.

We're not perfect. Mistakes happen and we're working hard to correct them. But I'm extraordinarily proud of our people. Last year, we originated twice as many loans as we did the previous year and our payoff rate was 10 times what it had been. Imagine how this unprecedented business explosion would affect a local supermarket — or the air traffic control system! Yet we were able to continue handling our business volume, instead of simply closing our Alaskan operations.

Certainly, we're in business to make a profit. But we're in business in Alaska because we also perform a service — for banks, savings & loans, Alaska Housing Finance, and ultimately, Alaskans who've dreamed of home ownership.

— Warren J. Carr
President

Manufacturers Hanover Mortgage Corporation



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

October 15, 1986

MEMORANDUM

TO: Representative Randy Phillips

ATTN: Janet Seitz

FROM: Jay Livey *JS*
Legislative Analyst

RE: Laws Regarding the Out-of-State Sale of Mortgage Loan Servicing Portfolios
Research Request 87.018

You asked that we research the laws of other states regarding the out-of-state sale of mortgage loan servicing portfolios. Some mortgage lenders sell mortgage loan servicing portfolios to other financial institutions rather than servicing all the loans that they originate. To the consumer, this means that a financial institution other than the originator of their loan will be responsible for collecting monthly mortgage payments as well as processing any other paperwork involved with the mortgage loan agreement. Currently, there are no laws in Alaska which restrict or regulate the out-of-state sale of these servicing portfolios.

According to Mary Pfaff of the Mortgage Bankers Association of America (MBAA), Minnesota is the only state that has enacted legislation concerning the out-of-state sale of mortgage loan servicing portfolios. Minnesota law requires homeowners to be notified that their mortgage will be serviced by another financial institution and imposes a \$500 penalty on mortgage servicers if they are negligent in servicing a loan.

Janet Frank, of the Mortgage Bankers Association of America, also noted that the Association has adopted guidelines regarding the servicing of mortgage portfolios. A summary of these guidelines follows:

1. Centers servicing mortgage portfolios should provide adequate toll-free telephone service for borrowers.
2. An efficient procedure for handling complaints should be established.

Representative Phillips
October 15, 1986
Page 2

3. Simple assumptions (i.e., those not requiring permission from an investor) should be processed within 30 days.
4. If a borrower has an escrow account, tax and insurance bills received fifteen days before discount or penalty dates should be paid by those dates. An escrow analysis should be completed on each mortgage account annually to assure that sufficient funds are available for insurance and taxes.
5. All mortgage payments should be processed within twenty-four hours of receipt by the mortgage company.
6. If servicing is to be transferred, a notice of transfer should be sent to the borrower by both the old and new servicers. The notice should provide all the information needed by the borrower to guarantee the efficient transfer of the servicing including: name, address and phone number of new servicer, the effective date of the transfer, instructions concerning interim payments and the name of a contact individual associated with the new servicer.

We have been waiting to receive a copy of the Minnesota law pertaining to the out-of-state sale of portfolios before completing this memorandum. This law has not yet arrived; we will send you a copy when it does. In the meantime, you should be able to obtain a copy directly from Lucille Steets, President of the Alaska Mortgage Bankers Association. She can be reached in Anchorage at the National Bank of Alaska (265-2860). Also, a copy of the MBAA guidelines has been attached to this memorandum.

I hope that this information is useful. If you require additional research, please do not hesitate to contact us.

JL

Attachment



1125 Fifteenth Street, N.W.
Washington, D.C. 20005

202-861-6500

Mortgage Bankers Association of America

Mortgage Bankers Association of America

MORTGAGE SERVICING GUIDELINES

Developed by the:

**Servicing Committee
and**

**State and Local MBA Liaison Committee
of the
Mortgage Bankers Association of America**

MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mortgage Servicing Guidelines

This document suggests general guidelines for the performance of residential mortgage servicing. The Mortgage Bankers Association of America recommends adherence to these guidelines whenever possible. It recognizes however that the practice of individual mortgage companies may vary for one or more reasons, including local custom or regulations, the pressure of year-end volumes, the impact of large transfers of servicing, or the nonperformance of third-party vendors. In recommending adoption of these guidelines, the MBA recognizes that meeting the time frames for performance described herein may not always be possible. The time frames do, however, represent general guidelines of practice.

