Senate

General Assembly

File No. 39

February Session, 2008

Senate Bill No. 427

Senate, March 18, 2008

The Committee on Banks reported through SEN. DUFF of the 25th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

AN ACT CONCERNING GREEN MORTGAGES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective October 1, 2008*) (a) As used in this section:

(1) "Green mortgage loan" means any loan made to fund: (A) The purchase or construction of a new energy efficient residential property where the loan permits the lender to increase the residential property's appraised value by the amount of the estimated energy savings and allows the buyer to finance energy efficient upgrades and pay for them as part of the mortgage cost; or (B) the purchase of a residential property and the making of energy efficient renovations or improvements thereto, or the making of energy efficient renovations or improvements to an already purchased residential property, where the loan permits the homeowner to finance the energy-efficient upgrades up to a certain percentage of the value of the home.

(2) "Energy efficient residential property" means those residential

properties that meet the qualifications and eligibility requirements for energy efficient mortgages offered by federal mortgage finance lenders such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, the Department of Housing and Urban Development or the Department of Veterans' Affairs.

(3) "Energy efficient renovation or improvements" or "energy efficient upgrades" means those renovations, upgrades or improvements that meet the qualifications and eligibility requirements for energy improvement mortgages offered by federal mortgage finance lenders such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, the Department of Housing and Urban Development or the Department of Veterans' Affairs.

(4) "Lender" means any person who originates a loan to fund the purchase or construction of a new residential property, or to fund the purchase of a residential property and the making of renovations or improvements thereto, or to fund renovations or improvements to a residential property.

(5) "Commissioner" means the Banking Commissioner.

(b) By July 1, 2009, a lender shall establish and implement a policy and program designed to provide incentives for the construction and purchase of energy efficient residential properties, and for energy efficient renovations, improvements or upgrades to residential properties.

(c) By July 1, 2010: (1) No less than ten per cent of all loans made by lenders to fund the purchase or construction of a new residential property shall be green mortgage loans; (2) no less than ten per cent of all loans made by lenders to fund the purchase of a residential property and the making of renovations or improvements thereto shall be green mortgage loans; and (3) no less than ten per cent of all loans made by lenders to fund renovations or improvements to a residential property shall be green mortgage loans.

(d) The commissioner may raise the percentages set forth in subsection (c) of this section from time to time as the commissioner deems necessary. The commissioner may audit lenders for compliance with this section, and shall report, in accordance with section 11-4a of the general statutes, biannually, on the level of lender compliance to the joint standing committee of the General Assembly having cognizance of matters relating to banking.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2008*	New section

BA *Joint Favorable*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 09 $	FY 10 $
Banking Dept.	BF - Cost	75,000	75,000

Note: BF=Banking Fund

Municipal Impact: None

Explanation

The bill results in an estimated cost of $75,000[1] per year to the Department of Banking due to the need for auditing and reporting of lender compliance in meeting "green mortgage loan" standards. The estimated cost is based on the need for 1.5 auditing positions.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

[1] The fringe benefit costs for state employees are budgeted centrally in the Miscellaneous Accounts administered by the Comptroller. The first year fringe benefit costs for new positions do not include pension costs. The estimated first year fringe benefit rate as a percentage of payroll is 25.36%. The state's pension contribution is based upon the prior year's certification by the actuary for the State Employees Retirement System (SERS). The SERS fringe benefit rate is 33.27%, which when combined with the rate for non-pension fringe benefits totals 58.63%.

OLR Bill Analysis
SB 427

AN ACT CONCERNING GREEN MORTGAGES.

SUMMARY:

The bill requires lenders to, by July 1, 2009, establish and implement an incentive program for the construction and purchase of energy efficient residential properties and the energy-efficient renovation, improvement, or upgrade of residential properties.

By July 1, 2010, at least 10% of all loans made by lenders in each of the following categories must be green mortgages: (1) the purchase or construction of a new residential property, (2) the purchase and renovation or improvement of a residential property, and (3) renovations or improvements to a residential property. It is not clear if the percentages apply to each lender or to the total loans made by all lenders. It is also not clear if the requirement applies annually or at any given time and whether it must be met on July 1, 2010 or starting after that date. The bill allows the banking commissioner to raise these percentages as he deems necessary.

The bill defines a green mortgage loan as any loan to fund (1) the purchase or construction of a new energy-efficient residential property where the loan permits the lender to increase the property's appraised value by the amount of the estimated energy savings and allows the buyer to finance energy-efficient upgrades and pay for them as part of the mortgage cost, or (2) the purchase and energy-efficient renovation or improvement of a residential property, or the making of energy efficient renovations or improvements to an already-purchased residential property, where the loan permits the homeowner to finance the energy-efficient upgrades up to a certain percentage of the value of the home.

The bill also allows the banking commissioner to audit lenders to determine compliance with the bill's provisions and requires him to report twice a year to the Banks Committee on the level of lender compliance.

EFFECTIVE DATE: October 1, 2008

OTHER DEFINITIONS

Lender

The bill defines a lender as any person who originates a loan to fund the purchase or construction of a new residential property, the purchase and renovation or improvement of an existing property, or the just the renovation and improvement of an existing property. As the bill does not appear to be limited to Connecticut Department of Banking mortgage lender licensees or even lenders doing business in the state, it is unclear which lenders the bill can reach due to federal preemption issues.

"Energy Efficient Residential Properties," "Energy Efficient Renovation and Improvements," and "Energy Efficient Upgrades"

The bill defines an energy-efficient residential property or renovation, improvement or upgrade as those properties or renovations that meet the qualifications and eligibility requirements for energy-efficient or energy improvement mortgages offered by federal mortgage finance lenders such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Housing Administration, the Department of Housing and Urban Development, or the Department of Veterans' Affairs.

BACKGROUND

According to the U.S. Department of Housing and Urban Development, the Federal Housing Administration (FHA) Energy Efficient Mortgage (EEM) covers upgrades for new and existing homes. Lenders may add 100% percent of the additional costs to an approved mortgage as long as they do not exceed $4,000 or 5% of the property value, up to $8,000. FHA loan limits may be exceeded for the mortgages. EEM's may be combined with 203(k) FHA Home Rehabilitation Loans. The FHA 203(k) program enables a home buyer or investor to obtain a single loan to finance both property acquisition and complete major improvements after the time of loan closing.

The Veteran's Administration EEM is available to qualified military personnel, reservists, and veterans in all 50 states for energy improvements when purchasing an existing home. Based solely on documented costs, up to $3,000 of upgrades may be financed. Up to $6,000 may be financed if upgrades are deemed cost-effective.

Fannie Mae secondary market guidelines permit approved lenders to increase ratios 2% on the debt-to-income requirements for EEM's. An expanded qualifying ratio helps purchasers who are "maxed-out" on their income ratios. Freddie Mac allows a lender to use the projected utility savings as a "compensating factor."

COMMITTEE ACTION

Banks Committee

Joint Favorable
Yea 17 Nay 0 (03/04/2008)