

TESTIMONY SUBMITTED TO THE BANKS COMMITTEE

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RAISED BILL NO. 60, AN ACT CONCERNING A STUDY OF CERTAIN PROGRAMS ADMINISTERED BY THE CONNECTICUT HOUSING FINANCE AUTHORITY

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 Raised Bill No. 60, An Act Concerning a Study of Certain Programs Administered by the Connecticut Housing Finance Authority.

Raised Bill 60 establishes a task force to review and evaluate CHFA's loss mitigation programs. I would like to provide the Committee with an overview of the loss mitigation programs offered by CHFA.

Since 1999, CHFA has allocated approximately \$500,000 a year to fund loss mitigation and homebuyer counseling efforts. In 2009 and 2010, CHFA increased this allocation to \$850,000 to address the needs of both CHFA and non-CHFA borrowers at risk of default and foreclosure. CHFA funds eighteen housing counseling agencies that provide foreclosure prevention counseling for both CHFA and non-CHFA borrowers, financial fitness counseling classes, pre-purchase classes and individual credit and financial counseling sessions. CHFA's housing counseling agencies provide foreclosure prevention counseling in both a group foreclosure clinic setting statewide and on an individual basis. CHFA periodically reviews these programs on an on-going basis, making adjustments as necessary.

Additionally, in 1996, CHFA, along with HUD and the private sector, developed the Connecticut Loss Mitigation Task Force which has been designated a "Best Practices" group by HUD. The mission of this group is to help Connecticut residents avoid foreclosure. It does so by providing education to other organizations that offer loss mitigation efforts. The Task Force also constantly reviews industry programs and practices in an effort to streamline and improve their own programs.

Below is a brief description of loss mitigation tools:

- Special Forbearance: Provides a written payment plan for the borrower to become current on their mortgage.

- Loan Modification: A permanent extension in the loan term that results in a payment the borrower can afford.
- Partial Claim: Allows a delinquent mortgage to be reinstated by advancing HUD funds to pay the arrearage. A promissory note or “partial claim note” is issued. Currently, the partial claim note carries no interest and is not due and payable until the borrower either pays off the first mortgage or no longer owns the property.
- Pre-foreclosure Sale: Allows a borrower in default to sell the property and use the sale proceeds to satisfy the mortgage debt, even if the proceeds are less than the amount owed.
- Deed-in-Lieu of Foreclosure: The borrower voluntarily deeds the property in exchange for a release from all obligations under the mortgage.

The loss mitigation options I’ve just described are utilized after a borrower has obtained a mortgage. It’s important to note, however, that one of the most important tools for maintaining homeownership occurs before the borrower purchases a home. Through our homebuyer counseling efforts, we have learned that educated borrowers make good decisions throughout the home buying process. Borrowers who attend pre-purchase counseling understand the financial responsibility of owning a home and know what steps to take to protect their investment in the case of a financial hardship. Regrettably, counseling agencies report they have seen an increase in borrowers who obtained a mortgage that they cannot afford or sustain in the long-term, either due to the use of a non-traditional loan product, or because of a hardship beyond their control. Regardless of the cause, these situations put borrowers at increased risk for default and foreclosure.

At this time I would like to note that CHFA also administers the Emergency Mortgage Assistance Program (EMAP) and the CT FAMLIES Program to assist borrowers who cannot afford their mortgage. EMAP provides temporary monthly mortgage payment assistance for up to five years to eligible Connecticut homeowners who are facing foreclosure due to a financial hardship. An EMAP loan is secured by a CHFA, fixed-rate mortgage on the homeowner’s residence. The CT FAMLIES Program offers loans to Connecticut homeowners who are delinquent and who would benefit from refinancing their fixed-rate or adjustable-rate mortgages into a more affordable, CHFA 30-year, fixed-rate mortgage.

In conclusion, CHFA offers many loss mitigation tools to its borrowers, in addition to financing options such as EMAP and CT FAMLIES. Because CHFA is constantly reviewing and adjusting its loss mitigation tools, I do not believe the passage of Raised Bill No. 60 is necessary at this time. However, we would gladly share the findings from our internal reviews of our loss mitigation programs with you.

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