Customer Service

Mortgage companies' servicing centers should provide adequate local, toll-free or collect-call telephone service for mortgagors. Recognizing that every company will experience periods of peak telephone volume (which will cause mortgagors to get a busy signal), the number of incoming telephone lines should be adequate to handle the average volume of calls.

Complaint Procedures

In any customer-related business, there are complaints. Every company should have a well-thought-out procedure for handling complaints promptly. Although some matters are complex and therefore slow to resolve, complaint procedures should provide (1) for an initial response to the mortgagor, acknowledging the matter within five (5) business days, (2) for continuous follow-up until the matter is resolved, (3) for notice of the resolution of the matter to the mortgagor, and (4) for regular reporting to senior management on the volume and nature of complaints.

Regulatory agencies also receive inquiries and complaints. To facilitate the agencies' role as conduits, mortgage companies should designate individuals to expedite regulators' issues. Individuals so designated should have the authority and resources available to resolve such complaints.

Discharge (Payoff)

Mortgage companies should make a good-faith effort to process mortgage discharges by sending completed documentation to the mortgagor or by filing documentation in accordance with state regulations within thirty (30) days (or as otherwise required by law). If documents are not available, or if a temporary backlog exists, companies should make a good-faith effort to satisfy their obligation to mortgagors by the use of alternatives, such as estoppel certificates.

Written requests from mortgagors (or their designees) for discharge information should be answered within five (5) business days.

Assumption Processing

When all necessary information has been received from buyer and seller; a simple assumption (which does not require permission from an investor or processing of an application) should be processed within thirty (30) days.

More complex assumptions--those on which the interest rate adjusts to market rate or that require an investor's permission--cannot be processed on a fixed schedule. Mortgage companies are nevertheless responsible for handling these assumptions promptly, apprising mortgagors of delays outside of their control.

New-Loan Processing

Payment instructions should be provided to mortgagors at least five (5) days before their first payment is due. All data required to properly service a mortgage should be entered into the mortgage company's records within twenty (20) days of the due date of the first payment.

Whenever servicing is transferred to a new servicer, notice of the transfer of servicing should be received by the mortgagor at least five (5) days before the due date of the mortgagor's next scheduled payment. If notice of transfer of servicing is not given in a timely fashion, the mortgagor's payment should be accepted, receipt of payment and a notice of transfer of servicing should be sent to the mortgagor; and the payment, should be remitted to the new servicer.

Payment of Mortgagor's Taxes and Hazard Insurance

For mortgagors with escrow (impound) accounts, the following standards apply: Tax bills received fifteen (15) days before discount or penalty dates should be paid on or before those dates. Hazard insurance bills received fifteen (15) days before the due date of payment should likewise be paid on or before the due date.

Mortgage companies are responsible for tax penalties and insurance cancellations, except in cases where a mortgagor has received a bill and has failed to remit it to the mortgage company within fifteen (15) days of the due date.

Mortgage companies are plainly responsible for losses resulting from nonpayment or delinquent payment of a mortgagor's taxes or insurance premiums caused by the negligence of the mortgage companies' employees or by procedural omissions. As a measure of protection for mortgagors and investors, mortgage companies should maintain insurance coverage for errors and omissions consistent with the standards of the Federal National Mortgage Association.

To ensure that sufficient funds are accrued to pay taxes and insurance premiums, mortgage companies should perform a complete escrow (impound) analysis on every mortgagor's escrow (impound) account at least once a year. The analysis should clearly show how the new payment amount has been calculated and should be received by the mortgagor at least ten (10) days before the effective date of changes in payment.

Mortgage companies should not insist that mortgagors remit a changed payment amount while the companies are conducting research in response to a substantive objection to escrow (impound) analysis. By this guideline, temporary suspension of a payment change does not apply, for example, when a mortgagor objects to the need for an escrow (impound) account or to the standard industry method of calculating escrow (impound) payments.

Payment Processing

On a nonaccelerated mortgage, if a mortgage payment is made in an amount equal to the current monthly payment, or in an amount equal to the current monthly payment plus the amount of past-due payments along with accrued late charges, it should be processed within twenty-four (24) hours of receipt by the mortgage company. A late charge should not be assessed if full payment has been received before the date late charges are authorized in the mortgage documents.

