Statement of Gary E. King
President Executive Director
CONNECTICUT HOUSING FINANCE AUTHORITY
ON FEBRUARY 21, 2008
BEFORE THE BANKS COMMITTEE

Chairman Duff and Chairman Barry, Members of the Banks Committee, I am Gary E. King, President – Executive Director of the Connecticut Housing Finance Authority. In 1969, the Connecticut Housing Finance Authority (CHFA) was created by legislation with the mission to help alleviate the shortage of affordable housing for low- and moderate-income families and persons in Connecticut. CHFA is a self sustaining, quasi-public organization, which uses its resources to provide below market interest rate mortgages for single family homeownership and multifamily rental properties. Tax exempt bonds are the primary source of mortgage capital for the Authority's housing programs. I am here to discuss Raised Bill 5165, An Act Concerning the Emergency Mortgage Assistance Program.

With the prospect of rising foreclosures in Connecticut due to the effects of sub-prime mortgage lending, we will be dealing with the issue addressed by this bill for some time to come. A variety of approaches will be offered to address the needs of homeowners facing the possible loss of their homes. Traditional delinquency and foreclosure counseling interventions and loss mitigation efforts will continue to be pursued by the Authority and others as a matter of course.

Raised Bill No. 5165 - An Act Concerning the Emergency Mortgage Assistance Program

Raised Bill No. 5165 includes sub-prime mortgage assistance as a condition that would make the borrower eligible for the Emergency Mortgage Assistance Program and provides $5 million to reopen the Program.

We face a range of serious housing challenges now here in Connecticut, from public housing revitalization, supportive housing, workforce housing to the continuing demands of urban neighborhood revitalization and downtown redevelopment. If the decision is made to fund emergency mortgage assistance, which is not included in the Governor's budget recommendations, the Authority would suggest that the current program in statute may not be the best way to provide emergency mortgage assistance. We would like to review the Authority's sub-prime mortgage experience which we believe may suggest a better approach for emergency mortgage assistance in conjunction with other programs.

CHFA's Current Sub-prime Mortgage Experience

With the advent of the sub-prime mortgage crisis nationally and in Connecticut, homeowners are currently experiencing mortgage market "adjustments". The results of this are that homeowners, prospective borrowers, lenders and communities across Connecticut are facing increased mortgage delinquency and mortgage foreclosure. Through our experience in co-chairing the Governor's Sub-prime Mortgage Task Force along with Banking Commissioner Howard Pitkin, the Authority is aware of the scope and scale of the issues facing Connecticut homeowners and communities. Many sub-prime borrowers with adjustable rate mortgages aren't able to continue to meet their obligations once their loans reset to a higher permanent interest rate. Some sub-prime borrowers were approved for mortgages with the terms and conditions that were beyond their means and should not have been approved at the time. The current impact on mortgage credit and housing markets is starting to effect prime borrowers as well. As access to credit is squeezed and homes decline in value, options in managing delinquency and default are limited. The Governor has also introduced S.B. 21, An Act Concerning Mortgage Lending which incorporates legislative changes to address sub-prime lending practices which will be addressed by Commissioner Pitkin. We would just like to make this note as to another piece to address sub-prime mortgage lending in Connecticut.

The first line of approach in Connecticut's sub-prime mortgage effort is to focus on encouraging borrowers and mortgage servicers to work together, from the first signs of trouble, in order to do whatever is possible to keep homeowners in their homes, including refinancing where possible, forbearance and loan modification where these options have a chance of success. These efforts have focused on engaging third party housing counseling agencies and the national HOPE counseling hotline in order to work with borrowers and mortgage servicers to advance this process. In addressing the current sub-prime mortgage crisis the "biggest play" always has been encouraging investors, mortgage servicers and borrowers to work together to resolve their problems in their own self-interest. This is the course of action that truly has the opportunity to provide the greatest relief to the greatest number of borrowers, and places the first line of responsibility with mortgage holders and borrowers.

