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CONNECTICUT GENERAL ASSEMBLY
Thursday, March 13, 2014

TESTIMONY OF Kim K. V. McClain
TO THE INSURANCE AND REAL ESTATE COMMITTEE
ON PROPOSED SENATE BILL 393, "AN ACT CONCERNING ASSOCIATION LEASING RESTRICTIONS."

I currently serve as the Executive Director of the Connecticut Chapter of the Community Associations Institute (CAI-CT). The Community Associations Institute (CAI), is a national member supported, not-for-profit educational and resource organization dedicated to fostering vibrant, competent, harmonious community associations for the 1 in 6 Americans who live in common interest communities.

I am submitting testimony to present my insights about how the proposed bill will affect the more than 5,000 common interest communities in Connecticut, and the hundreds of thousands of people who live in them.

CAI-CT opposes SB 393.

1. Common Interest Communities are self-governed.

As self-governed communities, common interest associations have the ability to adopt rules which meet the needs of their unique communities. The unit owners are collectively responsible for holding their democratically elected board members accountable to ensure the board acts on the best interests of the community as a whole.

It is important to note that the Connecticut General Statutes allow for association boards to adopt rules. Subsection 47-261b(f) of the Act permits the association to adopt rules regulating leasing only "to the extent those rules are reasonably designed to meet underwriting requirements of institutional lenders that regularly make loans secured by first mortgages on units in common interest communities or regularly purchase those mortgages . . ." Thus, the association may adopt a rule regulating the ability of an owner to lease his or her unit only to the extent necessary to meet mortgage underwriting guidelines.

2.A high proportion of rental units leads to higher costs for the unit owners.

Insurance costs are shared by all the unit owners in an association. Insurance premiums are determined based on a number of factors, including the percentage of renter occupied units. The higher the percentage of renters, the higher the premium.

3.Securing a mortgage for a unit in an community association would become more difficult.

FHA is engaged in underwriting over 80% of all mortgages. However, their guidelines for common interest communities require that no more than 50% of the units can be rented. Mortgages are the most affordable end of the spectrum are backed by FHA, Fannie Mae or Freddie Mac. If FHA certification is not available to associations with a higher proportion of renters, fewer potential buyers will able to purchase in those communities.

4. Investor owners would have greater ability to determine the destiny of a community than those who reside there permanently.

In the situations where an investor owners control a large proportion of units in a community s/he can dominate the voting power and assert their interests over those of individual unit owners. We have seen numerous situations whereby investors seek to keep common fees as low as possible. In such circumstances, the community quickly becomes cash strapped, maintenance gets deferred and reserves are not properly funded. This is extremely detrimental to the health and vitality of a community.

Indeed, it is also a known fact in real estate that communities that are owner occupied tend to be more stable and better maintained. Those who live there on a daily basis have an inherent interest in ensuring that their communities are properly maintained and respected.

The General Assembly should not adopt Raised Bill No. 393 because it will make it more difficult for unit owners to sell their units, it will increase the cost of living in a condominium or common interest community, and it will make it easier for individual investors to take control of the community away from the unit owners that live there.

We would welcome the opportunity to further discuss with you this issue, or any other issues affecting common interest communities in Connecticut. Please do not hesitate to contact us with any questions or concerns. I can be reached at 860-633-5692 or email: caictkmcclain@sbcglobal.net.

Thank you for your consideration.

Respectfully submitted,

Kim McClain