

# Legal Assistance Resource Center

## ❖ of Connecticut, Inc. ❖

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### Testimony of Raphael L. Podolsky

Banks Committee public hearing -- February 24, 2009

#### H.B. 6484 – Judicial restructuring of mortgages

**SUPPORT**

This very important bill fills a critical gap in existing legislation. Foreclosure relief programs that depend on the modification of mortgages in order to make them affordable all depend upon the willingness of the lender to modify the mortgages. Recent studies have found that lenders often agree only to revise the payment schedule rather than to modify the mortgage and that many of these revisions are likely not to be sustainable by the homeowner in the long run. Such mortgages often cannot be refinanced in the current market because the homeowner is "under water," i.e., the value of the home has declined so that it is now worth less than the mortgage debt.

H.B. 6484 confronts these program weaknesses head-on by giving foreclosure judges the authority to compel the write-down of a mortgage to the current value of property if the mortgage payments would not exceed 38% of the homeowner's actual income if the mortgage were rewritten, based on the current value of the house, as a fixed-rate 30-year mortgage at current market interest rates. A separate note, drawing no interest, would cover the difference between the current value of the house and the remaining balance on the original mortgage. Absent a default by the homeowner, this second note would be payable only upon sale of the house. It is not clear whether the sale would terminate any balance remaining after payment from the proceeds of the sale.

We strongly urge adoption of this bill.

#### H.B. 5201 -- CHFA mortgage guarantee program

**SUPPORT IN CONCEPT**

This bill authorizes CHFA to develop a mortgage guarantee program to guarantee half the value of first mortgage loans that enter foreclosure after the effective date of the act so as to permit homeowners to obtain sufficient credit to refinance the mortgages. The lender would have to agree to adjust the interest rate on the loan down to the T-bill rate plus 2.5%. We support the bill in concept but need additional information to understand how it would work in practice.