CONNECTICUT BANKERS ASSOCIATION

March 2, 2021

To: Members of the Banking Committee

From: Tom Mongellow, Art Corey (860-677-5060); Fritz Conway (860-229-0301)

Re: Senate Bill 941, An Act Concerning the Assignment of Certain Property, Tax, Water and Sewer Liens

Position: Support

This proposal would reduce the interest rate on delinquent municipal property taxes after the tax lien has been sold by a municipality to a third party (typically a debt buyer/collector) to 6 %. Under current law, that private third-party is allowed to continue to collect interest - and compound it - at a rate of 18% per year. And, those debt buyers also receive a statutory super-priority lien status – which nearly guarantees they will receive 100% of the tax lien and interest, when the property is sold. *This effectively and unfairly gives debt buyers that same rights as municipalities, when charging interest and foreclosing on the property.*

This can result in a temptation for debt buyers/collectors to intentionally "hold" the debt and allowing that 18% interest to grow and compound, in some cases for years– because it is guaranteed by the super-lien, when the property ultimately sells. Indeed, it is a disincentive to resolve the purchased tax lien with the homeowner, because the unnaturally high rate of interest turns it into a long-term investment.

Who Pays? *Ultimately, the homeowner pays* to avoid a tax lien foreclosure (which the debt buyer has the right to initiate), or through a deficiency judgement after a foreclosure that will follow them for years. Also harmed by this process is the loan's investor (such as Fannie Mae or Freddie Mac) who financed the mortgage, and typically has to pay the debt buyer first from any proceeds left on the property after the foreclosure.

This bill simply reduces the interest rate that these private parties can charge, down to a reasonable market rate. Importantly, *it does not affect the rate of interest that a municipality can currently collect on delinquent taxes or any of its rights.*

The bill also includes provisions that require lien purchasers to provide notice to holders of mortgages before beginning the process of foreclosing a municipal lien. These notice requirements would give mortgage holders the opportunity to resolve these municipal liens before the foreclosure process starts.

We hope the Committee will support homeowners and lenders across the Connecticut by supporting this proposal and not allowing the payment of unreasonable rates of interest to private third parties.

The Connecticut Bankers Association appreciates the opportunity to comment upon House Bill 941.