The second approach has been to offer mortgage refinancing to those borrowers who have a reasonable chance of success with a new mortgage. This is the approach employed by the Authority in the Connecticut FAMLIES program. The Connecticut FAMLIES program focuses on those households that have become delinquent due to the scheduled increase in their adjustable rate mortgage and who had used this adjustable rate mortgage to purchase the home in which they are currently residing. The Program is not available to those who have used their mortgage to take "cash out" of their current property, or to investors. The Authority has made a commitment of $50 million in low-cost mortgage financing and $4 million in down payment assistance mortgages to this effort.

In our work on the Governor's Sub-prime Mortgage Task Force, we were made aware of the work undertaken by various non-profit housing organizations such as local Neighborhood Housing Service offices that are active in housing counseling and other assistance programs. These organizations work every day on the homeownership issues faced by lower- and moderate-income households in many of our State's urban communities, both helping them to attain homeownership and retain it when they encounter difficulties. These organizations have been involved from the beginning nationally and here in Connecticut in seeking to address sub-prime mortgage issues. As a part of the Task Force's sub-prime responses currently being implemented the Authority has provided nearly $1 million in capacity building funding to provide counseling to sub-prime borrowers referred to them by the Authority and the national HOPE Hotline.

Neighborhood Housing Services of New Haven offers a mortgage rescue program that combines intensive month-to-month counseling with troubled borrowers as well as payments and stipends to maintain borrowers in good standing with the objective of returning the borrower to good standing and credit within a year with a hope of refinancing their mortgage at an affordable underwriting. Working with NHS of New Haven, who was a member of the Governor's Sub-prime Mortgage Task Force, the Committee may look to their program as a model to address mortgage assistance, rather than the current statute. This new program would provide assistance to those borrowers not eligible under Connecticut FAMLIES and other federal programs. This new program could enable borrowers to get in good standing in order to refinance, which may be through the Connecticut FAMLIES program.

A brief review of the Connecticut and Pennsylvania EMAP experience follows below.

Connecticut & Pennsylvania EMAP Experience

The Emergency Mortgage Assistance Program (EMAP) was established in 1994 with a $4 million authorization of State General Obligation Bonds. EMAP was established to provide mortgage assistance to Connecticut residents who were faced with foreclosure due to financial hardship defined as circumstances beyond their control. CHFA determined eligibility based on specific criteria for financial hardship as well as the reasonable expectation that the borrower would be able to repay the loan. The Authority administered this program as a direct loan program, from initial screening and application processing all the way through loan closing, servicing and close-out. From an administrative perspective this effort was labor intensive. Several hundred applications needed to be processed in order to identify 132 borrowers. The applications themselves presented an array of difficult financial and human challenges that take time and particular expertise to address.

Of these 132 loans, with an original amount of $3.6 million available for lending under the program, 75 (57%) have been paid off, while 35 (26%) were initially assisted through the program but eventually processed through to foreclosure, for a loss of over $1,000,000. Twenty-one (16%) remain with an outstanding principal balance of approximately $525,000 were active as of 12/31/07. Of these 21 loans, 12 loans (57%) are actively paying and nine loans (43%) are in a deferred status. Of the 9 in a deferred status, 6 loans (67%) will be foreclosed or written off. The statute allowed administrative expenses to be paid from program funds and due to the labor intensive nature of this initiative the Authority incurred administrative costs from 1994-1996 totaled $420,000 (93% of which was incurred in 1994). Since 1996, CHFA has not charged the fund for administrative costs.

The Commonwealth of Pennsylvania has an emergency mortgage assistance program. Though much larger than any effort proposed in this legislation for Connecticut, the Pennsylvania experience does corroborate our experience in administering the earlier EMAP program here in Connecticut as being labor-intensive, screening and processing many more borrowers than can be assisted, employing significant staff time to process and managing the loan portfolio.

We have reviewed that program and found that in 2007:

- $10 million allocated to support the program in 2007-2008.
- Over 10,500 applicants applied for assistance in 2007 and approved 2,700 loan applications.
- About 25% of applicants are approved for assistance
- 50% of the loans are in some form of delinquency - with monthly payments are not being made
- Borrowers are charged an interest rate of 9%
- Borrowers are required to pay the loan back after the 24 month loan –resulting in borrowers refinancing their homes to pay back the EMAP loan
- 37 employees support the program
- Application volume increased 6.7% in 2007 compared to 2006.

Thank you for the opportunity to share these comments. I would be happy to answer any questions that you might have.