

TESTIMONY SUBMITTED TO THE BANKS COMMITTEE
February 24, 2009

Timothy F. Bannon
President – Executive Director
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HB 6481, AN ACT CONCERNING THE EMERGENCY MORTGAGE ASSISTANCE PROGRAM,
HB 6366, AN ACT CONCERNING CONSUMER CREDIT LICENSES,
HB 6367, AN ACT CONCERNING MORTGAGE PRACTICES, AND
HB 6368, AN ACT CONCERNING IMPLEMENTATION OF THE S.A.F.E. MORTGAGE LICENSING ACT.

Chairman Duff and Chairman Barry, Members of the Banks Committee, I am Timothy F. Bannon, President – Executive Director of the Connecticut Housing Finance Authority. In 1969, the Connecticut Housing Finance Authority (CHFA) was created by legislation for the purpose of helping to alleviate the shortage of affordable housing for low- and moderate-income families and persons in Connecticut. CHFA is a self sustaining, quasi-public organization, which uses its resources to provide below-market interest rate mortgages for single family homeownership and multifamily rental properties. Tax-exempt bonds are the primary source of mortgage capital for the Authority’s housing programs. I am here to discuss HB 6481, An Act Concerning the Emergency Mortgage Assistance Program.

As you are well aware, over the past two years, many Connecticut homeowners have found themselves facing foreclosure, mostly as a result of sub-prime lending. In those situations, homeowners were enticed by loans with initially low interest rates that rose dramatically, usually at the end of a two-year period. When these adjustable rate mortgages, or “ARMs” reset, many families were no longer able to afford the new monthly mortgage payment and faced the prospect of losing their home.

The Governor and the General Assembly responded to this crisis swiftly and boldly through the passage of Public Act 08-176, An Act Concerning Responsible Lending and Economic Security. The variety of programs contained in the legislation has helped more than 15,000 Connecticut families remain in their homes. HB 6481 addresses one of those programs, the Emergency Mortgage Assistance Program (EMAP).

HB 6481 proposes changes to the Emergency Mortgage Assistance Program that will allow additional borrowers to qualify for the program. The bill is especially timely because what began as a problem largely contained within the sub-prime market has mushroomed into a foreclosure crisis rooted in the overall decline of our economy – and it is rapidly eroding the finances of millions of families.

The economic storm affecting the financial, job and credit markets is resulting in growing unemployment and a reduction of work hours, often referred to as “underemployment”. Because of

this, we expect foreclosures to continue into the foreseeable future. Additionally, for these reasons, we believe it is vital to continue and expand the Emergency Mortgage Assistance Program. We believe EMAP will be a valuable tool for helping stem the flow of foreclosures by allowing Connecticut residents to stay in their homes with mortgages they can afford.

EMAP originally arose in 1994 in response to many of the economic factors that we are trying to cope with today. It was a means of assisting homeowners who found themselves unable to pay their mortgages due to circumstances beyond their control which resulted in a significant curtailment of income – principally job loss and/or underemployment. CHFA determined eligibility based on specific criteria for financial hardship as well as the reasonable expectation that the borrower would be able to repay the loan. The Authority administered this program as a direct loan program. The program was funded with \$4 million of state bond proceeds and was suspended upon disbursement of that amount.

In 2008, EMAP was to be funded by \$14 million appropriated from the State Banking Fund and \$50 million of bonds issued by CHFA on which the state would pay debt service for the first year of \$2.5 million from the Banking Fund, which would bring the total to \$64 million. The State Banking Fund appropriation is currently the source of EMAP loan funding. In factoring in the Governor's Deficit Mitigation Plan submitted February 19, her rescissions to the Banking Fund would leave \$2.3 million for the EMAP funding, and also keep in place the \$2.5 million debt service payment under the Treasurer's Office for the first year on the \$50 million of CHFA bonding.

