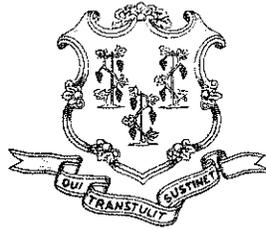


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**State of Connecticut**  
**SENATOR DONALD E. WILLIAMS, JR.**  
*Twenty-ninth District*  
**President Pro Tempore**

**Testimony**

**HB 5577 AAC Responsible Lending and Economic Security**

**Banking Committee**

**Thursday, February 28, 2008**

Senator Duff, Representative Barry, and the members of the Banking Committee,

I want to thank and commend you for your diligence in preparing such a comprehensive package that addresses the impact of the sub-prime mortgage crisis on Connecticut residents.

The proposals in HB5577 are innovative and comprehensive. They address the root causes of the crisis by improving regulations over lenders and brokers who market non-prime mortgages. Moreover, they have the potential to reach far more of those who have been victimized by the crisis than current government programs that have been hastily put into place.

Earlier this week, the National Realtors Association reported more indications that the sub-prime mortgage crisis refuses to wane. For the 6<sup>th</sup> month in a row, the number of home sales dropped across the nation and the median home sale price dropped by 4.6%.

Closer to home, the indicators show that Connecticut has not been sheltered from this crisis. There were 1,733 foreclosures in December, an increase of 61% over December of last year. The foreclosure rate in our state has risen to one in every 821 households.

The impact of the sub-prime mortgage crisis goes beyond the borrowers who face unmanageable increases in their home loans, or worse, foreclosure. The crisis affects the neighbor whose home value dropped just when they had planned to leverage their equity to send a child to college. It forever alters the future of empty nesters who planned to sell their home and downsize toward retirement. It affects young families who wanted to purchase their first home, but can't because of so much uncertainty and the market's overcompensating aversion to risk.

The national mortgage crisis has caused an economic ripple effect, impacting us at the local level. Foreclosures and tight credit increase the supply of housing in a way that does not

contribute to economic growth. Instead, it diminishes property values and ultimately property tax revenues. The pattern of homeowners taking portions of the equity they've earned on their home and reinvesting it through improvements that spur the local economy has been broken. And, the 38% drop in new housing permits over the past year negatively impacts the real estate and construction sectors.

As the members of this committee know all too well, government's response thus far has been insufficient. It has done nothing to prevent such a crisis from happening again.

Your bill, HB5577 AAC Responsible Lending and Economic Security, has as its goals, protecting borrowers from unscrupulous lenders and brokers who act against consumers' best interests. More importantly, it seeks to provide relief to those who have been victimized by the crisis, ultimately helping to dampen its impact on Connecticut residents.

Remarkably, there are some who would criticize provisions of this bill on the grounds that by helping people save their homes, you would be bailing out those who assumed the inherent "risk" that is part of the mortgage market. Under normal circumstances, this would be true. However, given what we know now about the deceitful practices of some sub-prime brokers and lenders, these arguments are in many cases unfounded.

The lenders and brokers that triggered this crisis artificially inflated borrowers' income documentation, unduly influenced appraisal process, hid insurance charges, and obscured the impact of balloon and variable interest rates from the borrowers they advised.

A significant portion of our economy relies on the health of the housing market. With the housing market shaken, and the economic well-being of the state at stake, governmental action is necessary – just as it was when government stepped in to purchase at-risk mortgages and provide more affordable long-term financing to borrowers during the Great Depression and the mortgage crisis of the 1980s.

I support the goals of HB5577, which are to diminish the economic uncertainty in Connecticut triggered by the sub-prime mortgage crisis and provide relief to those who were unjustly harmed by it. My caucus and I are committed to achieving these goals and are eager to work toward passage of a relief package that protects homeowners and restores confidence in the housing market.