CT FAIR HOUSING CENTER

STATEMENT OF ERIN KEMPLE FROM THE CONNECTICUT FAIR HOUSING CENTER IN SUPPORT OF S.B. 423

Thank you for giving me the opportunity to speak about the importance of passing S.B. 423, An Act Concerning Foreclosure Prevention And Responsible Lending. The Connecticut Fair Housing Center was also pleased to see all of the reforms and changes to mortgage lending origination that were proposed in H.B. 5577, the legislation authored by Co-Chairs Barry and Duff, and S.B. 21, the legislation proposed by the Department of Banking. The bills share many similarities and there is much that the Center supports. I would like to use my time today to highlight a few areas in which there are differences and to explain the need for all of the protections contained in S.B. 423.

The Connecticut Fair Housing Center is a state-wide organization that addresses housing discrimination and fair lending issues. Beginning in 2004, the Center began receiving calls from borrowers in danger of losing their homes because of loans they could not afford. Unfortunately, the Center was not able to assist many of these homeowners because the lending practices which made the loans unaffordable were legal under current law.

In an effort to prevent these abuses from continuing, the Connecticut Fair Housing Center has been working with national consumer advocates to create a bill which addresses many of the unethical and biased practices that now exist in the market but does not impact the majority of the institutional lending industry, which does business in an ethical and respectful manner. S.B. 423:

- ***Primarily regulates mortgage products that increase the risk of foreclosure*** such as sub-prime and non-traditional mortgages. Non-traditional mortgages, such as Option ARMS, are not regulated by H.B. 5577 or S.B. 21, which we believe could result in abuses in the future. According to the *Interagency Guidance on Nontraditional Mortgage Product Risks,* "More than traditional ARMs, mortgage products such as payment option ARMs and interest-only mortgages can carry a significant risk of payment shock and negative amortization that may not be fully understood by consumers." Major investment banks are predicting another wave of foreclosures when non-traditional mortgages begin their payment adjustments.

221 Main Street, Hartford, CT 06106
Phone (860) 247-4400 • Fax (860) 247-4236

Toll Free (888) 247 4401

900 Chapel Street, 10th Floor, New Haven, CT 06510-2865
Phone (203) 772-3247 • Fax (203) 562-7107

- ***Bans abusive practices*** such as churning (refinancing with no tangible net benefit to the borrower), lending when a borrower does not have the ability to repay, and encouraging default when refinancing. These bans on abusive practices are also contained in H.B. 5577 and S.B. 21.

- ***Prohibits lending without verification of the borrower's reasonable ability to repay the loan*** at the *fully indexed rate* and a *fully amortizing* payment schedule. Income must be verified by the best means of documentation available. This provision is especially important given the current foreclosure crisis. Too often borrowers were qualified for a mortgage based on a "teaser" or "introductory" rate. Once those rates expired, the interest rate increased making the loan unaffordable resulting in the foreclosure crisis we face today. S.B. 423 would require lenders to qualify a borrower, not based upon the teaser rate, but based upon fully indexed rate and a fully amortizing payment schdule thus ensuring that the borrower can afford the loan even after adjustments are made.

- ***Bans certain loan terms that greatly increase the incidence of default***, such as prepayment penalties, balloon payments, negative amortization, and default interest rates. These loan terms are also banned in H.B. 5577 and S.B. 21 which we are very happy to see. These terms make it nearly impossible for borrowers with unaffordable loans to re-finance out of them. One borrower assisted by the Center has an adjustable rate mortgage with a two-year 5% pre-payment penalty. Until that penalty expires, he will be forced to make unaffordable payments each month and is at risk of losing his home.

If passed, the law proposed here today will protect Connecticut cities and towns from massive foreclosure rates in the future. The Center hopes to work that we can work with this Committee and the Department of Banking to ensure that we pass strong protections for Connecticut borrowers.