

TESTIMONY OF DANIEL S. BLINN

SB 423 – February 28, 2008

I am writing in **support** of SB 423, An Act Concerning Foreclosure Prevention and Responsible Lending. As an attorney who represents consumers, and as the Connecticut coordinator of the National Association of Consumer Advocates, I am painfully aware of the devastating impact of the current subprime mortgage crisis upon the families and communities of Connecticut. Sadly, the problem is only going to get worse as thousands of adjustable rate mortgages reset in the coming months, stretching already stretched family budgets beyond the breaking point. As more homes go into foreclosure, more houses will become vacant, and owner occupancy percentages will decline. The impact upon our neighborhoods, particularly in urban areas, will be devastating.

The impact will also be felt severely in our suburban neighborhoods. Foreclosure sales rarely bring in even 80% of a house's appraised value.¹ Anxious to get a better return, homeowners rush to put their homes on the market. This has already depressed property values in our state, and as the number of foreclosures skyrocket, this decline will accelerate. Residents who were counting on their home equity to fund college tuition or for retirement will suddenly lose that option. New housing starts will stagnate, further depressing our economy.

This problem is the direct result of inadequate regulation of the mortgage industry. Federal protections cover only a miniscule portion of the loans, and the Connecticut Abusive Home Loan Lending Practices Act permits many of the abuses that have caused this crisis.

I was a member of the Governor's Task Force on Subprime Lending, so it is only upon great reflection that I endorse a competing bill. Although the Governor's proposal would be a significant improvement from the status quo, it does not go nearly far enough. That is why I support SB 423.

SB 423 will regulate the mortgage products and practices that have caused this mess by:

1. Regulating adjustable rate mortgages, which have a substantially higher risk of foreclosure rate than fixed rate mortgages.
2. Prohibit the refinancing of "special" (i.e. government or nonprofit subsidized) mortgages without mandatory counseling from a HUD-approved, nonprofit housing counselor.
3. Prohibit lending without verification of the borrower's reasonable ability to repay the loan. Income must be verified by the best means of documentation available.
4. Require mandatory escrow of property taxes and homeowner's insurance for subprime loans.
5. Require mandatory disclosure of a list of HUD-approved, nonprofit housing counselors for subprime loans.
6. Requires brokers to put the borrower's interests first.
7. Preserves the legal rights of homeowners when their loan is sold or assigned to another entity.
8. Ban some of the most abusive and predatory tactics such as churning (refinancing with no tangible net benefit to the borrower), encouraging of defaults when refinancing, and loan terms that greatly increase defaults such as prepayment penalties, balloon payments, negative amortization, and default interest rates.
9. Bans certain loan terms that greatly increase the incidence of default, such as prepayment penalties, balloon payments, negative amortization, and default interest rates.
10. Provide meaningful defenses and causes of action for consumers.

SB 423 comprehensively addresses the most serious problems that exist in Connecticut's mortgage lending market, and passage of this bill will ensure that we are never faced with such a crisis again.

¹ Connecticut Law Tribune, February 25, 2008, P 10, quoting Judge Julia L. Aurigemma of the Connecticut Superior Court, Middletown.