STATEMENT OF
Michael J. Ward
Administrator – Planning and Budget
CONNECTICUT HOUSING FINANCE AUTHORITY
ON FEBRUARY 28, 2008
BEFORE THE BANKS COMMITTEE
Regarding Raised Bill 5577
An Act Concerning Responsible Lending and Economic Security

Chairman Duff and Chairman Barry, Members of the Banks Committee, I am Michael J. Ward, Administrator for Planning and Budget at 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 today to discuss Raised Bill 5577, An Act Concerning Responsible Lending and Economic Security.

However, I would like to note that Governor Rell has also introduced S.B. 21, An Act Concerning Mortgage Lending which incorporates legislative changes to address sub-prime lending practices. This legislation embodies recommendations of the Governor's Sub-prime Mortgage Task Force which Gary King of the Authority had the honor of co-chairing with Commissioner Pitkin, who is here to speak to several important aspects of the sub-prime issue addressed in RB5577. I would second his testimony on these matters.

Before making specific comment on RB5577 I want to thank the Committee for the opportunity to be here this morning to discuss this important proposed legislation. While we have very serious concerns about some of what is proposed in this bill we acknowledge the Committee's efforts in proposing legislation to help address the serious challenges faced by many Connecticut homeowners. CHFA understands the nature of the problem that the Committee and our State is facing and would like to work with the Committee to address these challenges. The job we all face in addressing this matter is certainly daunting. The numbers of Connecticut homeowners affected and the significant cost of assistance programs require that we all, including mortgage servicers and investors, work together if we are to help as many homeowners as possible.

It is this spirit that the Authority offers these comments to the Committee this morning.

Summary points:

- The Connecticut Housing Finance Authority (CHFA) must strongly oppose the taking of bond proceeds pledged to Authority bondholders as a means to fund the HERO and REAL Programs.
- The CTFAMILIES Program is a good, fundamentally sound, program that will succeed in utilizing the resources available and should not be ended to fund the REAL Program.

- The mortgage assistance approach embodied in the HERO program authorized by the RB5577 is a good idea and the Authority would like to work with the Committee in developing such a program.
- Emergency Mortgage Assistance has an important role to play in Connecticut's overall approach to the Sub-prime crisis. The Authority suggests that the Committee consider funding this initiative through non-profit housing organizations already working with the Authority on sub-prime mortgage relief efforts.

CHFA strongly opposes the taking of $40 million in CHFA mortgage revenue bond proceeds ("Pre-Ullman" proceeds) to fund the HERO and REAL programs authorized under the R.B. 5577.

This taking of Authority mortgage revenue bond proceeds is a direct threat to the Authority's bond rating which would negatively impact the pricing of $3.5 billion in outstanding Authority debt as well as the interest rate on the nearly $740 million in additional new bonds the Authority plans to issue in 2008 to support its programs-- including any new programs developed to address sub-prime lending. This would be especially damaging at a time when the credit markets upon which the Authority relies on to finance its housing programs are in severe turmoil. Its current AAA bond rating is **the** factor that is allowing the Authority to navigate in this market without serious limitations on its ability to fund ongoing programs in a reasonable cost.

This type of taking is viewed very negatively by bond rating agencies which provide public rating to support the sale of Authority bonds. Authority bond proceeds are private investor funds that are pledged by the Authority to be repaid to these investors with interest. Authority bond documents and covenants are documents of trust. Investors in Authority bonds have the right to expect that the proceeds will be used for housing program activities that the Authority has disclosed in official public offering statements to investors. The CTFAMLIES program is consistent with these disclosures, the REAL program authorized by RB5577 and which carries a significantly higher risk profile, is not.

Also, the Committee needs to be aware that there is a relationship between Authority's bond rating and State of Connecticut's bond rating. The State of Connecticut provides contingent backing to the Authority, making the Authority contingent liability of the State. Currently the Authority's bond rating is higher than the State's bond rating and not a negative consideration relative to raising the State's bond rating. Should the Authority's rating be lowered to the same or lower than the State's rating this would no longer be true.