Presently, EMAP provides financial assistance for up to five years to Connecticut homeowners suffering a temporary financial hardship, who have fallen behind on their mortgage payments, and have received a notice of foreclosure action from their lender. There must be a reasonable expectation that the borrower will be able to resume full mortgage payments within the five years and be able to repay the EMAP loan within a reasonable amount of time. The total amount of the Emergency Mortgage Assistance paid by CHFA to the current mortgage lender is repaid by the homeowner as a 30-year, fixed-rate, fully amortizing mortgage loan. Under the 2008 bill, the program definition of financial hardship was expanded to include a reduction of income caused by a significant increase in monthly mortgage payments, typically resulting from an adjustable rate mortgage.

HB 6481 proposes changes to the Program that would allow additional borrowers to take advantage of EMAP. In this respect it is similar to Governor's Bill HB 6378, An Act Concerning Relief for Families Facing Foreclosure. Both bills operate from a common set of principles, namely that the 25% income reduction requirement should be expanded to allow other borrowers with income reductions below this level to be eligible; that borrowers should be able to apply for the program earlier in the process; and that there should be a reasonable expectation the borrower can repay the loan.

Similar to the Governor's Bill, HB 6481 takes a multifaceted approach to determining eligibility for the program. Instead of relying exclusively on a rigid income reduction test for eligibility, the bill would enable families to apply based on their income, their expenses and their mortgage debt. HB 6481 removes the 25% income reduction requirement altogether, and instead allows CHFA the flexibility to determine what constitutes a financial hardship. However, we believe the definition of

financial hardship set forth under HB 6378 provides the more prudent guideline as it is flexible enough to allow additional applicants, but stringent enough to ensure that those who have a reasonable expectation to repay will qualify. By permitting consideration of mortgage and other housing related expenses, the bill also provides for the continuing stream of mortgage problems relating to the sub-prime crisis which gave rise to last year's bill.

HB 6481 also improves eligibility by allowing a borrower to apply for the program earlier in the troubled loan process than under current law. Presently, borrowers are not eligible to apply for the Program unless they have received a Notice of Intent to Foreclose from their mortgage servicer. We believe it is vital that the borrower be allowed to apply for the program before the servicer has initiated the foreclosure process. In administering the Program we have found that waiting until a notice of foreclosure has been issued is often a disadvantage to borrowers because it does not allow them to proactively resolve their inability to pay their mortgage. We have received many calls from people who know a problem will arise in the near future, yet we are unable to assist them until they have received a Notice of Intent to Foreclose. HB 6481 resolves this dilemma by permitting an application after a loan has become 60 days delinquent.

It is important to note that as a first response to the EMAP application, CHFA would be able to provide mortgage counseling to families facing delinquency, using federal grant money we have obtained for that purpose. These federal funds will be used to add capacity at nine counseling agencies already retained by CHFA. The counseling agencies use their network of contacts at the servicing companies to advocate on the borrower's behalf for mortgage modifications and repayment plans. The counselors are often able to negotiate mortgage terms that the borrowers can sustain over the long-term, thereby creating lasting, affordable solutions and avoiding the expense of foreclosure. Moreover, by assisting borrowers and thereby avoiding foreclosure, that state would also avoid in each successful case the expense of state funded judicial mediation.

In summary, we support the goals of HB 6481 and look forward to working with your Committee toward new legislative relief for Connecticut homeowners facing foreclosure.

At this time, I would also like to comment briefly on a few other bills before the Banks Committee. Raised Bill 5908, An Act Concerning a Study of Certain Programs Administered by the Connecticut Housing Finance Authority convenes a task force to study CHFA's loss mitigation programs. We feel this bill is duplicative and unnecessary given that CHFA already undertakes extensive internal reviews of its programs. We would be happy to make this information available to the Committee and work with the members to answer any questions they may have.

Additionally, we would also like to express our support of certain bills proposed by the Governor's office. HB 6366, An Act Concerning Consumer Credit Licenses, will increase the ability of the Department of Banking to enforce licenses and debt adjusters. HB 6367, An Act Concerning Mortgage Practices, expands the definition of residential mortgage fraud. HB 6368, An Act Concerning Implementation of the S.A.F.E. Mortgage Licensing Act outlines the policy statement necessary for implementation of the Act. This proposal is necessary because if S.A.F.E. is not implemented within a year of its effective date, the Department of Housing and Urban Development can take over regulation of mortgage loan originators in Connecticut.

