



Office of The Attorney General
State of Connecticut

*TESTIMONY OF
ATTORNEY GENERAL RICHARD BLUMENTHAL
BEFORE THE BANKS COMMITTEE
FEBRUARY 28, 2008*

I appreciate the opportunity to support House Bill 5577, An Act Concerning Responsible Lending and Economic Security.

This proposal establishes three separate programs to assist homeowners facing foreclosure: (1) the REAL program offers lower fixed rate mortgages to moderate and low income homeowners who face difficulty in making loan payments; (2) the HERO program purchases mortgages from lenders where the property is valued at less than the mortgage and refinances the homeowner at a lower fixed rate; and (3) the Emergency Mortgage Assistance Program provides assistance to homeowners who are in very difficult financial straits.

House Bill 5577 also places restrictions on mortgage brokers, requiring them to act in the best interest of the borrower, and prohibiting any refinanced loan that does not have a net tangible benefit to the borrower. Subprime loans are more tightly regulated, prohibiting prepayment penalties or interest rate increases after default.

This program is not a bailout. It is not a handout. It is a hand up for homeowners, so they can take responsibility for their mortgages at fair market rates. It enables banks to sell loans at steep discounts, avoiding even steeper discounts that occur at foreclosure.

I urge the committee to consider establishing a temporary Connecticut Home Ownership Loan Authority (CHOLA) to issue \$100 million in bonds to fund assistance programs and its operations. With a clear sunset provision, CHOLA would provide loans only for two years and then function solely as a mortgage collector for another 20 years. All funds would be segregated from taxpayer monies.

The advantage of CHOLA is:

- no taxpayer money for operating expenses or bond payments
- sunset authority for issuing loans after 2 years -- stabilize market and end
- limited existence to maximum 20 years while mortgages are repaid

Federal officials have boasted of offering a lifeline to homeowners in crisis, but it's more like a shoelace. With our entire economy on the brink of catastrophe, citizens need more effective aid to avoid foreclosure -- and they need it now. House Bill 5577 would keep people in their homes, but impose accountability on them and lenders. This refinancing system, modeled after a successful depression-era program, could spare homeowners from devastation without expense to taxpayers. A nationwide debt crisis is devastating citizens -- not simply irresponsible deadbeat delinquents, but families who have lost jobs, homeowners victimized by unscrupulous brokers and lenders, and responsible borrowers hit by sudden unfortunate financial challenges.

I urge the committee's favorable consideration of House Bill 5577.