Many, including members of the General assembly have urged CHFA to increase its level of bonding activity to support multifamily housing development and rehabilitation programs. Public Act 07-234 required the Authority to utilize 10 percent of its annual statutory authorization to fund affordable multifamily rental housing. During the Fall, the Authority worked hard to develop a program for 2008 that would increase funding for multifamily rental housing as well as provide the maximum amount of affordable home mortgage funding possible to continue to address homeownership needs and sub-prime issues in our state within the limits of the Authority's resources and maintaining its bond rating. The CTFAMLIES program and other sub-prime lending initiatives are a part of this overall program. The taking of Authority assets in RB 5577 is a direct threat to this overall program. A lowered Authority bond rating would drive up the Authority's cost of funds and the mortgage interest rate for all CHFA borrowers, under both the single family and multifamily programs - including the $80 million the Authority plans to issue to support affordable multifamily rental housing.

Additionally, by statute the Authority may undertake up to $1 billion in uninsured lending. The Authority is currently close to reaching this limit and has reserved this capacity to support financing for the development and preservation of affordable multifamily rental housing. The bond proceeds that RB 5577 takes to fund the REAL Program would be utilized on an uninsured basis and thus would count against the Authority's uninsured lending cap at the expense of supporting affordable multifamily rental housing.

Over the past several years CHFA has been able to combine new and recycle bonding Authority to assist the 4,000 new low- and moderate-income first time homebuyers each year. Due to the effect of federal tax rules on the Authority we will be able to assist only about 2,750 borrowers in 2008. Increasing CHFA's cost of funds will damage its efforts to raise the $500 million required to help these new lower- and moderate-income first-time homebuyers in 2008. Keeping such homebuyers in the marketplace is important to maintaining stability in our neighborhoods and communities. Over the years, the Authority has financed significant levels of homeownership activity in communities and neighborhoods deeply impacted by the sub-prime mortgage crisis. If not for the Authority's home mortgage programs there would be significantly more sub-prime mortgages in these communities. We have attached two maps that show historic lending patterns for the Authority's Home Mortgage Program as well as the recent sub-prime lending in Connecticut.

It is important to note that the Governor's Sub-prime Mortgage Task Force Report recognized the importance of the Authority's Home Mortgage Program lending in serving borrowers and communities that may have otherwise resorted to sub-prime mortgages. The Task Force recommended that the Authority maintain and expand home mortgage lending programs to assist such low- and moderate-income first-time buyers and communities. Consistent with the recommendations of the Governor's Sub-prime Mortgage Task Force the Authority is currently reviewing ways to increase affordable funding available to assist Connecticut home buyers that in the past may have relied on sub-prime mortgage lending. Any lowering of the Authority's bond rating would also significantly impede these efforts as well.

For these reasons the CHFA must strongly oppose the taking of Authority funds under RB 5577.

The CT FAMLIES program is a good approach to refinancing sub-prime borrowers and will utilize all funds made available.

The CTFAMLIES program uses flexible individual underwriting of loans to assist borrowers on a case-by-case basis consistent with underlying Federal Housing Administration (FHA) mortgage insurance. CHFA strongly believe that the CTFAMLIES Program, using this approach, reaches more borrowers and offers better terms than the REAL program authorized by RB 5577. The CTFAMILIES program does not rule out applicants based on FICO score, is easier on credit, and allows for higher debt to income ratios with compensating factors. The Authority does not believe that the household income and mortgage limits have proven to be a significant factor in limiting demand for the program. The progress of this program has been similar to other States, and better than most. It's just too early to prejudge the success of this program. For example the Pennsylvania REAL program upon which RB 5577 is modeled has been open since July 2007 and currently has 33 reservations and 14 closed loans. We are confident that the CTFAMLIES program will progress more quickly.

The CTFAMLIES program was implemented closely following the recommendations of the Governor's Sub-prime Mortgage Task Force. The initial targeted group of homeowners to be assisted through the CTFAMLIES program has been those low- and moderate-income first-time homebuyers that used an adjustable rate sub-prime mortgage to acquire their first home but could no longer afford homeownership due to the increase in mortgage payments under their sub-prime adjustable rate mortgage. The CTFAMLIES program started with this group of homeowners as they are the targeted homeowners that have been traditionally assisted by the Authority's and the State of Connecticut's homeownership programs.

Given the demand and need for the program the Authority is currently considering broadening eligibility for this program and is confident that given some additional time and adjustments to the program, the CT FAMLIES program will utilize all of the $50 million made available.

If RB 5577 proceeds it would be necessary for the Authority to halt the CTFAMLIES program just as it is gaining momentum in order to reserve that funding to be taken for the REAL program that would not be available to the public before the fall of 2008.

The Authority believes that making some changes in the eligibility criteria for the CTFAMLIES program is will result in exhaustion of available funds prior to the REAL program becoming available.