In conclusion, I want to thank the Committee for the opportunity to be here to discuss HB 6481 and other proposed legislation. We appreciate the Committee's efforts to address the serious challenges faced by many Connecticut homeowners. I would also like to thank the Governor for her support of CHFA and her efforts to assist the people of Connecticut during these difficult economic times.

For your reference, I have also included some background material on the scope of the sub-prime foreclosure situation in Connecticut, as well as CHFA's response through the CT FAMILIES, EMAP and HERO programs.

At this time, I would be happy to answer any questions that you might have.



Banks Committee
HB 6481
“An Act Concerning The Emergency Mortgage Assistance
Program”

February 24, 2009

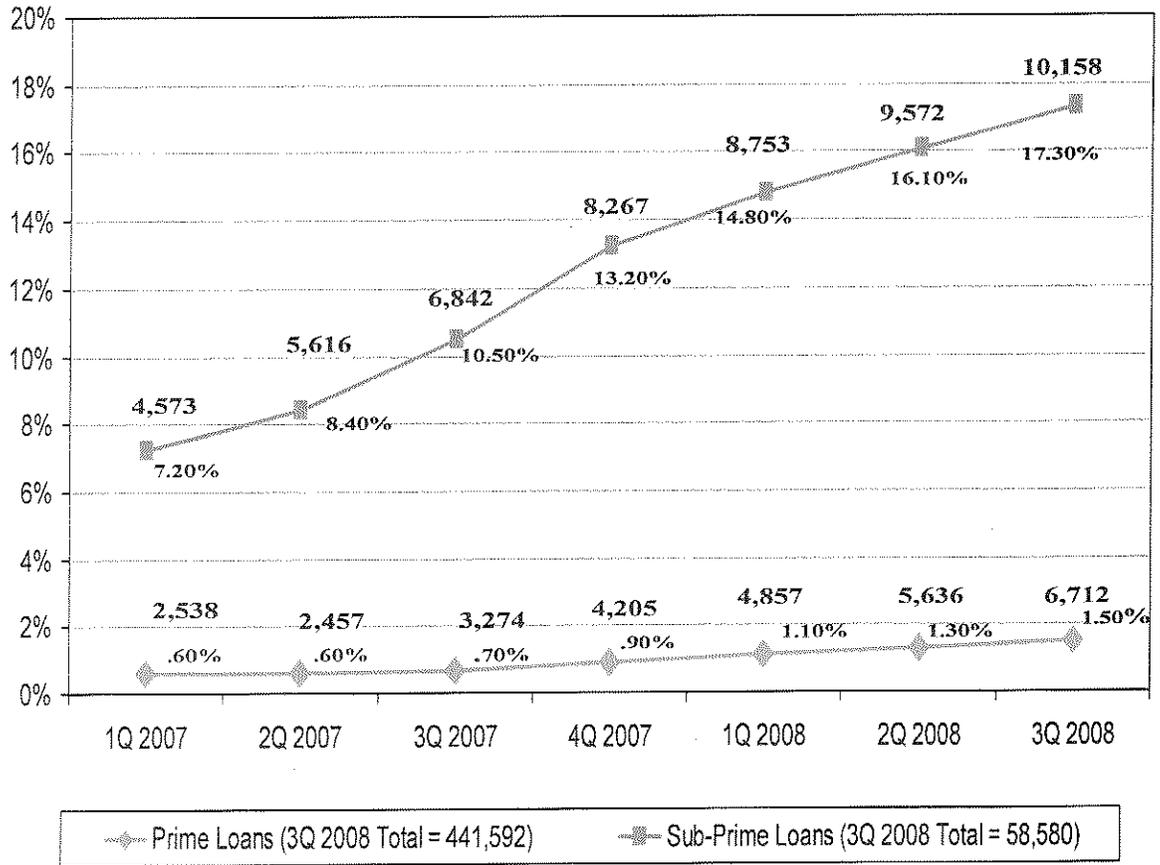
Submitted by:

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Connecticut-Mortgage Overview

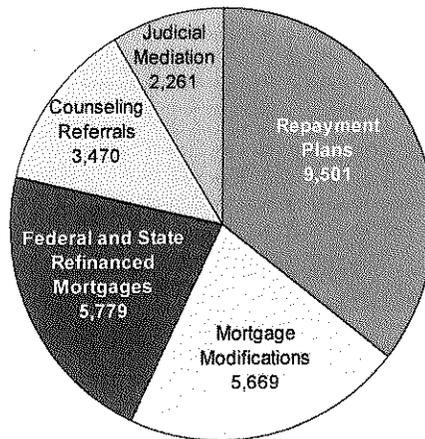
- Over 495,000 active residential mortgages in Connecticut
- 71,000 are sub-prime mortgages
 - 25,930 are fixed rate mortgages
 - 44,910 are adjustable rate mortgages
 - 22,900 adjustable rate mortgages are scheduled to reset between January 2007 and December 2009
 - 2007 – 6,000 mortgage resets
 - 2008 – 11,500 mortgage resets
 - 2009 – 5,400 mortgage resets

Percent of Loans 90+ Days Delinquent and In Foreclosure



Source: Mortgage Bankers Association, National Delinquency Survey

Aid to Homeowners



Source: Connecticut Housing Finance Authority (CHFA)

Repayment Plans/Mortgage Modifications

Over 15,000 repayment plans and loan modifications made by lenders working with homeowners to avoid foreclosure.

Federal/State Refinance Mortgages

Over 5,700 Connecticut homeowners refinanced out of adjustable rate/subprime mortgages into 30 year fixed rate mortgages.

Counseling Referrals

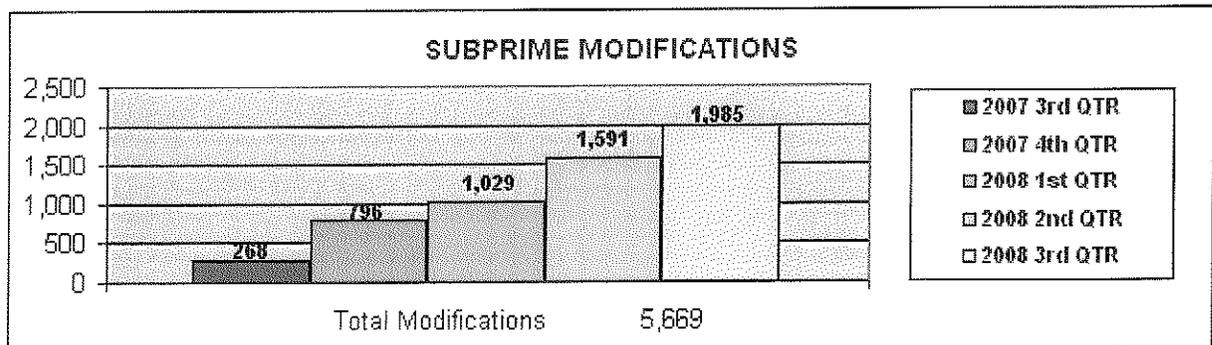
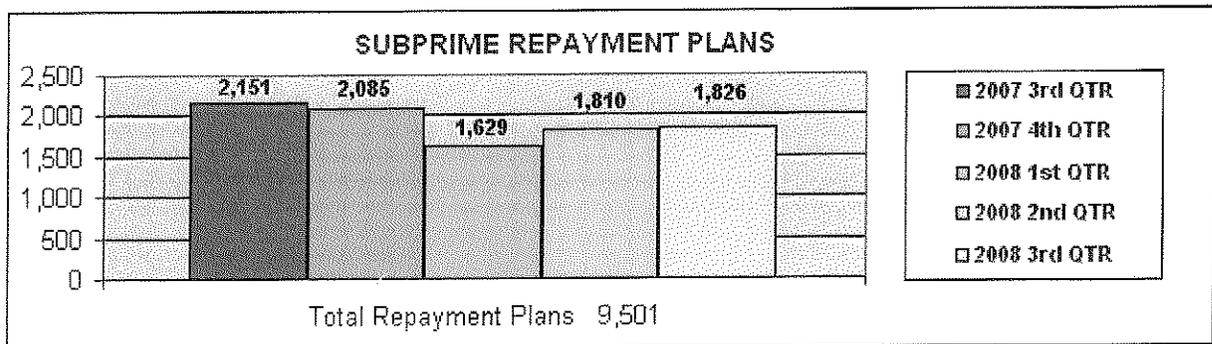
HUD approved counselors act as liaison between homeowners and their mortgage lender. They provide credit and budget counseling and determine viable options for homeowners.