Forbearance

Mortgage companies should not institute foreclosure action while investigating a reasonable customer dispute concerning payments received. Forbearance from foreclosure is not urged when a chronically delinquent mortgagor appears to be raising the issue only to forestall foreclosure action. If the mortgage company has made an error concerning payment, it will seek to ensure that the customer's credit rating is not affected, by correcting payment records and, if needed, by correcting information already submitted to a credit-reporting agency or to another lender.

Transfers of Servicing

When making transfers of servicing, sellers and buyers have a responsibility to each other and to the mortgagors whose loans are transferred. In such transactions, mortgage companies should have a contract that details their several responsibilities and provides a timetable for completing agreed-upon tasks. In undertaking large transfers, sellers and buyers should make certain that sufficient manpower and facilities are dedicated to the transfer to ensure that their obligations to one another and to mortgagors are met. The following is a list of the principal responsibilities of sellers and buyers:

Sellers' Responsibilities. It is recommended that sellers should:

1. Send a notice of transfer of servicing to mortgagors, which includes:
 - o The effective date of transfer to the buyer;
 - o The new servicer's name, address, and telephone number (toll-free number, if available);
 - o The name of a referral person or department in the buyer's company;
 - o Instructions concerning interim payments (until notice of the transfer of servicing is sent from the buyer);
 - o Reassurance that the transfer of servicing does not affect the terms and conditions of the mortgage;

- o Information about mortgage life insurance, mortgage disability insurance, or any other form of optional mortgage insurance, if applicable.
- 2. Provide the hazard insurance agent or carrier with a notice of transfer in the form of a corrected mortgagee clause.
- 3. Notify the tax-bill service or taxing authority of the transfer, if applicable.
- 4. Notify the FHA, VA (in the case of loans in foreclosure), or mortgage insurance company of the transfer.
- 5. Bring escrow (impound) accounts current by paying outstanding bills.
- 6. Transfer escrow (impound) balances and buydown subsidy funds to the buyer, together with any interest owing to the mortgagor.
- 7. Provide the following documents and information to the buyer, when appropriate:
 - o Complete loan files or photocopies and/or microfiches of loan files;
 - o Insurance policies or certificates and related correspondence, including any pending loss claims;
 - o Contracts with a tax-bill service or a listing of tax-service contract numbers, if applicable;
 - o Servicing history, such as the last twelve months' payments and disbursements and the last escrow analysis;
 - o Collection history on all loans;
 - o Foreclosure information on loans transferred during the foreclosure process;
 - o Bankruptcy information and documents;
 - o Pending payoff and/or assumption statements;
 - o Other information concerning pending items, including, for example, partial releases, mortgage life or mortgage disability claims, and any matters in litigation;

- o Photocopies of letters and notices concerning the transfer of servicing addressed to mortgagors, hazard insurance agents and carriers, tax-bill services, the FHA, the VA, mortgage insurance companies, etc.
8. When the physical transfer of servicing is completed:
- o Answer mortgagors' questions about the transfer;
 - o Forward mortgage payments daily to the buyer (for a period of at least thirty (30) days);
 - o Forward correspondence, bills, receipts, and documents relating to the transferred loans promptly.

Buyers' Responsibilities. It is recommended that buyers should:

1. Send a notice of the transfer of servicing to mortgagors, recapitulating and elaborating on the information contained in the seller's notice. The buyer's notice should be sent concurrently with the seller's, or shortly thereafter.
2. Prepare for the transfer of servicing by ensuring that adequate facilities and staff are available to set up loan information from transferred files quickly.
3. Conduct a legal review of state requirements before buying servicing, in order to ensure compliance with state laws, statutes, and regulations and with industry standards for servicing.
4. When the transfer of servicing is completed:
 - o Respond to mortgagors' questions and requests concerning payoffs, assumptions, year-end statements, servicing practices (e.g., procedures for making payments, acceptance of toll-free or collect telephone calls), etc. (A buyer should make every effort to avoid referring mortgagors back to the previous servicer. If a mortgagor's request cannot be honored without recourse to the seller, it is the buyer, not the mortgagor, who should communicate with the seller);
 - o Handle questions from insurance agents or carriers, taxing authorities, government agencies, etc.;

- o Practice forbearance with mortgagors when sorting out transfer-related problems (delinquencies, the assessment of late charges).

