February 19, 2008

TO: Housing Committee

FROM: The Connecticut Mortgage Bankers Association, Inc.

RE: Statement in opposition to Raised Bill No.6144, (LCO No. 2478), An Act Concerning a Moratorium on Mortgage Foreclosure

The Connecticut Mortgage Bankers Association, Inc. ("CMBA"), which numbers over one hundred twenty organizations and 575 individuals, is a non-profit association formed in 1984. The two principal purposes of the CMBA are to promote the welfare of the mortgage lending industry in Connecticut and to improve its service to the citizens of Connecticut. The CMBA is Connecticut's only trade association dedicated exclusively to the mortgage banking industry in the State of Connecticut.

The CMBA recognizes the challenges facing many Connecticut residents and the need to ensure the proper functioning of the residential mortgage credit markets to serve current and prospective borrowers.

The CMBA has had the opportunity to review Raised Bill No. 6144 and other legislative proposals. The CMBA supports measures to maintain residential mortgage credit availability for the citizens of Connecticut. The CMBA opposes Raised Bill No. 6144 for the reasons stated below.

•Raised Bill 6144 Would Restrict New Lending. Raised Bill No. 6144 would prohibit Connecticut courts from entering a foreclosure judgment for residential real property before January 1, 2010. While the objective of helping Connecticut homeowners is laudable, this proposal would have a significant adverse impact on Connecticut homeowners by impeding the basic right of a mortgage lender to foreclose on the mortgaged property to recover the loan balance owed to the lender. Such a law would cause lenders to severely restrict their lending activities and thereby reduce the availability of new loans that could help Connecticut consumers.

• Raised Bill 6144 Would Prevent Connecticut Borrowers From Taking Advantage Of Lower Interest Rates. One beneficial consequence of the current economic climate is the reduction in long term interest rates which are now available. For example, based on the Federal Reserve Board's published interest rates, borrowers of new loans during January 2009 could obtain 30 year fixed rate mortgages at an average interest rate of 5.06%. Such loan rates would be available for creditworthy prime borrowers and enable those borrowers to buy new homes or refinance their existing mortgage loans at lower rates, which would free up additional dollars for those borrowers to spend in Connecticut's economy. For borrowers with less than perfect credit, the reduced rates (while not as low) would enable such borrowers the opportunity to also refinance at relatively low rates and enable lenders to also offer loan modifications to distressed borrowers at low rates, which would help those borrowers and enable those borrowers to spend available funds in other parts of Connecticut's economy. The policy of a foreclosure moratorium would, however, discourage lenders from making such new loans or from offering favorable loan modifications at reduced interest rates to Connecticut homeowners, and thereby prevent Connecticut borrowers from having available cash that they could otherwise inject into the Connecticut economy.

• Raised Bill 6144 Would Lead To Higher Required Down Payments. If a foreclosure moratorium were adopted, lenders making loans secured by Connecticut property would be likely to reduce their risk exposure by requiring that borrowers make a higher down payment in order to reduce the typical loan to value ratio of a mortgage loan. This practice would require Connecticut borrowers to come up with higher down payments when borrowers are already struggling to accumulate savings to meet existing down payment requirements.

•Connecticut Law Provides Adequate Flexibility To Courts To Protect Homeowners. Connecticut's existing foreclosure laws enable courts to exercise discretion when a foreclosure action is pending. For example, if a homeowner has built up substantial equity in his or her home but has missed several mortgage payments and is the subject of a foreclosure action, the foreclosure court could give the borrower a "long law day". A "long law day" would mean that that the borrower would have a long time within which to redeem the property by curing the loan default or by refinancing the defaulted mortgage. Such instances of courts exercising their discretion serve Connecticut borrowers well by affording relief to distressed homeowners without impairing the willingness of lenders to extend new financing to Connecticut homeowners.

• Delay In Commencement Of New Foreclosures Will Impede Alternative Measures Already in Place to Assist Borrowers in Curing Loan Defaults. Lenders would delay the commencement of new foreclosures if a moratorium is enacted. As a result, borrowers will accrue additional months of unpaid late charges and interest and not become informed of programs such as the Emergency Mortgage Assistance Program and the foreclosure mediation program which can help them. By the time a foreclosure is then commenced, it may be too late for such programs to provide realistic relief or for them to enter into a loan modification which a lender could normally offer.

For these reasons, the CMBA opposes Raised Bill 6144.