Judicial Mediation

Provides assistance to any homeowner whose one-to-four family properties is the subject of a foreclosure action. The foreclosure mediators are judicial branch employees who are trained in mediation. Through the judicial mediation process the homeowner and lender are scheduled to appear in person at a mediation session. The goal of mediation is to resolve the foreclosure by negotiating a repayment plan, modification of the loan terms or short sale of the property. The mediation program has been successful in negotiating significant reductions in interest rates to keep borrowers in their homes.

SUBPRIME MORTGAGE MODIFICATIONS AND REPAYMENT PLANS

LENDER	NUMBER OF SUBPRIME LOANS IN CONNECTICUT
Aurora Loan Service	964
Bank of America	3
Chase	3,380
Citigroup Inc.	9
Countrywide Financial Corp.	2,412
EMC Mortgage Corp.	1,686
First Horizon Home Loans	1
GMAC ResCap	581
Home Loan Services (d/b/a First Franklin Loan Services)	175
HomEq Servicing	2,229
HSBC Finance	2
Indymac Bank	505
Litton Loan Servicing	1,988
National City Mortgage Corp.	896
Nationstar Mortgage, LLC	244
Ocwen Loan Servicing, LLC	3,041
Option One Mortgage Corp.	7,260
Saxon Mortgage Services	1,608
Select Portfolio Servicing, Inc.	601
Washington Mutual, Inc.	1,405
Wells Fargo & Co.	3,251
Wilshire Credit Corp.	2,059
Total	34,300



CT FAMLIES PROGRAM Status Report

Program Overview

CT FAMLIES is a refinance program that offers low-to-moderate income homeowners the opportunity to refinance their non-FHA adjustable rate mortgage into an affordable 30-year fixed rate mortgage. Homeowners who apply for CT FAMLIES must meet CHFA income guidelines.

Program Results through December 31, 2008

The CT FAMLIES program began on December 10, 2007. Since the program's inception, 305 loan applications have been originated by seven participating lenders. The following is the status of the loan applications:

Approved/Closed loans	72 loans totaling \$14,620,177
Loan funding reservations – currently being processed	80 loans totaling \$15,942,971
Loans that have been withdrawn or cancelled by the lender	153 loans totaling \$33,023,024

Continuation of CT FAMLIES Program

All CT FAMLIES Mortgage applications originated through December 31, 2008 are insured by FHA in accordance with the *FHASecure* Guidelines. The *FHASecure* Program was discontinued on December 31, 2008. The discontinuation of the *FHASecure* Program does not mean the CT FAMLIES Program will not continue. CHFA staff has determined that the CT FAMLIES Program can continue to be insured by FHA if offered in conjunction with the FHA Rate and Term Refinance Program.

The FHA Rate/Term Refinance Program has the following guidelines:

- Enables fixed rate and adjustable rate mortgages to refinance
- Expands the program to current FHA insured loans
- Provides no restriction on refinancing loans with secondary financing with regard to combined loan to value
- Delinquencies within the previous 12 months must have been caused by a rate reset or extenuating circumstances
- Borrowers must be current at the time of application

The FHA Rate and Term Refinance Program will not assist borrowers who are delinquent. Obtaining a viable option for an FHA insured mortgage for delinquent homeowners is being pursued by the Authority as a federal legislative priority. In the interim, we are exploring the costs and issues associated with having CHFA insure CT FAMLIES loans that are not eligible for refinancing under current FHA guidelines.

