Senate

General Assembly

File No. 477

February Session, 2006

Substitute Senate Bill No. 437

Senate, April 11, 2006

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT INCREASING THE CONNECTICUT HOUSING FINANCE AUTHORITY'S UNINSURED PERMANENT MORTGAGE CAP.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 8-251 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2006*):

(a) In order to provide additional construction and permanent financing for housing in this state, the authority is authorized to make commitments to purchase, and to purchase, service and sell mortgages and to make loans directly upon the security of any mortgage, and to make commitments to purchase, and to purchase and sell participation sale certificates representing interests in mortgages, provided the underlying mortgage loans shall have been made and shall be used solely to finance or refinance the construction, rehabilitation, purchase or leasing of housing in this state, and provided further the aggregate amount of permanent mortgages, mortgage-backed securities and participation sale certificates representing interests in mortgages purchased, and permanent loans made by the authority which are not directly or indirectly insured or guaranteed by any department, agency, instrumentality of the United States of America, or public corporation chartered by the Congress of the United States, including but not limited to the Federal Home Loan Mortgage Corporation, or which are not insured or guaranteed by any department, agency or instrumentality of the state, any insurance company licensed to do business in the state and authorized to underwrite mortgage insurance or by the authority shall not at any one time exceed **[**seven hundred fifty million**]** <u>one billion</u> dollars.

(b) For the purpose of encouraging balanced community development in urban areas and increasing the supply and availability of mortgage financing for the residents of urban areas, the authority is authorized to make commitments to purchase, and to purchase, urban area mortgages or to make loans directly upon the security of urban area mortgages or to make loans for, or to purchase, urban area mortgages under terms and conditions requiring the proceeds thereof to be used for the making of additional urban area mortgages, subject to the provisions of section 8-250.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2006*	8-251

FIN *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect
CHFA	See Below

Municipal Impact: None

Explanation

Under current law, The Connecticut Housing Finance Authority (CHFA) is permitted to hold up to $750 million in uninsured mortgages[1] in its loan portfolio. The agency currently holds a total of about $4.2 billion in loans, of which about $700 million is uninsured (about 17% of the portfolio.) The bill increases the statutory limit on uninsured mortgages to $1.0 billion (about 24% of the portfolio), which is closer to the historic limit of 30% that the General Assembly previously set for CHFA on this type of asset.

Increasing the amount of uninsured mortgages that CHFA can hold increases the level of default risk in its mortgage portfolio. CHFA uses the loan repayments from this portfolio to make debt service payments on bonds that are backed by a special capital reserve fund[2] (SCRF). If a large number of these uninsured mortgages went into default, it could potentially affect the agency's ability to meet its debt service liability.

[1] Mortgage loans in which the borrower provides a down payment of less than 20% require insurance from sources such as the Veterans Administration, Federal Housing Administration or private mortgage insurance (PMI.) An uninsured loan is one in which the borrower provides more than a 20% down payment.

[2] CHFA issues bonds under its own authority that are backed by a special capital reserve fund (SCRF). A SCRF extends the state's credit for bonds issued by various quasi-public state bond-issuing authorities such as CHFA. SCRF-backed bonds are a contingent liability or potential financial responsibility of the state that may become a real financial responsibility at some point if the quasi-public agency fails to pay the debt service for SCRF-backed bonds it has issued.

In such a situation, the debt service payments would be made from the reserve account[3] for the SCRF-backed bonds. If the reserve account fell below a certain level, the state would be obligated to appropriate money from the General Fund to refill the account. It appears very unlikely that this scenario would occur because CHFA is rated as AAA by the ratings agencies, which is higher than the State of Connecticut's rating[4]. CHFA's high rating indicates that the overall quality of the assets in its $4.2 billion portfolio is considered to be very high and the overall level of default risk is low. Thus, in the unlikely event that a large number of uninsured mortgages went into default, CHFA would in all likelihood still be able to meet its debt service obligations with loan repayments from the remainder of its portfolio.

As of 1/1/05, CHFA had $2.7 billion in outstanding SCRF-backed bonds under its Housing Mortgage Finance Program and $45.0 million under its Special Needs Housing Mortgage Finance Program.

The Out Years

The ongoing fiscal impact of this bill is that CHFA will continue to be able to provide financing for uninsured mortgages.

[3] CHFA is currently required to maintain a balance of about $250 million in the reserve account for the SCRF-backed bonds. The actual value of CHFA's reserve account is over $600 million, giving the agency more than twice the coverage required.

[4] The State of Connecticut's General Obligation bond rating is AA from Standard & Poor's and Fitches and Aa3 from Moody's.

OLR Bill Analysis

sSB 437

AN ACT INCREASING THE CONNECTICUT HOUSING FINANCE AUTHORITY'S UNINSURED PERMANENT MORTGAGE CAP.

SUMMARY:

This bill increases, from $750 million to $1 billion, the maximum amount of uninsured mortgages and mortgage interests on which the Connecticut Housing Finance Authority (CHFA) may, at any one time, make direct loans or that it may buy, sell, or service.

CHFA is a quasi-public agency that provides financing for developers of low- and moderate-income housing projects and low- and moderate-income first-time home buyers. Uninsured mortgages are those not directly or indirectly guaranteed or insured by any public agency or private company.

EFFECTIVE DATE: October 1, 2006

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea	47	Nay	0	(03/28/2006)