The loan purchase approach embodied in the HERO Program authorized by R.B. 5577 is a good way to help additional CT homeowners stay in their homes.

The loan purchase approach embodied in the HERO program authorized by R.B. 5577 was reviewed and discussed by the Governor's Sub-prime Mortgage Task Force.

The Authority has taken initial steps in discussing this approach with mortgage servicers and FHA and would like to work with the Banks Committee, as well as other interested parties, in developing a program that the Authority could offer to supplement CT FAMLIES. However, we should not underestimate the difficulty and complexity that we will face in developing a viable program. The complicated network of mortgage servicers and investors and mortgage pool agreements with complicated webs of rights, privileges and protections make devising a program a real challenge.

The Authority is exploring ways it may be able to raise additional new mortgage capital to implement such a program that would supplement the mortgage revenue bond funding already allocated for the CT FAMLIES program.

It important to emphasize once again that a reduction in the Authority's bond rating due to the taking of Authority proceeds to fund the REAL program would also negatively impact the cost of funds with this mortgage purchase program, limiting the amount of benefits that could be provided to the homeowner.

The Authority believes that an important consideration to the success of such efforts would be the ability of the Authority to acquire Connecticut sub-prime mortgages at some discount. This discount would enable the lower mortgage balance to be financed at an affordable fixed rate for the current homeowner. Additionally, it may be more cost effective to implement such a program with a wholesale rather than retail approach, acquiring pools of mortgages that could be rewritten according to an established set of parameters.

The Authority believes, and the committee may wish to consider, that some discounting and concessions on the part of current mortgage investors is an important equity consideration in development of such a program. It does not seem equitable for the State of Connecticut or the Authority to provide significant public resources to make investors "whole" in order to provide needed assistance to stressed Connecticut homeowners - particularly when in the absence of such assistance the investors face the likelihood even greater loss through the foreclosure process. Making investors whole, by somehow ensuring no loss, typically benefits the highest yield investors in the underlying mortgage pool. Typically, those investors that took the first loss position receive the highest interest rate yield in the pool. Relief to the borrower, without concessions from investors, insulates these high yield investors from market discipline. Providing mortgage assistance coupled with concessions from the investors would balance market discipline with some relief to the homeowner.

An emergency mortgage assistance program such as that authorized by the R.B. 5577 can play an important role in Connecticut's overall approach to the Sub-prime mortgage crisis.

The Authority suggested in testimony on RB5165 An Act Inserting Emergency Mortgage Assistance Program that, if the Committee proceeds with this legislation authorizing an emergency mortgage assistance program, the Committee look to non-profit housing organizations, such as Neighborhood Housing Service (NHS) offices, as the entities to implement the new proposed funding for the EMAP program.

In light of the language in RB 5577 we continue to suggest that the Committee consider funding emergency mortgage assistance through local nonprofit housing organizations already active in the sub-prime area. This approach would be similar to the manner in which the Authority originates a mortgage loans through its network of participating lenders.

We believe that this approach has two advantages. First it will save government agencies the overhead cost gearing up to run this program directly. Second, program fee income could be used to further strengthen the capacity of these important non-profit agencies to be of service to their communities.

These organizations are already involved directly with the Authority on a daily basis in counseling applicants for the CT FAMLIES program as well as providing foreclosure and delinquency counseling and other secondary loan programs. This experience places such organizations in a good position to assist the state's overall effort by providing emergency mortgage assistance in close coordination with other initiatives offered by the state, and possibly the federal government.

It was noted by CHFA that Neighborhood Housing Services of New Haven offers a rescue program which could help borrowers be able to refinance and possibly look to the CT FAMLIES program. Its approach is consistent with the general terms for emergency mortgage assistance outlined in RB 5577.

Additionally, the Committee may wish to consider whether or not it believes some equity consideration on behalf of mortgage holders and investors would also be appropriate in the area of emergency mortgage assistance. While assisting the homeowner, emergency mortgage assistance is also insulating the investor from direct risk of loss. It seems appropriate that the investor should provide some consideration for this reduced risk. For example, the Committee may wish to consider whether or not the lender should be required waive any prepayment penalty that an assisted homeowner incur once they have been returned to good standing and have moved on to refinance their sub-prime mortgage with another lender. Such a waiver would be consistent with concessions that many in the mortgage industry are now urging, out of self-interest, in order to provide relief to distressed homeowners, and in the long-run mitigate investor losses.