Training

Mortgage companies should provide training to all employees, so that they do their work well and are able to provide informed service to mortgagors.

BOARD OF GOVERNORS

Mortgage Bankers Association of America
Vista International - Washington, D.C.
September 4-5, 1986

RESOLUTION

SUBJECT: Mortgage Servicing Guidelines

BE IT RESOLVED THAT:

The Mortgage Bankers Association of America recognizes that the attached Mortgage Servicing Guidelines generally describe proper residential mortgage servicing and therefore recommends adherence to these guidelines by its membership.

EXPLANATION:

Recent attempts by state legislators to regulate certain aspects of mortgage servicers' relationships with their customers prompted the Servicing Committee and State and Local MBA Liaison Committee to recommend the establishment of uniform mortgage servicing guidelines. A group comprised of members from both of these committees drafted the attached document. These Mortgage Servicing Guidelines are intended as a set of suggested business practices that the industry should strive to meet in order to protect its customers and protect the industry from unnecessary regulation.

RECOMMENDATION OF: Executive Committee



1125 Fifteenth Street, N.W.
Washington, D.C. 20005

202-861-6500

Mortgage Bankers Association of America

Mortgage Bankers Association of America

MORTGAGE SERVICING GUIDELINES

Developed by the:

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 and
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 - o Instructions concerning interim payments (until notice of the transfer of servicing is sent from the buyer);
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2. Prepare for the transfer of servicing by ensuring that adequate facilities and staff are available to set up loan information from transferred files quickly.
3. Conduct a legal review of state requirements before buying servicing, in order to ensure compliance with state laws, statutes, and regulations and with industry standards for servicing.
4. When the transfer of servicing is completed:
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- o Practice forbearance with mortgagors when sorting out transfer-related problems (delinquencies, the assessment of late charges).

Training

Mortgage companies should provide training to all employees, so that they do their work well and are able to provide informed service to mortgagors.

XC XC
ALASKA MORTGAGE BANKERS ASSOCIATION

P.O. BOX 4-2691/ANCHORAGE, ALASKA 99509

H: C . . .

received 1/21/87

January 8, 1987

Representative Randy Phillips
P. O. Box V
Juneau, AK 99811

Dear Representative Phillips:

Thank you for taking the time to meet with representatives of Alaska Mortgage Bankers Association regarding your concerns on transfer of mortgage loan servicing.

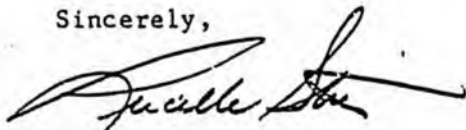
We have reviewed the letters you received from constituents. It would be impossible to respond to the individual comments without having all the information available. As you know, there is a difference in perspective.

Although there are exceptional instances, it is our belief that lenders overall handle mortgage loan servicing properly and efficiently.

Nationwide, there were probably more servicing problems in 1986 than would normally be encountered, due to the large number of refinances because of the rapid drop in interest rates. Although the system was not perfect, it did work and many people benefited from reduced payments which would not have been possible without free movement within the secondary market.

As an Association and individually, we are always willing to work with consumers to assist them in solving problems.

Sincerely,



Lucille Stietz
President

Sept. 15, 1986

Randy Phillips
Box 142
Eagle River, AK 99577

Dear Rep. Phillips:

I read with interest the article in Sunday's Anchorage Daily News regarding the transferring of mortgages from one banking institution to another and of your interest in introducing legislation to involve the borrowers in this decision.

Last April 1986 I learned that the mortgage on my home in Anchorage had been sold by Rainier Bank to Union Federal Savings & Loan in Fountain Valley, California, which is outside of Los Angeles. I was given their address and told to direct my loan payment there. Unfortunately for me, Rainier didn't know that Union received their payments at another mail drop in Los Angeles and sent out the payment card for the following month from there. My cards were first directed to "Bethel, Arkansas (AR)" and later to "Bethel, Arizona (AZ)", all with an incorrect Zip Code, so I never received them. I did receive notices of late payment charges, which were finally cleared up after several telephone calls to California.