Emergency Mortgage Assistance Program Status Report

Program Overview

The Emergency Mortgage Assistance Program (EMAP) provides a mortgage loan from the Connecticut Housing Finance Authority (CHFA) in the form of monthly financial assistance to eligible mortgagors in an amount required to meet their monthly housing expenses. The initial payment made by the Authority to each mortgagee may be an amount which pays all arrearages and pays reasonable costs and reasonable attorney's fees incurred by the mortgagee in connection with the foreclosure action. Emergency Mortgage Assistance payments may continue for up to five years. The total amount of assistance provided is repaid by the mortgagor to CHFA in repayment terms determined and established at the time of the closing of the EMAP mortgage loan. Borrowers are required to notify CHFA of any change in their financial status and to participate in an annual recertification process to determine continued eligibility for monthly EMAP assistance.

Program Results through January 31, 2009

Program Eligibility Guidelines Not Met

- Fifty percent of applications (205) did not meet EMAP program eligibility guidelines. The major categories for non eligibility are:
 - 65 homeowners were not eligible due to foreclosure date prior to July 1, 2008.
 - 48 applications did not demonstrate a hardship that resulted in at least a 25% reduction in aggregate monthly household income. However, only 10 applicants were ineligible for this reason alone.
 - 92 applications had delinquent mortgage payments that exceeded program guidelines.

Loan Denials

- Two hundred thirty-four EMAP applications have been denied. The following are the major reasons for EMAP denials:
 - 111 loans: No reasonable expectation that the applicant will be able to resume full mortgage payments within 60 months and is able to repay the EMAP mortgage loan.
 - 91 loans: Were denied for having excessive credit obligations relative to their income.
 - 32 loans: The borrowers current monthly housing expense is less than or equal to 35% of their monthly aggregate household income housing. As a result their income is sufficient to cover their monthly housing expenses. (Housing expense is mortgage principal and interest, real estate taxes, condo association fees as well as utilities).

Loans in Process

- 49 EMAP applications are in the process of being underwritten to determine their eligibility for EMAP.

Approved Loans

- Nine EMAP loans have been approved that provide a total of \$5,121.98 in monthly assistance. Monthly mortgage assistance payments range from a low of \$205.08 to a high of \$1,323.47.

Homeowner's Equity Recovery Opportunity (HERO) Status Report

Program Overview

HERO is a loan program designed to improve the financial situation of Connecticut homeowners who are not able to afford their current mortgage payments. A HERO loan is provided when the homeowner's current lender is willing to negotiate the sale of their mortgage to the Connecticut Housing Finance Authority (CHFA) at terms that enable the Authority to purchase the mortgage and modify it to repayment terms that are affordable for the homeowner.

Program Results through December 31, 2008

All CT FAMLIES and EMAP loans denied are reviewed as HERO Loan candidates. One HERO Loan has been approved and will close in January. American Eagle has agreed to accept a payoff of \$100,127 on a property with a current balance of \$133,503.

The HERO mortgage loan must be in first lien position.

Eligible Borrowers:

Borrowers must be experiencing a financial hardship such that negates their ability to obtain conventional financing through traditional sources.

These borrowers are delinquent mortgagors of owner-occupied one-to-four family homes, condominiums or single family units in a common interest community in Connecticut and:

- Are homeowners who have made an effort to meet his or her financial obligations to the best of their ability; and
- Have sufficient and stable income to support timely repayment of a HERO loan; and
- In the event the homeowner has stopped making monthly payments, have the ability to account for where those funds were escrowed, saved or redirected; and
- Are fully discharged from any action of bankruptcy; and
- Do not have an ownership interest in any other real estate other than their primary residence.