

February 14, 2012

To: **Members of the Banks Committee**

Fr: **Connecticut Bankers Association**

Contacts: Tom Mongellow, Fritz Conway

Re: S.B. No. 313 (COMM) AN ACT PROHIBITING MORTGAGE LENDERS FROM IMPOSING ESCROW FEES ON BORROWERS WHO DO NOT ESCROW PROPERTY TAXES OR INSURANCE

Position: Oppose as Drafted

As is indicated by the title, this bill would prohibit any "escrow fee" from being charged to a borrower when they choose to not escrow their taxes or insurance. While we certainly agree that inappropriate charging of fees should not be tolerated, with regards to this issue, the complexities of tax collections, liens and risk management have to be carefully taken into account.

If a bank allows a customer to NOT escrow for taxes and insurance, the bank still needs to verify initially and periodically that those taxes have been paid and continue to be paid.

That's because if the taxes are not paid, a super priority lien is placed on the property by the municipality and interest on the unpaid taxes accrues at 18%. Ultimately, in the unfortunate instance of a foreclosure, the Bank has to pay those back taxes and the 18% interest on them.

To avoid the risk and monetary liability associated with a borrower's non-payment of taxes, banks employ independent tax service firms, that periodically check to ensure a borrower has paid their real estate taxes. Obviously, the bank pays for that valuable service. The fee for that service is passed on to the customer and is typically charged either once when a mortgage is originated, or on an annual basis.

This valuable service benefits municipalities in tax collection, lenders from excessive liability, and the borrower from becoming so delinquent in taxes that they can't possibly pay them back.

The bill as drafted may unintentionally impact this important service and we would look forward to working with the Committee and proponents of the bill to develop a workable solution.