

# TESTIMONY SUBMITTED TO THE HOUSING COMMITTEE

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## **HB 6378, AN ACT CONCERNING RELIEF FOR FAMILIES FACING FORECLOSURE.**

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Chairman Gomes and Chairman Green, Members of the Housing 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 support Governor's Bill HB 6378, An Act Concerning Relief for Families Facing Foreclosure.

Let me begin by describing what we perceive to be the current state of foreclosures in Connecticut, how we got where we are today, where we are going and why this bill is important to Connecticut families.

In 2007 and 2008, many Connecticut homeowners began to slip into foreclosure, mostly as a result of sub-prime lending. In those situations, homeowners had obtained adjustable rate mortgages, or "ARMs", with seductively low initial interest rates. When those interest rates expired, usually at the end of a two year period, many families found they could no longer afford their new monthly mortgage payments and faced the prospect of losing their homes.

The Governor and the General Assembly responded promptly and innovatively to the sub-prime based foreclosure crisis. In 2008, Public Act 08-176, An Act Concerning Responsible Lending and Economic Security, was passed to address the needs of homeowners caught in this crisis. The variety of programs contained in the legislation has helped more than 15,000 Connecticut families remain in their homes. Governor's Bill HB 6378 addresses one of those programs, the Emergency Mortgage Assistance Program or "EMAP".

The bill proposes modifications to the existing EMAP legislation in order to enable more homeowners to take advantage of its provisions. The bill is timely because what began as a sub-prime mortgage crisis is now becoming a foreclosure crisis rooted in the overall decline of our economy that is eroding family finances.

The current economic turmoil is affecting not only the housing market, but also the business and job markets, resulting in job losses and a reduction of work hours, sometimes 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 in fact arose originally 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 \$50 million of bonds issued by CHFA on which the state would pay debt service and an additional \$14 million was appropriated from the State Banking Fund. The \$14 million State Banking Fund is currently the source of EMAP loan funding.

As reconstituted in 2008, 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.

Based on our experience administering this program, we believe that Governor's Bill HB 6378 expands the scope of EMAP in the very practical ways necessary to assure that more Connecticut families can remain in their homes.

First, the bill takes a three-pronged 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.

Governor's Bill HB 6378 expands the definition of financial hardship to include not only a 25% reduction of income, but also a loss of income below 25% coupled with an unanticipated rise in housing or other expenses. In our experience, one-time medical expenses are a prime example of a situation where a borrower could otherwise make his or her mortgage payment, if not for the unanticipated rise in expenses. This is the type of borrower who could benefit from the temporary payments made under EMAP, but who is currently not eligible for the program.

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.

The Governor's Bill 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. The Governor's Bill would resolve that dilemma by permitting an application after a loan has become 60 days delinquent.

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. It is also worth noting that by assisting borrowers and thereby avoiding foreclosure, that state would also avoid in each successful case the expense of state funded judicial mediation.

In conclusion, I want to thank the Committee for the opportunity to be here to discuss this important proposed legislation. We appreciate the Committee's efforts to address the serious challenges faced by many Connecticut homeowners. We look forward to working with you as you consider this and other bills to achieve that end. 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 FAMLIES, EMAP and HERO programs.

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