My name is Dan Duffy and I am speaking on behalf of the Connecticut Association of Mortgage Brokers. I am here today to discuss several proposed bills that relate to the mortgage industry. These bills include House bills 5023, 5494 and 5577 and Senate bill 423. Before I address these bills I would like to remind the committee that CTAMB spoke in support of Senate Bill 21 last week and a position paper from our association was included in the submitted documents from that public hearing.

In regards to the proposed legislation for today's hearing, CTAMB is opposed to all four bills as they are proposed today. Rather than speak about each bill individually I would like to address some of the major themes covered by the bills. The first area is education and testing requirements. CTAMB has always supported the implementation of an entry test to obtain a license. We have some concerns with the continuing education piece. We believe that in reviewing the practices of other states and also other industries that mandate education, there are issues with the value and relevance of the courses. Proposals seem to be designed to fill a predetermined hour amount rather than what is essential to know. The amount of legislative change that occurs over a two year period varies greatly and rarely if ever would entail 8 – 10 hours to cover. We are also concerned that the only people that would truly benefit are organizations that would provide the education, as the mandatory classes will simply become a money maker. Our recommendation would be to have a test administered by the Banking Department. Starting with the entry exam and then adding in a test on Federal and State legislation. Establish a task force made from an equal representation from industry organizations that would help design the test and then continually review it for accuracy and relevance. If an applicant wants to take courses to prepare for the test it would be their choice.

Several of the bills look to define a subprime loan along with assigning duties of the mortgage broker and the use of a tangible benefit to determine whether a refinance can happen. The bills define subprime loans based on the yield of a like treasury note plus a margin. Our concern with this is that the proposed margin would be too restrictive and would have the possibility of conventional prime loans falling into that category. Fannie Mae and Freddie Mac continue to increase add-ons to interest rates for loan purpose, ltv and document type amongst other things. The bill could also place many prime jumbo loans and multi family loans into the subprime category. Legislation on the duties and responsibilities of a broker and a tangible benefit for the consumer has led to many lenders and brokers pulling out of practicing in some states. Having language in legislation that is open to interpretation is too risky as in the end a court of law will most likely define what constitutes "acting in the best interest of" a client. In HB5577 the tangible benefit provision does not allow for many refinances that would be advantageous to the consumer. It states that for it to be a tangible benefit as a cash out refinance, the borrower must receive at least 5 percent of the appraised value as cash back. This does mot appear to take in to account that many times the refinance will pay off debt with little cash going to the consumer. A borrower who wants to take on a larger payment to reduce the term of the loan would not meet the defined tangible benefit definition. Similarly a person who is looking to relieve a cash flow problem and thus reduces their payment but extends the loan would also not fit into the definition of a tangible benefit.

Also included in these bills is a provision for the disclosure of yield spread premium. Yield spread continues to be the most misunderstood and mischaracterized item in the mortgage world. Yield spread is currently disclosed in the Good Faith

Estimate and on The HUD at closing. Yield spread is what allows for choice for the consumer. It allows for a borrower to put less money in or get more money out of the loan. The misconception is that the borrower would have gotten a lower rate of interest if the broker was not making yield spread. The reality is that the borrower could have gotten a lower rate but it would have cost more up front. As do the banks, a mortgage broker must determine the amount of revenue generated per loan to keep the doors open and the originators able to earn a living.

In General, CTAMB has been a part of many task forces, committees, and sub committees on lending practices in the State of Connecticut. We have spoken in support of increasing bond requirements, net worth requirements and the inclusion of Connecticut in a national registry. We have also gone on record as supporting an entrance exam to gain a license. Today we ask the committee to carefully review the proposed legislations to look at the impact of restricting lending in this state. Many of the issues that these bills address no longer exist. Subprime lending has all but disappeared. The subprime adjustable rate mortgage no longer exists. Many of the problems that consumers are experiencing today are due to the fact that so many programs are gone. Many states are feeling the impact that restricting lending has caused. There are fewer programs with less qualified buyers and home values are dropping. The latest reports indicate that home prices have dropped nearly 9% over the past three months. Although Connecticut has been luckier than most states in this regard, the effect of declining markets on lending has recently occurred in pockets around the state. I thank you for your time.

Respectfully submitted,
Dan Duffy