CBA

CONNECTICUT BANKERS ASSOCIATION

TESTIMONY OF THE CONNECTICUT BANKERS ASSOCIATION

REGARDING SENATE BILL 21

AN ACT CONCERNING MORTGAGE LENDING

Good morning Chairman Duff, Chairman Ryan and members of the Banks Committee. My name is Dave Wiese and I am here on behalf of the Connecticut Bankers Association to testify on Senate Bill No. 21: An Act Concerning Mortgage Lending.

By way of background, the Connecticut Bankers Association is an industry association representing Sixty-four banking institutions in the State of Connecticut. Collectively, these institutions hold approximately $95 billion in assets. Many of these institutions have been serving the mortgage needs of their communities for well over a century. These banks work very hard to provide creative, low-cost and competitive mortgage products to all segments of their local communities. Those efforts have contributed to unprecedented levels of home ownership in Connecticut.

With that being said, I am testifying here today because the residents of Connecticut are confronted by a very serious and new problem, namely, the "subprime crisis". There are many factors that have contributed to the emergence of this crisis. Clearly, something needs to be done by the State to help lead the way out of this crisis and to ensure that similar problems do not occur in the future. For that reason, we applaud the leadership of this Committee and its efforts to explore solutions that would attempt to do just that.

As you know, this is a complex problem. The development of effective legislation will be a challenging task. Any such legislation will, of course, need to address the *predatory practices* that were undertaken by irresponsible and fraudulent individuals. At the same time, however, the legislation must be carefully targeted to avoid the imposition of unnecessary barriers to *responsible* and creative lending. Unnecessary and overly burdensome regulations can drive up the cost of credit. It can also frustrate flexibility and reduce product availability.

The mortgage industry is already experiencing a so-called "credit crunch". In this critical time, *credit availability* will be an important component of the pathway out of this crisis. Troubled borrowers will need avenues for responsible refinancings. The housing market will need low-cost credit to sustain values (which will help borrowers retain equity to support refinancings or to sell their homes). As a result, we urge a targeted legislative approach that seeks to alleviate, rather than compound, the current credit crunch.

In this same vein, it is important to note that the crisis revolves almost exclusively around so-called "subprime" or higher priced mortgage products. The so-called "prime" or near-prime products did not cause the problems the State is experiencing today. As a result, we urge this Committee, as it explores legislation, to avoid making changes to the regulation of the "prime" mortgage market. The continued availability of low-cost, responsible prime products will likely be critical to the health of the Connecticut housing market and the economy as a whole.

As you explore legislation, it is also important to recognize the potential impact of federal preemption. As a general matter, federally chartered institutions ordinarily try to be respectful of state consumer protection laws through voluntary compliance measures.

However, when an overly-broad state law interferes with the ability to offer creative, <u>but responsible</u> (and federally compliant) loan products, a federally chartered institution may elect to utilize the preemption powers afforded by federal law. The end result is that state chartered banks are left at a competitive disadvantage. They are not able to offer that same creative, yet responsible, product. Again, this highlights the need for carefully targeted legislation.

Sitting before you today is Senate Bill 21: "An Act Concerning Mortgage Lending". We believe that this bill contains many important measures that will help to address the subprime crisis. However, there are a number of provisions which we respectfully believe could have the potential for unintended consequences. As such, they may have a chilling effect on responsible lending, both in the prime and subprime market. They could drive-up the cost of credit and lessen product availability, both now (at this critical juncture) and in the future as the marketplace continues to evolve in response to changing consumer needs.

To illustrate the importance of carefully targeted legislation, we draw your attention to legislation previously adopted in Maine and Georgia, where credit access was threatened by the unintended consequences of the legislation and the legislatures had to act quickly to pass emergency corrective amendments.

In conclusion, the CBA wishes to emphasize that Connecticut-based community banks were not the cause of the subprime crisis. That is an important point. But perhaps a more important point is that the banking industry very much wants to be a part of the solution. To that end, we hope to have the opportunity to sit down with members of this Committee, the Commissioner, representatives from consumer groups and other participants in the industry to discuss the specific provisions of this and other bills. If we are invited to do so, we would encourage all participants to draw upon legislative initiatives in other states. That would include, for example, legislation adopted in North Carolina, where different interest groups worked together to craft an acceptable end-product. With hard work, careful crafting, and a spirit of cooperation, we believe that an effective solution can be achieved here in Connecticut.

We thank you for the opportunity to share our thoughts and would be happy to answer any questions you might have.

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