I shall always remember Rainier Bank for letting this happen to my account with them, with no prior notice to me.

I feel that legislation should be passed which allows for fair treatment of borrowers, and places the responsibility on the financial body to inform us in advance and to determine the proper procedure to follow. As far as I know, Union has no agent in Alaska and I miss the ability to visit the bank to have a face-to-face encounter with a loan officer. I think the lender should provide at the very least toll-free telephone service to their Alaska accounts. Also, I feel that other financial institutions should be given first opportunity to receive transferred accounts who have offices in Alaska before they are allowed to be sold to another out-of-state bank.

I suspect you will receive quite a number of letters like this one, and I urge you to follow through with your plans to curtail this practice so that the borrower receives fair treatment.

Very truly,



Carl Berger
P.O. Box 2021
Bethel, AK 99559

P.O. Box 91875
Anchorage, AK 99509
7 October 1986

Representative Randy Phillips
P.O. Box 142
Eagle River, AK 99577

Re: Out of state mortgage companies

Dear Representative Phillips,

When I talked to you on the phone last week about the problems I have been experiencing with the mortgage company who bought the servicing rights to my mortgage, I was very pleased that you are considering introducing legislation to protect Alaskan home buyers from mortgage companies.

As I promised, I am writing to you some of the experiences I have been having with respect to service from mortgage companies. The company who bought the servicing to my contract, Manufacturer's Hanover Mortgage Corporation (MHMC) is a very large company, who handles hundreds of thousands of accounts in order to make the little money they make from any one account add up. My contract is a Preferred Account Mortgage (PAM), also sometimes known as a secured funds account. As I explained to you, this type account is unique in that funds are placed into a savings account at closing, and each month, a portion of these funds are taken out by the mortgage company to pay part of the monthly payment. This makes property more affordable for consumers who have more than the minimum amount necessary for a down payment.

My contract specifically states that interest is to be paid on the funds in the account at an interest rate to be agreed upon by the borrower and the financial institution. Since MHMC took over the servicing of the contract, they have paid about \$52.00 over a period of 24 months. At no time have I been informed of the interest rate that they are paying. For comparison, during the first 3 months of the contract when it was serviced by a local firm, I earned \$102 in interest. I now know that MHMC is no longer paying interest on the account, and has not paid any interest on the account since the first month. This is despite the fact that they wrote to me in a letter after they stopped paying interest that they were indeed paying interest in accordance with the conditions of my contract.

Additionally, they have succumbed to the wishes of the mortgage insurance company to increase my yearly premium by a factor of almost 2.0. It turns out that the mortgage insurance company made a mistake when they quoted the rate for the insurance before I closed the mortgage. The rate I and the mortgage company are contractually obligated to is the only one I have agreed to paying, but MHMC has already taken additional funds from my escrow account and did then increase my monthly payment to make up for the difference.

I could go on for several pages about other mistakes they have made, but I would rather get to the point of preventing such occurrences for other Alaskans.

Representative Randy Phillips
7 October 1986

One item of significance in the situation that I believe is of utmost importance to include in legislation is that the buyer must receive from the mortgage servicing agent each year, preferably with his statement of interest paid, is an accounting of his payments for the year. In my case, it took about 19 months of pleading with MPMC to get this account information. I now suspect it was because they knew I would find out all the other mistakes they had made of which I was not previously aware. I'm sure that large mortgage companies will tell you that it is unnecessary, and that the buyer can have the information any time he asks, but my case is one in point that a law is needed to force the requirement. Punishment for not providing the information on time should not be severe for the first occurrence, but increasingly severe for additional occurrences. Of more importance, however, is legislation to provide a legal time limit in which the mortgage company must correct their mistakes after having it brought to their attention. Six months to a year would not be unreasonable. Mortgage companies will scream about this requirement, but I hope that you will not back down to them.. A respectable mortgage company would be glad to get the account straightened out in much less time than that; only a mortgage company who does not care about the people who pay them will be reluctant to work to correct their mistakes. They will also be sore that they now will have to do something they have not had to do before. Punishment for even the first instance of not straightening out an account in the allotted time should be severe - possibly \$500 to \$1000, and paid to the State of Alaska Consumer Protection Agency.

