

March 11, 2014

TO: Members of the Banking Committee

FROM: Connecticut Bankers Association
Contacts: Tom Mongellow, Fritz Conway

Re: Testimony on Various Bills Before the Committee

S.B. No. 372 AN ACT EXPANDING SAVINGS PROMOTION RAFFLES. Position: Support

This bill seeks a clarification on last year's Public Act 13-96 which enabled Connecticut Chartered Credit Unions and Community Banks to encourage savings through promotional raffles. The Act allows state banks with a community bank charter to engage in the savings promotions. However, there are no banks in the state which are operating under that very specific and limited charter. The typical state chartered bank in Connecticut operates under either a Bank & Trust or a Savings Bank charter, which means that under the current law, no Connecticut bank may offer these types of promotions.

The language in Senate Bill 372, will enable Connecticut chartered banks the ability to offer a savings promotion as anticipated in last year's legislation. Additionally, the bill clarifies that the Department of Banking shall review the safety and soundness of any Connecticut Bank prior to offering any savings promotion allowed by this bill.

We urge the Committee to support this clarification.

S.B. No. 373 AN ACT CONCERNING THE UNIFORM COMMERCIAL CODE AND THE ELECTRONIC FUND TRANSFER ACT Position: Support

The provisions in SB 373 are supported by both the CBA and the CT Bar Association. The contains language that will conform State Uniform laws on commercial wire transfer activities that banks conduct, with recent federal changes implemented by the Dodd Frank Act. Specifically, the amendment revises UCC4A-108 to provide that UCC4A will apply to a remittance transfer that is not an electronic funds transfer under the Electronic Funds Transfer Act. The amendment then restates the rule of the Supremacy Clause that the federal statute will prevail in the event that there is any conflict between UCC4A and the EFTA.

The provisions in SB 373 have been adopted in 38 states thus far and we encourage the Committee to support this proposal.

S.B. No. 398 AN ACT CONCERNING HOME LOANS Position: Support

Federal Housing Agency (FHA) insured mortgages, just like those originated by CHFA, are geared towards lower income and first time homebuyers. They are a critical and affordable product for residents across the State and allow many families to achieve the goal of owning a home. Nationwide, over 15% of all homes have been financed by FHA.

This bill would allow mortgage loans guaranteed by the FHA to be exempted from Connecticut's High Cost Loan lending definition, just as CHFA mortgages are. This is an important change, as FHA recently increased their required mortgage insurance term from five years or 78% (a set period), to the life of the loan. Mortgage insurance (known as MI or PMI), is typically required on mortgages with over an 80% loan to value ratio. The borrower pays that cost until the loan to value ratio goes below 80%.

Truth in Lending and RESPA regulations require that mortgage insurance costs have to be calculated into the mortgage's initial Annual Percentage Rate disclosure. When the new FHA "life of the loan" insurance cost is included into that APR, along with the pricing impact of the increasing interest rate environment (over a 20% increase since 2012), the APR of these FHA loans inadvertently falls under the State's High Cost Loan statute. That law was enacted to discourage higher interest rate mortgages and it contains restrictive and onerous provisions that will discourage most lenders from offering FHA guaranteed mortgages.

Passage of SB 398 will ensure that these important low cost FHA mortgages are still available for homebuyers throughout the State and we urge your support of this proposal.

S.B. No. 399 AN ACT CONCERNING BANKERS' BANKS Position: Support

Bankers' Bank Northeast (BBN) is state chartered bank regulated by the Department of Banking. It operates as a cooperative, correspondent bank, with its mission being to serve community banks and credit unions in Connecticut, Massachusetts, Vermont, New Hampshire, Rhode Island, Maine, New York and New Jersey. BBN aggregates the product and service needs of all their customer banks and credit unions to create economies of scale for better pricing. BBN's banking services, include cash letter settlement, coin & currency, domestic wire transfer, international services, lockbox collection, overnight liquidity lines, federal funds investing, and loan participations. In addition, BBN also provides a high level of expertise on several services that individual community financial institutions could not afford to perform on their own.

SB 339 would allow BBN to expand its client and shareholder footprint to the Mid-Atlantic States. The current bankers' bank statute limits BBN shareholders to financial institutions in New England and New York. By modifying the statute to include investors outside of those states, it will provide the opportunity to bring investment capital from outside the state to a Connecticut financial institution. Additional investment in BBN will make it a stronger, well-capitalized state-chartered bank that will enhance its cooperative structure and its ability to continue to serve its community bank and credit union clients. Importantly, more capital investment in BBN brings the opportunity for business and balance sheet growth that will likely lead to new well-paying jobs.

An additional and important benefit of SB 399 will be to level the competitive playing field with other Bankers Banks from around the country that do not have the same geographic restrictions as BBN and compete for business in its marketplace.

For all these reasons, we urge you support of Senate Bill 399.

S.B. No. 396 AN ACT REQUIRING MORTGAGEES TO NOTIFY CONSUMER REPORTING AGENCIES OF THE GOOD STANDING OF A MORTGAGOR. Position: Oppose

This bill would require the reporting of a borrower's "completion" in the State's Foreclosure Mediation Program and three years of on time mortgage loan payments associated with the program, to the national credit reporting bureaus.

Credit bureaus accept information on payments, balances and interest rates associated with various credit products including mortgage loans. Lenders typically report the payment activity of a borrower's lending products on a monthly basis, about the same time as the statement closing date of any of those products. The results of the monthly reporting of that information usually influence a borrower's credit report within 30 to 45 days.

SB 396 is unnecessary due to the regular monthly reporting of the borrowers existing mortgage loan whether or not it was subject to the mediation program. Additionally, the mediation program is not a loan, it is a process and therefore its "completion" cannot be reported to the credit bureaus. The mediation program may lead to the existing mortgage being modified or refinanced and those loans and the subsequent payments will be reported just as the borrowers initial mortgage was reported, on a monthly basis. Since on time payments over a three year period of time will be recorded each month, the three year period is not only unnecessary, but would delay the positive results of the previous on time payments on a borrower's credit report.

We urge the Committee to reject this proposal.

H.B. No. 5490 AN ACT CONCERNING FINANCIAL LITERACY

The CBA and the entire banking industry have been long time supporters of the concept of a financial literacy curriculum being offered to each resident of the State and we support the provisions of HB 5490 that accomplish that goal.

However, the bill also includes a duplicative fee disclosure for ATMs located on college campuses. The provision is unnecessary in particular, because each non-customer who uses an ATM with a debit card or credit card, is given an on-screen fee disclosure, followed by an "Opt-in" decision that must be made before proceeding with the transaction.

Also, in 2012 the US congress passed a bill (HR 4367) which eliminated the need to post disclosures on the outside of ATMs, due to unscrupulous people removing the disclosures and then suing the bank (and regularly winning the suit) for not having the proper disclosures on the machine.

We urge the committee to remove the ATM disclosure provision in the bill.

