

Legal Assistance Resource Center

❖ of Connecticut, Inc. ❖

44 Capitol Avenue, Suite 301 ❖ Hartford, Connecticut 06106
(860) 278-5688 x203 ❖ FAX (860) 278-2957 ❖ Rpodolsky@LARCC.org

FORECLOSURE-RELATED LEGISLATION

Housing Committee public hearing -- February 19, 2009

Testimony of Raphael L. Podolsky

S.B. 705 – Foreclosure rescue services

SUPPORT

Foreclosure rescue services (also known as debt reduction services) are businesses that promise to save a person's home from foreclosure. Many, however, do little more than take the person's money and produce no results, and the homeowner ends up in foreclosure anyway. Sometimes the promised services are not provided at all. Sometimes success in saving the home is promised in circumstances that are obviously hopeless. Sometimes deceptive sales tactics are used. Sometimes owners are offered a bailout arrangement under which, they believe, they will keep the house when in fact the papers they sign turn ownership over to the rescue servicer.

S.B. 705 limits the provision of "debt reduction services," which include "foreclosure rescue services," to non-profit entities, just as the debtor adjustor business is limited to non-profit entities under General Statutes Section 36a-656. The bill requires the reduction service to make an individualized assessment, before the contract is signed, of the likelihood that services will succeed; gives the borrower a three-day right to cancel the contract; and prohibits the reduction service provider from collecting payment until after the service has been provided. This latter rule is the same as the existing rule for payment to credit clinics. The bill gives enforcement power to the Banking Commissioner, including the power to review the reasonableness of fees. We support its passage.

H.B. 6144 – Foreclosure moratorium

SUPPORT

The bill puts a moratorium on foreclosures until January 1, 2010. For a moratorium to work -- for it to be something other than a delaying of the inevitable -- it should be tied to programs, events, or developments that will change the dynamic of foreclosure and produce a reduction in foreclosures. We are at a unique time when such programs are being created. Such programs justify the adoption of a moratorium.

- * **First**, activity at the federal level may well produce funding for programs that provide greater assistance to homeowners to avoid foreclosure. There is also a real possibility of changes in federal bankruptcy law that will allow federal judges to force lenders to modify mortgages to create an affordable balance. A moratorium gives time to get these changes into place.
- * **Second**, legislation adopted at the state level last year remains substantially unimplemented. EMAP, HERO, and to a lesser extent CT FAMLIES have barely begun to reach their intended target population, and plans are actively underway to liberalize all of them. It makes sense to wait.
- * **Third**, the Banks Committee has raised several bills to expand homeowner assistance legislation. For example, both H.B. 6484 (AAC Emergency Mortgage Relief) and H.B. 5201 (AA Providing Relief to Homeowners in Foreclosure) would create new programs to aid homeowners in foreclosure.