

Legal Assistance Resource Center

❖ of Connecticut, Inc. ❖

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H.B. 5165 -- Emergency Mortgage Assistance Program (EMAP)

Banks Committee public hearing -- February 21, 2008

Testimony of Raphael L. Podolsky

Recommended Committee action: JOINT FAVORABLE

This bill would re-start the state's Emergency Mortgage Assistance Program (EMAP), which was adopted in 1993 and implemented in 1994 and 1995 with a non-revolving bond authorization of \$4 million. The bill would bond \$5 million to reactivate the program. EMAP allows a homeowner who has fallen into default on a non-FHA-insured mortgage through financial hardship "beyond his control" (unemployment, illness, divorce, etc.) but is likely to be able to resume full mortgage payments within three years to obtain a stay of a foreclosure action. During that period, the homeowner pays 35% of his income to CHFA and CHFA makes the full mortgage payment, with the difference becoming a lien on the house in favor of CHFA until repaid. CHFA's first payment also covers the arrearage. The lender is thus fully protected. The statute was based on a successful Pennsylvania program which over the years has grown and now serves more than 2,000 homeowners with funding of nearly \$30 million. In contrast, Connecticut allowed its program to die after the initial funding authorization was exhausted, with repayments going to the General Fund.

H.B. 5165 also makes several small but important changes to EMAP that are essential if it is to function properly in the current market:

- * Recycling of funds: Repayments of EMAP would be used to make more EMAP loans. About three-fourths of annual program funding in Pennsylvania comes from repayments, thereby reducing the amount of new money needed each year to maintain the program.
- * Applicability to all lenders: All foreclosing lenders would be covered, as in Pennsylvania. The Connecticut statute, which was adopted when most mortgages were held by local banks, applies only to lenders which choose to "participate." With mortgages now resold across the country, this voluntary approach, which was of limited effectiveness in the mid-1990s, would be completely unworkable today.
- * Interest-rate resets: EMAP would be expanded to cover interest-rate resets, i.e., instances where the homeowner's income is stable but the cost of the mortgage has increased. The existing statute covers only cases where the homeowner has suffered a loss of income. This change will allow EMAP to be used as a bridge to refinancing programs. The bill does not change the existing requirement that, as a condition of eligibility for an EMAP loan, there must be a reasonable prospect that the homeowner will be able to repay the mortgage.
- * Reduced look-back: The look-back period at the homeowner's past mortgage history is reduced from five years to two years.