February 21, 2008

TO: Banks Committee

FROM: The Connecticut Mortgage Bankers Association, Inc.

RE: Statement Regarding Bill No. 21, (LCO No. 686), An Act Concerning Mortgage Lending.

The Connecticut Mortgage Bankers Association ("CMBA"), which numbers over one hundred seventy five organizations and 750 individuals, is a non-profit association formed in 1984. The two principal purposes of the CMBA are to promote the welfare of the mortgage lending industry in Connecticut and to improve its service to the citizens of Connecticut. The CMBA is Connecticut's only trade association dedicated exclusively to the mortgage banking industry in the State of Connecticut.

## BACKGROUND AND NEED FOR REGULATION

The CMBA recognizes the problems arising from the "subprime crisis" and the need to insure the proper functioning of the residential mortgage credit markets to serve current and prospective borrowers. The CMBA also recognizes the need to ensure the competence, integrity and responsibility of mortgage lenders, brokers and originators.

The CMBA has had the opportunity to discuss with the Connecticut Department of Banking measures which can be taken to improve the performance of the mortgage industry. The CMBA seeks to continue its efforts with the Department of Banking to improve the legislative measures under consideration in order to benefit Connecticut consumers by encouraging responsible lending, facilitating transparent lending processes and maintaining residential mortgage credit availability for the citizens of Connecticut. To that end, the CMBA is supportive of Bill No. 21.

- Key Provisions Benefiting Consumers. The CMBA continues to support the state's "high cost home loan" statute, which was originally codified as the Abusive Home Loan Lending Practices Act. The CMBA largely supports the proposed changes to that law so as to protect in particular consumers who may have few alternatives for obtaining home loan financing. The proposed law limits loan fees and charges, restricts key loan terms such as prepayment penalties and balloon payments, and imposes new underwriting requirements for consumers who obtain "high cost home loans." The CMBA is, however, concerned that an overly broad definition of "high cost home loan" might have the unintended consequence of actually discouraging lenders from making loans to creditworthy consumers. To address this concern, the CMBA has discussed with the Department of Banking the appropriate rate triggers which would apply in determining whether a loan would be subject to the amended high cost home loan law. The CMBA therefore anticipates developing with the Department of Banking a set of rate triggers which provides appropriate protections to consumers without unduly contracting credit availability to subprime borrowers.

- Experience and Accountability. The CMBA supports the Department of Baking's proposal to: (1) increase the tangible net worth requirement for correspondent lenders and mortgage brokers from $25,000 to $50,000; (2) add a definition of "experience in the mortgage business", to the existing experience requirement applicable to the supervisory personnel who must manage each licensed location; (3) specify the types of documents that would be acceptable evidence of supervisory experience; and (4) increase the dollar amount of the required surety bond.

- Coverage of Bill, Extension of Current High Cost Home Loan Rules to Other Loans, Record Keeping Requirements, and Regulation of Nontraditional Mortgage Lending. The Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) have promulgated Guidance relating to Nontraditional Mortgage Lending and "Subprime" Mortgage Lending. The CMBA supports the adoption of these "Guidance" documents. The CMBA, however, is concerned that certain aspects of Bill 21, namely those provisions which would extend existing protections under the Abusive Home Loan Lending Practices Act (such as underwriting requirements, limitations on balloon payments, limitations on fees and charges, and the adoption of company-wide loan policies) beyond high cost loans should be limited to high cost home loans. The CMBA also is working with the Department of Banking on technical changes to Bill 21 to clearly articulate the Bill's new lending requirements in a manner that can be adopted by the mortgage lending industry without unduly restricting credit availability to Connecticut consumers.

With such changes, which the CMBA is committing to discussing with the Department of Banking, the CMBA supports Bill No. 21.