

# Banking Committee JOINT FAVORABLE REPORT

**Bill No.:** HB-5495

AN ACT REMOVING THE SUNSET DATE FOR THE FORECLOSURE

**Title:** MEDIATION PROGRAM.

**Vote Date:** 3/20/2018

**Vote Action:** Joint Favorable Substitute

**PH Date:** 3/15/2018

**File No.:**

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## **SPONSORS OF BILL:**

Banking Committee.

## **REASONS FOR BILL:**

The state's Foreclosure Mediation Program has helped thousands of Connecticut residents remain in their homes when facing foreclosure. The program is currently scheduled to sunset in 2019. This bill would remove the sunset date, making the program permanent.

## **RESPONSE FROM ADMINISTRATION/AGENCY:**

### **State of Connecticut Judicial Branch**

The Judicial Branch suggested the following changes to the bill:

- In all instances in which the bill amends current statute to read "after July 1, 2009" and "after October 1, 2011" be changed to "on and after July 1, 2009" and "on and after October 1 2011" This will prevent current cases in the system from being excluded from the program.
- Eliminate language in subsection (d) of section 2. The Branch does not believe that the report is necessary for the continuation of the program.

### **Subira Gordon, Executive Director of the Commission on Equity and Opportunity**

The foreclosure mediation program was created in response to the financial crisis in 2007 and 2008. There are still a significant number of cases before the judicial branch, which shows that there is still a significant need for the program. The program helps many minority families, and as the commission that represents this constituency, CEO is in support of the bill.

## **NATURE AND SOURCES OF SUPPORT:**

### **Raphael L. Podolsky, Connecticut Legal Services**

The bill is long overdue on a program that has been extraordinarily successful. The Judicial Branch shows a settlement rate of 86%, with 81% of the settled cases resulting in the homeowner staying in the home. In most cases, banks were unable or unwilling to agree to loan modifications prior to the involvement of the Foreclosure Mediation Program (FMP).

### **Michelle Ann Paulis, Esq.**

Ms. Paulis helps homeowners facing foreclosure and works to assist and represent them in the Foreclosure Mediation Program (FMP). She has seen first-hand the process of the FMP's work in favor of the home owner. If this program were to end, the lenders would have no incentive to try and work with borrowers. This program looks out for the borrower and helps homeowners keep their homes.

### **Loraine Martinez, Staff Attorney, Connecticut Fair Housing Center**

The Connecticut Fair Housing Center is the only statewide nonprofit that represents homeowners facing foreclosure. They provided in-person or individualized assistance to more than 1500 homeowners facing foreclosure in 2017, and there are still about 13,000 Connecticut households who are seriously behind on their mortgages. The Fair Housing Center relies on this program to ease the burden for homeowners facing complex court proceedings on their own. This program has been amazingly successful for homeowners who cannot afford attorneys, and pays for itself by saving homeowners, their neighbors, and their neighborhoods from widespread blight, lost property value, and all the hardship caused by a foreclosure.

### **Jeff Gentes, Connecticut Fair Housing Center**

Making the Foreclosure Mediation Program permanent will help more homeowners keep their homes. Preventing foreclosures saves cities and towns money, preserves value for neighbors of properties in foreclosure, and helps keep homeowners in place. The program has successfully helped over 20,000 households keep their homes over its 8 plus years.

### **Daniel Blinn, Consumer Law Group**

Mr. Blinn has seen first-hand the damage done by subprime lending and the long foreclosure crisis that resulted. The General Assembly's great work in creating the Foreclosure Mediation Program did much to help those homeowners and their lawyers.

### **AARP**

Effective foreclosure mediation and loan modification are beneficial options for borrowers. The collapse of the housing market caused a sharp increase in foreclosures that devastated older Americans. Older Americans living on fixed incomes tend to be "cash-poor" but "equity-rich" were targeted by unscrupulous originators looking to strip them of the equity in their homes. This resulted in unaffordable loans for many older homeowners. This program provides distressed Connecticut homeowners with a meaningful opportunity to seek a mutually acceptable resolution with lenders to avoid foreclosure.

## **NATURE AND SOURCES OF OPPOSITION:**

### **The Credit Union League of Connecticut**

Most of the Credit Union League's members are not-for-profit financial cooperatives owned and existing only to serve their members. The League supports assisting members to remain in their homes, but on rare occasions this is not possible. The Foreclosure Mediation Program began when foreclosure rates were high and it was not intended to be a permanent program. The Foreclosure Mediation Program lengthens the process already used by credit unions, which results in additional expenses that are borne by other members of the credit union.

### **Judith Stumpo, Chelsea Groton Bank**

The circumstances that the Foreclosure Mediation Program was created to address no longer exist. After the program ends, home protection efforts will continue. Connecticut has one of the four slowest and most expensive foreclosure processes in the country. It takes an average of three years to complete the foreclosure process when the program is used by a borrower. This additional time has many negative and unintended consequences, including blighted and abandoned properties, delinquent real estate taxes and depressed property values for homes in the same neighborhood as the foreclosure.

### **Stephen Lewis, CEO, President Thomaston Savings Bank**

The volume of foreclosures has receded back to pre-crisis levels, and the program is no longer necessary. Additionally, new regulations required by the Dodd Frank Act, have been implemented by the Federal Government to safeguard borrowers against unscrupulous lenders to guarantee that they can pay their mortgages. After the program sunsets, Connecticut will continue to be a judicial foreclosure state. This statutory framework has numerous borrower protections, including the requirement that lenders must prove their right to foreclosure.

### **John Holt, President and Chief Executive Officer, Nutmeg State Financial Credit Union**

The mission of Nutmeg State Financial Credit Union is to make a positive difference in their members' lives. Mr. Holt's credit union takes steps to accomplish most of the objectives of the Foreclosure Mediation Program, and the current structure of the Foreclosure Mediation Program causes them to reevaluate their process.

**Reported by: Pamela Bianca**

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