STATE OF CONNECTICUT
EXECUTIVE CHAMBERS

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GOVERNOR

TESTIMONY PRESENTED TO THE BANKS COMMITTEE
February 21, 2008

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Governor
State of Connecticut

Testimony Supporting S.B. No. 21: AN ACT CONCERNING MORTGAGE LENDING

Senator Duff, Representative Barry, Senator Kane, Representative Ryan and honorable members of the Banks Committee, I am submitting testimony in support of **Senate Bill No. 21, An Act Concerning Mortgage Lending**. This is an important legislative proposal, given the current state of the mortgage industry in Connecticut and across the nation.

Many families throughout the state and throughout the country are struggling to make ends meet and to stay current on their mortgage payments due to the sub-prime mortgage crisis. These are people – families, our neighbors, and our friends – who have worked long hours and invested their lifesavings to share in a part of the American dream – to own their own home. Many who now face the prospect of losing their home are in this situation as a result of things outside of their control and it is important that we, collectively, help to bring this crisis under better control and prevent our families, friends and neighbors from becoming another foreclosure statistic.

Last April, I convened a sub-prime mortgage task force to review the sub-prime lending situation within Connecticut. One of the by-products of the task force was the Connecticut FAMILIES Program, which I launched last November. This program is starting to make a difference but my goal and the intent of the program was to make a positive difference in as many families as we could within the available resources. At present, I am making a number of changes to Connecticut FAMILIES to ensure we help as many people as we possibly can who are suffering through this mortgage nightmare. Considering the latest economic forecast from the Federal Reserve, all of us, in particular the families struggling with their mortgage payments, need to be mindful of the overall economic situation in the state and it is imperative that we implement a number of other recommendations put forth by the task force in order to ensure that Connecticut will avoid a future mortgage crisis similar to the one we find ourselves in today.

The legislation I am proposing before you today redefines loans in Connecticut that would fall into the sub-prime category and provides for additional disclosures that would alert consumers to the economic risk associated with these loans. The legislation also does away with any pre-payment penalty associated with sub-prime loans.

Senate Bill 21 has several key elements. It addresses the sub-prime crisis by adjusting the limits on the high cost loan section to include sub-prime loans. The bill expands the definition of high cost to include sub-prime loans, and calls for new disclosures, tighter underwriting qualification standards, a ban on prepayment penalties, verification of borrower income and a requirement that brokers and lenders make

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only those loans where there is a reasonable belief that the borrower will be able to make the payments. The proposal also requires the escrowing of insurance and real estate taxes.

The bill combines the first and secondary mortgage chapters into one mortgage chapter. Licensing will now feature a single license that provides the capability to do both first and secondary mortgage loans - licenses are for mortgage lenders, mortgage brokers, correspondent mortgage lenders and originators.

The bill also makes a one time change to the renewal period for mortgage licenses to enable a transition to the Nationwide Mortgage Licensing System on January 1, 2010.

Finally, Senate Bill 21 increases the amount of tangible net worth required for brokers to become licensed from $25,000 to $50,000 and increases the amount of the surety bond required for lenders and brokers from $40,000 to $60,000 to ensure that those entering the business have the necessary means.

I believe the proposals included in Senate Bill No. 21 will have a significant impact on the mortgage industry, and more importantly on Connecticut borrowers. It is not only necessary but vital to make these changes to our banking laws and help ensure the integrity of the mortgage process.