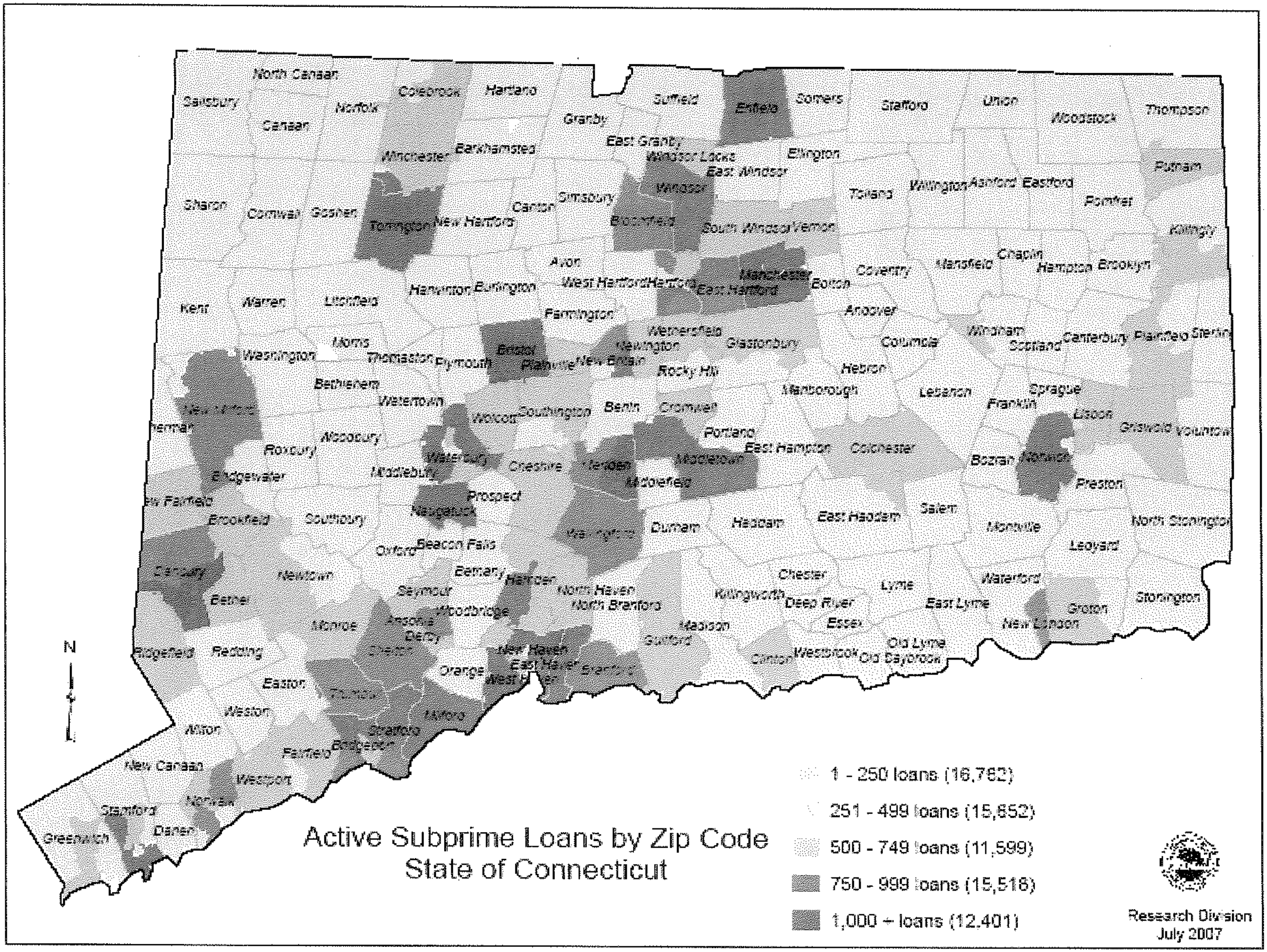
We are available to work with the Committee in developing an approach to emergency mortgage assistance that would utilize such nonprofit housing organizations as an origination network for emergency mortgage assistance loans in much the same way the Authority uses participating lenders across the state. As these organizations are already working with the Authority on the sub-prime and foreclosure issues this appears to be an efficient and direct approach.

Thank you very much to the Committee for the opportunity to provide these comments and I'll do my best to answer any questions you may have.

CHFA Single Family Mortgages

Planning Division
August 2007

Based on Authority single family mortgage loans



Source -- Loan Performance -- based on 71,832 mortgage loans

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