OREGON LAW CENTER

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Testimony Regarding Senate Bill 275
Before the Senate Business and Transportation Committee
March 18th, 2015

Chair Beyer, Vice-Chair Girod, and members of the Committee,

On behalf of the Oregon Law Center (OLC), thank you for the opportunity to provide testimony in support of Senate Bill 275, which would allow DCBS to license and regulate certain loan servicers.

OLC is a non-profit law firm whose mission is to achieve justice for low-income communities of Oregon by providing a full range of the highest quality civil legal services. The vast majority of our clients have incomes below the federal poverty level, and work hard to provide the basic necessities for themselves and their family. During recent years of escalating economic crisis, we have seen a marked increase in the number of people eligible for our services. Swept up by the force of failing markets worldwide, homeowners joined a list of groups more traditionally associated with poverty. As foreclosure rates remain at approximately 4 times "normal" rates, we continue to hear from low-income clients struggling to pay their mortgages, whose housing is at risk as a result.

SB 275 proposes reasonable and important standards to govern the interactions between non-bank mortgage servicers and homeowners. Servicers play a critical role in the home mortgage lending process. Lenders depend upon servicers to bill for and collect payments and to manage the loan on the lender’s behalf. Borrowers depend upon servicers to process their payments, make accountings, provide information, and manage modification requests. Servicers play an intermediary and management role that is critical to both the lender and the borrower.

During the mortgage foreclosure crisis, many borrowers nationwide reported serious problems with servicers, resulting in national litigation. Settlement of that litigation addressed many borrower issues, but only applied to servicers that were banks. Banks used to provide most of the nation's loan servicing, but in recent years, most servicing rights have been transferred from the banks to nonbank servicers. For loans in default, even where the master servicing rights are not transferred, day-to-day servicing is often transferred to smaller nonbank servicers.

Unlike the heavily regulated banks, nonbanks have few sidebars, and substantial risks. Nonbank servicers play the same critical role in the lender/borrower relationship that banks do, but have far fewer qualifications for the job. Nonbanks have not been subject to the kinds of capital requirements that the banks are. If a nonbank entity fails, it could wreak havoc on countless Oregon homeowners who won’t know where to send their payments or who may not have their payments credited, throwing them into default.

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SB 275 will protect borrowers by providing greater oversight and minimum standards for nonbank servicers operating in Oregon. The bill requires non-bank servicers to obtain a license from DCBS and undergo regular evaluation by state regulators. It also imposes minimum standards of practice on covered loan servicers. The bill allows DCBS to sanction or revoke the license of an entity that does not comply with Oregon law, and allows the agency to take protective actions if an entity becomes insolvent.

While some of this behavior is currently covered by the Consumer Financial Protection Bureau (CFPB), that national agency is unable to adequately manage and respond to individual cases in a timely manner. Senate Bill 275 will respond to the current needs of Oregonians in today's mortgage servicing world, by protecting borrowers in their relationships with non-bank servicers. With the foreclosure slowly receding, it is good policy to create minimum standards and oversight to make sure we do not re-create history.

For these reasons, we respectfully urge your support of SB 275, and thank you for the opportunity to testify.