One additional item I believe is necessary: a mortgage company should be required to inform the buyer in advance when a payment is to be made out of the escrow account for any item not specifically spelled out in the contract as an item to be paid from the escrow account. In my case, funds were taken from escrow for an assessment that was supposed to be paid by the builder. Even if the builder did not pay, the title insurance was to pay for it, but I did not know about all this until after funds were taken from the escrow account. It took much time and patience to get the money back from the Municipality.

I would be happy to work with you on the legislation on this, because I have certainly learned a lot from this experience about how little a home buyer can do to get action on the part of an outside mortgage company.

My day phone number is 277-5605, and the evening phone is 258-2184. Thank you for your interest in this matter, and I look forward to hearing from you soon.

Sincerely,

Michael Smith

Michael Smith

91
9-18-86

State Rep. Randy Phillips
1024 W 6th
Anchorage, Ak 99501

Re. "Sold Out" Anchorage Daily News
article by Jim Erickson published
9-14-86, pps H1, H4, H5.

Dear Sir:

I support your intentions as stated
in the article. I would like to discuss
two aspects of loan servicing.

(1) Loan servicing is a large industry
employing many people and consuming
a substantial quantity of goods and
services. Considering that the bulk
of the loans are funded by AHFC,
outside servicing is not in accord
with 'residency hire' goals.

(2) Reserve accounts are an integral part
of loan servicing. There are one or two
credit unions paying interest on reserves,
but only on those loans serviced in-
house. Banks do not pay interest on
reserves, they have use of the money at
no cost. Reserve requirements for AHFC
loans, like FUMMA, are based on property
value and are equivalent to 10 months
tax payments and 14 months of hazard
insurance premiums. Let's use Jim
Erickson's figures to determine how
much is at stake.

(2) cont.

Erickson states that AHFC has 4.3 billion in loans. Since the majority of AHFC loans have a loan to value ratio of 95%, i.e., 5% down, we may infer that the value of the property mortgaged is \$ 4.526 billion.

$$\begin{aligned}
 \$ 4.3 \text{ billion} &= .95 \text{ property value} \\
 \$ 4.3 \text{ billion} \div .95 &= \text{property value} \\
 \$ 4.526 &= \text{property value}
 \end{aligned}$$

At this point let's make three assumptions:

- (a) that the average tax rate is 6 mills, and;
- (b) that property hazard insurance premiums run \$ 25.00 per month for the average \$ 100,000 home - or .00025 % value.
- (c) Alaskan homeowners can earn 6% on their savings.

The total monthly tax bill on property valued at \$ 4, 526, 000, 000 at a rate of 6 mills is \$ 271, 560, 000.

$$\begin{aligned}
 \text{Reserves} &= 10 \text{ months taxes} \\
 &= 10 \times \$ 271, 560, 000 = \$ 2, 715, 600, 000
 \end{aligned}$$

The total monthly insurance premium is \$ 4, 526, 000, 000 x .00025 = \$ 1, 131, 500

$$\begin{aligned}
 \text{Reserves} &= 14 \text{ months premiums} \\
 &= 14 \times \$ 1, 131, 500 = \$ 15, 841, 000
 \end{aligned}$$

$$\begin{aligned}
 \text{Total Reserves are} & \$ 2, 715, 600, 000 \\
 & + \quad \quad \quad 15, 841, 000 \\
 & \underline{\hspace{10em}} \\
 & \$ 2, 731, 441, 000
 \end{aligned}$$

Opportunity cost to the Alaskan Homeowner

The loss of interest income to the borrower on these reserves is \$ 1,63,886,460 per year if the borrower can earn a simple interest rate of 6%.

$$\$ 2,731,441,000 \times .06 = \$ 163,886,460$$

at an interest rate of 6% compounded monthly over the 16 year life of an A.H.F.C. loan the opportunity cost is \$ 7,129,061,010

$$F_n = \$ 2,731,441,000 \left(1 + \frac{.06}{12}\right)^{12 \times 16}$$

$$F_n = \$ 2,731,441,000 (2.61) = \$ 7,129,061,010$$

In effect, what the lenders have achieved by not paying interest on reserves is to increase their yield on the loan. The real rate of interest received on all loan payments, including closing fees and interest earned on reserves, is far greater than the advertised annual percentage rate (A.P.R.). Lenders must disclose on A.P.R. as a requirement of federal truth in lending statute, however, reserves are not taken into account, are not used in the computation of the A.P.R.

