



Joan McDonald
Commissioner



State of Connecticut
Department of Economic and
Community Development

***TESTIMONY SUBMITTED TO THE BANKS COMMITTEE
February 28, 2008***

*Joan McDonald, Commissioner
Department of Economic and Community Development*

***HB 5577 AN ACT CONCERNING RESPONSIBLE LENDING
AND ECONOMIC SECURITY***

The Department of Economic and Community Development (DECD) offers the following comments and concerns regarding HB 5577, *An Act Concerning Responsible Lending and Economic Security*.

DECD understands the local and national problem regarding the increase in foreclosures and defaulting mortgages, and also realizes something must be done in order to assist qualified homeowners.

Although HB 5577 may have been drafted with the best of intentions, some of its language could lead to unintentional negative consequences in the near future. Nowhere in the proposed bill is staffing or administrative costs mentioned. Introducing a multi-million dollar program to DECD would require significant resources and administrative costs in order to properly administer the program in a timely manner. Additionally, either existing or new staff will need to be trained to properly underwrite single-family loans, set-up a phone hotline, and conduct outreach/marketing. The effective date of July 1, 2008 as the date to start implementing the three programs would create a very small timeframe for training.

The separation of the Emergency Mortgage Assistance Program Committee from the DECD is another area of concern. The bill currently states that the Committee will be making the decisions as to which homeowners get funded and will also be tasked with determining program eligibility, standards and procedures. It would seem more logical for the agency that administers the program to determine program eligibility, standards and procedures.

Taking bond proceeds from the Connecticut Housing Finance Authority (CHFA) could also be detrimental. In April 2007, Governor Rell convened a Task Force of housing, banking and mortgage lending and consumer experts to examine and make recommendations regarding the issue of sub-prime lending in Connecticut. As many of you are aware, the most critical recommendation was to immediately implement a

program that could financially ease the burden of homeowners that were in danger of losing their homes due to subprime mortgages. The program, called "CT Families", is a \$50 million initiative that was just launched in December 2007.

Transferring \$40 million from CHFA to DECD in order to run a very similar program would impact CHFA's overall ability to do business and could also unduly harm their bond rating. As a member of the CHFA board, DECD can not support such transfer.

The underwriting criteria of "flexible credit underwriting" would also need adjusting. Not only are we concerned with the total debt of a homeowner, but we also need to bear in mind the homeowner's monthly housing costs as a percentage of their gross income (DECD/HUD current policy is 30%). Additionally, the credit score threshold of 620 might not be adequate. Homeowner counseling sessions might also need to be conducted to educate the homeowner so this type of situation is not replicated in the future.

In closing, I would like to say that DECD not only appreciates your willingness to want to help homeowners but also understands the complexities of this situation.

Unfortunately, this is not something that is going to be fixed overnight, but we are confident that Governor Rell's CT Families program will help assist our state's residents and trust that it will be given the opportunity to do so.

Thank you for your time and consideration of my comments.
