

WAC 460-33A-036 Participation agreement. (1) In each sale of mortgage paper securities, the mortgage broker-dealer shall obtain a signed participation agreement from the investor prior to the release of funds from escrow.

(2) The participation agreement shall address the following:

(a) The rights of investors to interest on the loan and other amounts derived from the loan and the property securing the loan;

(b) The rights and responsibilities of investors to contribute additional funds;

(c) Any restrictions on transfer;

(d) Any rights of first refusal;

(e) The intended tax treatment of an investment in mortgage paper securities and income derived therefrom;

(f) The nature and the extent of the authority of the mortgage broker-dealer to negotiate any loan modifications or workouts with borrowers, or to seek or negotiate the sale or lease of real property acquired by investors through foreclosure of their lien; and

(g) The requirements for amending the participation agreement.

(3) The participation agreement shall provide that the following actions may not be taken on behalf of the investors without the consent of investors holding a majority percentage of the unpaid amount of notes or other obligations:

(a) Consenting to the sale or transfer by the borrower of the collateral securing the loan, or the substitution of a new borrower;

(b) Approving any modification to the loan that decreases the rate of interest payable to the investors;

(c) Deferring or forgiving the payment of any principal, interest, or other amounts due in connection with the loan;

(d) Making any agreements concerning the release, substitution, or exchange of any collateral, or any portion of the collateral, for the loan;

(e) Entering into any agreement to reduce the principal amount of the loan (except for actual payments of principal);

(f) Making any concession with respect to compliance with any material obligations imposed by the instruments evidencing or securing the loan; or

(g) Extending or renewing the loan.

(4) The participation agreement shall provide that to the extent the mortgage broker-dealer owns an interest in the loan, the mortgage broker-dealer, or any successor or assignee, shall be bound by the terms of the participation agreement.

(5) The participation agreement shall provide that investors holding interests representing at least ten percent of the unpaid amount of the loan, or that hold interests representing at least ten percent of the property acquired by investors through foreclosure, may call a meeting of the investors in the loan.

(6) The participation agreement shall provide that in the event a loan is foreclosed and the property that secures the loan is sold, the excess of the sale proceeds after payment of expenses and repayment of any funds advanced by the mortgage broker-dealer or others shall be distributed to the investors, including the mortgage broker-dealer to the extent it owned an interest in the loan and owns an interest in the property, in proportion to their respective interests in the loan. The participation agreement shall not provide for any such excess to be distributed to the mortgage broker-dealer except to the extent the mortgage broker-dealer owned an interest in the loan and owns an interest in the property.

(7) The participation agreement shall not provide for the payment of late fees, default interest, or other fees and expenses that are assessed against a borrower who has defaulted on a loan, but that are not paid prior to foreclosure, to the mortgage broker-dealer in the event the investors acquire the real property securing the loan at the foreclosure sale. The mortgage broker-dealer may, however, be compensated at a reasonable rate for services performed in pursuing foreclosure and the management or sale of property acquired by investors through foreclosure.

(8) The participation agreement shall not provide for the indemnification of the mortgage broker-dealer by the investors for acts or omissions that constitute a violation of the Securities Act of Washington, chapter 21.20 RCW, or the rules adopted thereunder.

[Statutory Authority: RCW 21.20.060, [21.20].070, [21.20].090, [21.20].100, [21.20].180, [21.20].210, [21.20].250, [21.20].270, and [21.20].450. WSR 12-11-087, § 460-33A-036, filed 5/17/12, effective 6/17/12.]