

HOUSE BILL REPORT

HB 2451

As Reported By House Committee On:

Law & Justice

Title: An act relating to the homestead exemption.

Brief Description: Raising the value of the homestead exemption to forty-three thousand dollars.

Sponsors: Representatives McDonald, Bush, Van Luven, Dunn, Thompson and Mulliken.

Brief History:

Committee Activity:

Law & Justice: 1/27/98, 2/5/98 [DPS].

HOUSE COMMITTEE ON LAW & JUSTICE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Sheahan, Chairman; McDonald, Vice Chairman; Sterk, Vice Chairman; Costa, Ranking Minority Member; Constantine, Assistant Ranking Minority Member; Carrell; Cody; Kenney; Lambert; Lantz; Mulliken; Robertson and Sherstad.

Staff: Edie Adams (786-7180).

Background: When a creditor obtains a judgment against a debtor, the creditor may recover his or her judgment out of the debtor's real and personal property. The creditor may force the debtor to sell the property to repay the debt.

A portion of a debtor's property is usually protected against judgment creditors through exemptions. Washington law provides a number of personal property exemptions, including: most wearing apparel; household goods, furniture and appliances up to an aggregate of \$2,700; two cars up to an aggregate value of \$2,500; and tools of the trade up to a value of \$5,000. Exemptions of varying amounts are also provided for other kinds of personal property and for pension benefits, and limitations apply to some exemptions.

In addition to personal property exemptions, Washington provides a "homestead" exemption for debtors. The homestead exemption protects a debtor's equity in the real

or personal property that the debtor uses or plans to use as a residence. The exemption generally is limited to the lesser of: (1) \$30,000 if the homestead consists of real property or a mobile home, or \$15,000 if the homestead consists of personal property; or (2) the total net value of the homestead property. Net value is defined as the market value of the property less all liens and encumbrances.

The current real property homestead exemption amount of \$30,000 has been in effect since 1987, when the amount was increased from \$25,000.

Summary of Substitute Bill: The amount of the real property homestead exemption is increased to \$35,000.

Substitute Bill Compared to Original Bill: The original bill raised the homestead exemption to \$43,000.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: None.

Testimony Against: This bill could encourage more consumer bankruptcies. Many bankruptcies are at the option of a person, and many are related to credit card debt. The current exemption is already greater than the federal exemption. In reality, the exemption is even higher because costs of forced sale are taken off the top before creditors get anything, and those costs can amount to 10 to 30 percent.

Testified: Kevin Underwood, Washington Collectors Association (con); and Judy Warnick, Washington Collectors Association (con).