

February 19, 2013

To: The Banks Committee
Fr: Judith C. Stumpo, Sr. VP & Director of Risk Management, Chelsea Groton Bank, Groton
Re: H.B. 6355, An Act Concerning Homeowners Protection Rights
Position: Oppose as Drafted

Chairman Leone, Chairman Tong and members of the Banks Committee, my name is Judith C. Stumpo and I am Sr. VP & Director of Risk Management, Chelsea Groton Bank, Groton. We currently have 14 branches serving the southeastern corner of the state. Our mortgage serviced portfolio is just under 5,000 loans.

Thank you for the opportunity to testify on Governor's Bill # 6355, Homeowner Protection Rights. For over 25 years, I have been working with homeowners who have difficulty making mortgage payments, and I have been required to make that difficult decision to move forward with foreclosure after exhausting all other remedies. It is never a decision made quickly, taken lightly or absent concern for the homeowner. Unfortunately, there are times when all other options have been exhausted after months of discussions, counseling, suggestions, recommendations, referrals for EMAP, and negotiations surrounding the borrower's ability to begin to make payments that are reasonable. Speaking for Chelsea Groton Bank, we enter into modifications, forbearances, trouble debt restructures, payment arrangements, short sales, and deeds in lieu of foreclosure as preference over foreclosure, however there are situations where those options fail and foreclosure is necessary.

A foreclosure is the last resort.

We have very good mediators in New London County, and thank them for their hard work and dedication to best serve both the homeowner and the lender. We have had three successes through mediation, and three failures – the failures being the inability of the borrower to maintain their agreement.

I would like to specifically address the introduction of "good faith" as presented in Section 49-31n. It is quite ambiguous in that it requires mortgagees (A) to adhere to requirements of "(i) any applicable guidance or rule issued by the federal government and its agencies, or a government-sponsored enterprise; or (ii) arising out of a mortgage-related settlement to which the Attorney General, Department of Banking or Department of Consumer Protection is a party". This is a very open-ended statement, which I fear, will have unintended consequences. Will mediators be trained to identify which lenders and which loans fall under which "guidance or rules or settlements?" This should be limited to laws and regulations, not guidance and rules, surrounding the foreclosure process, not the entire

universe of servicing rules. Mortgagees are currently subject to compliance with a host of consumer protection regulations and laws issued by the federal government and agencies, as well as those by the State of Connecticut, and borrowers are afforded other measures to remedy any failures in those areas. To introduce servicing issues (outside of payment processing issues) into a foreclosure hearing is ludicrous, and may be used as a method to gain additional time in the home. The mediation process is designed and intended to create an alternative to foreclosure, not introduce other stumbling blocks that will muddy the facts of the situation, which is the borrower's inability to pay their mortgage.

The recent announcement of the changes to Regulation Z, Truth In Lending, Mortgage Servicing Rules, is an example of such consumer protections. Is it necessary to bring them into the foreclosure process? The FDIC, OCC, FRB and the CFPB are monitoring the performance of banks with these regulations, and there are already stringent civil money penalties and consumer protections for violations.

When the Bill is so broad about what constitutes good faith for the lender, and there is no requirement to show evidence of bad faith, how will a mediator or the court decide what is "good faith" and what is not. While on the surface, the goal of "an efficient and expeditious process" is desirable, this Bill not only addresses those items that may be pertinent to the foreclosure action, but also opens the door to many other unrelated issues that can be brought as stalling tactics, and further slow down an already slow process as compared to the rest of the nation's judiciary states (we are the third slowest).

We should not lose sight of the fact that the mortgage is in foreclosure due to the borrower's inability to make contracted payments, and generally the mediation has failed because there continues to be financial hurdles that the borrower can not overcome, regardless of a restructure. The sanctions against the lender are punitive and unfair without understanding what constitutes not mediating in good faith. What are the sanctions for a borrower who does not act in good faith? A blatant disregard on behalf of the mortgagee of the general statutes governing foreclosure mediation is understandable; but the bill, as written, can be applied very broadly with egregious results and an unnecessary delay in the foreclosure process, . An unintended consequence of this ambiguity may be that lenders decide that mortgages to Connecticut homeowners have too much risks, their rights too diminished, and they choose to shy away from mortgage lending in Connecticut. Already, the GSE's are introducing higher rates for mortgages in CT – this will have a negative impact on our citizens. The result of this would be devastating to our economy and the housing market in Connecticut.

As to the requirement that a bank adhere to guidance or rules issued by a GSE for a non-GSE loan, it is overstepping the bounds of law as these guidelines are not law – they are investor requirements. This definition of good faith does not limit the exposure of banks to loss mitigation guidelines or rules, it is open-ended, and the sanctions are one-sided.

With regard to advance notice to the opposing party if additional documentation or time is needed for a party to be prepared for an upcoming mediation session – we will know what we need from the borrower, and have generally expressed that at the last mediation session – how will we know if they are not prepared to present the information? When we are presented with information at a mediation,

we need the courtesy of a reasonable amount of time to review and analyze that data before making a final decision – just as is being afforded the homeowner.

The Bill also references the FDIC calculations, forms as published in the FDIC loan modification guide – unfortunately, these rarely result in a favorable option for borrowers; a proprietary solution for each individual is favorable, and what we do at Chelsea Groton Bank.

Thank you for your time. Are there any questions?

Additional data on Chelsea Groton Bank foreclosure activity and alternatives.

In 2011, CGB initiated 24 foreclosures (17 for the Bank, and 7 for investors); 9 were mediated with mixed results. Additionally, we entered into 8 forbearances and 10 troubled debt restructures. In 2012, we initiated 23 foreclosures (20 for the Bank, 3 for investors); 7 entered mediation, again, to mixed results. We entered into 10 forbearances and 6 troubled debt restructures. In 2013, we currently have 8 foreclosures in process (6 for the Bank, and 2 for investors – one of which is in process since 2011); 1 is in mediation; we have entered into 2 forbearances and one trouble debt restructure so far this year.