Mr. Phillips, I wish you best of luck in the next session.

Sincerely, Grand Diemer

2421 Cleo Av. Anchorage, AK

August 6, 1986

Randy Phillips:

This a plea for assistance to try to eliminate a problem I have recently encountered.

Lately I have been trying to refinance two properties. To facilitate refinancing, it was necessary to get a "Statement of payoff" from the mortgage company holding the present loan. The original loan had been sold to a mortgage company in Maryland. So far it has been nearly ten weeks since the request for payoff was submitted, both written and verbal. It seems after repeated communications with the mortgage company that someone 4000 miles away does not deserve any attention whatsoever. Needless to say, it has been extremely frustrating trying to deal with these people.

I have contacted the State Banking & Securities Commission and found there are no laws, regulations or anything to control the selling of mortgages. According to the person I spoke with, there have been numerous complaints about Outside companies "stonewalling" Alaska residents trying to get information necessary to close on a sale or refinance of a property. It was also pointed out that mortgage companies are not considered banks and therefore are basically unregulated.

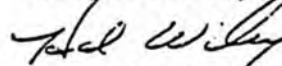
It is my request that legislation be initiated to place some controls on the selling of mortgages. If they are to be sold, the buyer of the papers should be required

maintain an office in the State of Alaska, thereby guaranteeing access by the residents of Alaska. This control should be legislated to include both banks and mortgage companies.

Thank you for any assistance you may give to alleviate this problem in the future for Alaska citizens. Nobody should have to go through the frustrating experience of dealing with these companies by long distance.

Thank You,

Respectfully,



Hal Wiley

P.O. Box 843

Engle River, AK

99577

694-3196 (H);

1 IN THE HOUSE

BY PHILLIPS

2

HOUSE BILL NO. 112

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the servicing of certain residen-
tial housing mortgage loans purchased by the Alaska
Housing Finance Corporation."

7

8

9

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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* Section 1. AS 18.56 is amended by adding a new section to read:

11

Sec. 18.56.135. LOAN SERVICING REQUIREMENTS. (a) If the ser-

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vicings of a loan is sold to another person, the seller shall notify
the mortgagor of the sale within 10 days after the actual date of the
sale. The notification must include

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(1) the name, address, and telephone number of the person
who will assume responsibility for the servicing and accept payments
for the loan;

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(2) a detailed written financial breakdown of the loan,
including the interest rate, monthly payment amount, and current
escrow balance.

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(b) The purchaser of loan servicing under (a) of this section
shall

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(1) issue to the mortgagor corrected coupon or payment
books, if used;

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(2) within 20 days after the due date of the first payment
to be made to the purchaser,

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(A) notify the mortgagor of the name, address, and
telephone number of the person from whom the mortgagor can re-
ceive information regarding the servicing of the loan;

28

29

1 (B) inform the mortgagor of changes made regarding the
2 loan escrow account or servicing requirements, including the
3 interest rate, monthly payment amount, and current escrow
4 balance.

5 (c) A loan servicing agent shall respond within 15 business days
6 to a written request for information from the mortgagor. The written
7 response must include the telephone number of the agent's representa-
8 tive who can assist the mortgagor.

9 (d) If a mortgagor of a loan is required to maintain funds in an
10 escrow account to cover the payment of the tax or insurance obliga-
11 tions for the mortgaged property, the loan servicing agent shall make
12 each tax or insurance payment in a timely manner as the obligations
13 become due if the funds in the account are sufficient to cover the
14 payment. If the funds in the account are insufficient to make the
15 payment, the loan servicing agent shall promptly notify the mortgagor
16 of the shortage and may make the payment on behalf of the mortgagor.

17 (e) If a person wilfully or negligently fails to comply with
18 this section, the person is liable to the mortgagor for

- 19 (1) the actual damages caused by the failure; and
20 (2) \$500 for each failure to comply.

21 (f) In this section

22 (1) "loan" means a mortgage loan purchased by the corpo-
23 ration under a residential housing loan program authorized by this
24 chapter;

25 (2) "loan servicing agent" means the person who services a
26 loan.