House of Representatives

General Assembly

File No. 150

January Session, 2011

House Bill No. 6467

House of Representatives, March 22, 2011

The Committee on Housing reported through REP. BUTLER of the 72nd Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT CONCERNING AN EXPANSION OF THE CONNECTICUT HOUSING FINANCE AUTHORITY'S HOMEOWNER'S EQUITY RECOVERY OPPORTUNITY LOAN PROGRAM.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 8-265ss of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2011*):

(a) As used in this section:

(1) "Authority" means the Connecticut Housing Finance Authority created under section 8-244;

(2) "Mortgage" means a mortgage deed or other instrument **[**which**]** that constitutes a first or second consensual lien on one-to-four family **[**owner-occupied**]** residential real property located in this state, including, but not limited to, a single-family unit in a common interest community, securing a loan made primarily for personal, family or household purposes;

(3) "Borrower" means (A) the owner-occupant of a one-to-four family residential real property located in this state, including, but not limited to, a single-family unit in a common interest community, who has a mortgage encumbering such real property, or (B) the owner of a one-to-four family residential real property, including, but not limited to, a single-family unit in a common interest community, who has a mortgage encumbering such real property and is rehabilitating or renovating such real property with the intention of selling such property to an owner-occupant;

(4) "Lender" means the original lender under a mortgage, or its agents, successors or assigns; and

(5) "HERO program" means the Homeowner's Equity Recovery Opportunity loan program.

(b) The authority is authorized to develop and implement the HERO program as an additional purpose pursuant to the provisions of subdivision (32) of section 8-250. The HERO program shall be undertaken by the authority consistent with and subject to its contractual obligations with its bondholders in an initial amount of thirty million dollars.

(c) On and after July 1, 2008, the authority shall implement the HERO program in accordance with this section. Said program shall offer, within available funds, financing through the following mechanism: The authority shall purchase mortgages directly from lenders and then place borrowers it determines to be eligible on an affordable repayment plan or make mortgage loans to borrowers who it determines to be eligible and who purchase foreclosed or abandoned properties, [or] properties conveyed by deed in lieu of foreclosure or short sale, or vacant or blighted properties. All borrowers approved by the authority for the program shall attend in-person financial counseling at an authority-approved agency.

(d) A HERO loan shall: (1) Be a mortgage for up to thirty years in an amount determined by the authority; (2) provide an interest rate at an amount determined by the authority; (3) be serviced by the authority or its agents; and (4) have property taxes and insurance, including mortgage insurance, homeowner's insurance and, if applicable, flood insurance, included in the borrower's monthly payment amount.

(e) For purposes of the HERO program, the authority shall purchase mortgages directly from lenders and make a HERO loan available to borrowers whose mortgages have been purchased by the authority and who have been determined by the authority to be eligible. A borrower shall be eligible if the HERO loan is in the first lien position, and if, in the authority's determination, the borrower has: (1) Made an effort to meet his or her financial obligations to the best of the borrower's ability; (2) sufficient and stable income to support timely repayment of a HERO loan; (3) legal title to the mortgaged property and resides in it as the borrower's permanent residence; and (4) if the borrower has stopped making monthly payments, the ability to account for the borrower's cash flow by showing how those funds were escrowed, saved or redirected. The authority shall make a determination of eligibility for the HERO program no later than thirty calendar days after the date of receipt of the borrower's application.

(f) The borrower shall apply for a HERO loan on the form provided by the authority. The borrower shall complete and sign the application subject to the penalty for false statement under section 53a-157b. Any borrower who misrepresents any financial or other pertinent information in conjunction with the filing of an application for a HERO loan may be denied assistance. The borrower shall provide the authority with full disclosure of all assets and liabilities, whether singly or jointly held, and all household income regardless of source. For purposes of this subsection, both of the following are included as assets:

(1) The sum of the household's savings and checking accounts, market value of stocks, bonds and other securities, other capital investments, pensions and retirement funds, personal property and equity in real property including the subject mortgage property.

Income derived from family assets shall be considered as income. Equity is the difference between the market value of the property and the total outstanding principal of any loans secured by the property and other liens.

(2) Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard or worker's compensation policies and settlements, verdicts or awards for personal or property losses or transfer of assets without consideration within one year of the time of application. Pending claims for such items must be identified by the borrower as contingent assets.

(g) On or before July 1, 2008, the authority shall adopt procedures in accordance with section 1-121 to implement the provisions of this section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2011*	8-265ss

HSG *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact: None

Explanation

This bill expands the Homeowners' Equity Recovery Opportunity (HERO) program but has no fiscal impact to the state. The program is financed using federal tax-exempt mortgage revenue bonds and is administered by the Connecticut Housing Finance Authority (CHFA), a quasi-state agency.

The bill expands the HERO program to developers who are rehabilitating properties with the intent to sell to eligible borrowers. It is anticipated that owners with the intent to sell would not qualify for mortgage revenue bond financing under the Internal Revenue Code Section 143(a)(2)(A)(i). The bill also expands the program to include vacant or blighted properties. CHFA currently accepts applications for financing these types of properties.

The Out Years

State Impact: None

Municipal Impact: None

OLR Bill Analysis
HB 6467

AN ACT CONCERNING AN EXPANSION OF THE CONNECTICUT HOUSING FINANCE AUTHORITY'S HOMEOWNER'S EQUITY RECOVERY OPPORTUNITY LOAN PROGRAM.

SUMMARY:

This bill extends eligibility under the Homeowner's Equity Recovery Opportunity (HERO) loan program to borrowers who intend to rehabilitate or restore and then sell one-to-four unit residential property, including condominiums. However, the federal rules under which the Connecticut Housing Finance Authority (CHFA) funds the program generally prohibit lending money to people who do not own and occupy their property (see COMMENT).

Current law limits HERO loans to borrowers who (1) own and occupy one-to-four family residential real property located in this state, including condominiums, and (2) have a mortgage encumbering it. Under the bill, borrowers who intend to rehabilitate and sell property are not restricted to property located in Connecticut.

The bill also specifies that eligible borrowers may purchase vacant or blighted properties under the HERO program. However, they qualify under current law for HERO loans to purchase foreclosed or abandoned properties, including blighted properties.

EFFECTIVE DATE: October 1, 2011

BACKGROUND

Abandoned Property

According to CHFA's description of the HERO program on its website, "abandoned property" includes blighted structures. CHFA considers a property to be abandoned if it contain a vacant structure and (1) real property taxes have been delinquent for at least one year and the municipality's fire, building, or health official has issued orders and there has been no compliance with those orders within the prescribed time given by such official or within 90 days, whichever is longer; (2) the owner has declared in writing to the building official that his property is abandoned; or (3) the municipality has made a determination in accordance with an ordinance adopted under CGS § 7-148(c)(7) that the vacant structure contributes to housing blight.

COMMENT

Mortgage Revenue Bonds and Eligible Borrowers

CHFA finances the HERO program through federal tax-exempt mortgage revenue bonds (MRBs). Federal requirements specify that all proceeds of MRBs "(exclusive of issuance costs and a reasonably required reserve) are to be used to finance owner-occupied residences," and a residence meets the federal requirements if, among other things, "it is a single-family residence which can reasonably be expected to become the principal residence of the mortgagor within a reasonable time after the financing is provided," (Internal Revenue Code §§ 143(a)(2)(A)(i) and 143(c)(1)(A)).

COMMITTEE ACTION

Housing Committee

Joint Favorable
Yea 11 Nay 0 (03/10/2011)