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## OLR Bill Analysis

**sHB 6688 (as amended by House "A")\***

***AN ACT CONCERNING MORTGAGES, THE RESIDENTIAL HEATING EQUIPMENT FINANCING PROGRAM, THE CONNECTICUT HOUSING FINANCE AUTHORITY AND MOBILE MANUFACTURED HOMES.***

### **SUMMARY**

This bill does the following:

1. requires the Connecticut Housing Finance Authority (CHFA) to establish a small multifamily lending program generally for properties of two to 20 units and makes various revisions to CHFA's existing homeownership loan program (§§ 5-9);
2. expands the residential heating equipment financing program to include geothermal heating and cooling systems and heat pump dryers (§ 4);
3. requires a mortgagee (lender) that agrees to modify a mortgage through the state's foreclosure mediation program (FMP) to send the modification to the mortgagor (borrower) for execution at least 15 business days before the first modified payment is due under it (§ 1);
4. specifies to whom a mortgage release must be delivered by a mortgagee or by a person authorized to release a mortgage in certain situations (§ 2);
5. requires a mortgagee to accept, as payment or partial payment to satisfy a mortgage, a bank or certified check, an attorney's clients' funds check, a title insurance company check, a wire transfer, or any other payment federal law authorizes (§ 3); and
6. establishes a working group to (a) study ways to increase access to loans for individuals to buy mobile manufactured homes and

(b) submit a report to the Banking and Housing committees by January 1, 2024 (§ 10).

The bill also makes many technical and conforming changes.

\*House Amendment “A” principally does the following: (1) makes failure to abide by a court’s order to send a mortgage modification under the FPM subject to sanctions, rather than potentially making it an unfair trade practice; (2) eliminates the underlying bill’s new down payment assistance loan program and rehabilitation loan pilot program and instead revises CHFA’s existing homeownership loan program; (3) generally restricts the new small multifamily lending loan program to properties of two to 20 units, and delays, from October 1, 2023, to January 1, 2024, the deadline for CHFA to establish program guidelines; and (4) establishes a working group to study loan access to buy mobile manufactured homes, rather than requiring the departments of banking and housing to study this.

EFFECTIVE DATE: October 1, 2023, except the CHFA multifamily lending program provisions take effect July 1, 2023, and the working group provision takes effect upon passage.

## **§§ 5-9 — CHFA LOAN PROGRAMS**

### ***New Small Multifamily Lending Program (§ 9)***

The bill requires CHFA, within resources allocated by the State Bond Commission to the Department of Housing (DOH), to establish a small multifamily lending program. The program must have a revolving loan fund for community development financial institutions and other comparable institutions CHFA deems eligible to provide acquisition, construction, rehabilitation, and permanent financing for small multifamily properties. Properties eligible for the program are those with between two and 20 units, but CHFA may allow properties with more units to participate if they accomplish the program’s objectives.

Under the bill, CHFA must establish program guidelines for issuing these loans by January 1, 2024. The guidelines must require that loan funds be used to acquire, construct, rehabilitate, or have permanent

financing to (1) increase affordable housing in higher income communities, including housing that would qualify for housing unit equivalent points under the Affordable Housing Land Use Appeals Procedure law (CGS § 8-30g); (2) restore vacant and blighted properties or properties needing rehabilitation to performing properties; and (3) help revitalization efforts in low- and moderate-income communities.

If the home being purchased is in an affordability incentive zone, the bill allows CHFA to use different lending guidelines than those that apply to home purchases outside a zone, such as increased eligibility limits concerning the home purchase price or maximum loan amount, or a reduced interest rate.

Generally, an affordability incentive zone is a zone CHFA establishes to incentivize home purchases in municipalities that are not exempt from the state's affordable housing appeals procedure (CGS § 8-286e).

***Existing Homeownership Loan Program (§§ 5-8)***

The bill makes several minor, technical, and conforming changes to the existing homeownership loan program that CHFA administers, including allowing, rather than requiring, the DOH commissioner to adopt regulations with requirements for associated loans before October 1, 1995 (it does not appear they were adopted).

The bill specifies that a loan issued under the program may be amortizing, deferred, or forgivable as to principal or interest. It eliminates the current requirement that a contract for a deferred loan only allow deferment of principal (i.e., interest payments must be made), thus allowing these loans to defer both principal and interest payments.

If the home being purchased under the program is in an affordability incentive zone (see above), the bill explicitly allows CHFA to use different lending guidelines than those that apply to home purchases outside a zone, such as increased eligibility limits concerning the home purchase price or maximum loan amount, or a reduced interest rate.

Current law requires loans issued under the program to be secured

by a second mortgage on the property that is purchased by the loan recipient. The bill requires the mortgage to be subordinate, rather than second, thereby increasing program eligibility by allowing properties with additional priority mortgagees to participate.

Currently, CHFA is authorized to establish loan repayment terms and conditions but sets the interest rate at the State Bond Commission-established rate. The bill allows CHFA, in its terms and conditions, to establish interest rates, repayment terms, or loan forgiveness terms. It also allows CHFA to approve the length of a loan's repayment, in its discretion, rather than only allowing it to approve a repayment term that is concurrent with the first mortgage.

Lastly, the bill requires homeowners' payments made to CHFA under these laws to be used by the authority for making additional loans unless the Office of Policy and Management (OPM) secretary directs them to be deposited into the General Fund. Current law requires the reverse: the payments paid to CHFA must be deposited into the General Fund unless the OPM secretary and state treasurer approve of them being used to make additional loans.

#### **§ 4 — HOME EQUIPMENT FINANCING PROGRAMS**

The bill expands the residential heating equipment financing program to include energy efficient (1) geothermal heating and cooling systems to replace burners, boilers, and furnaces that are at least seven years old and have an energy efficiency rating of 75% or less or electric heating systems and (2) heat pump dryers to replace less efficient dryers. Currently the program applies to energy efficient (1) natural gas or heating oil burners, boilers, and furnaces and (2) ductless heat pumps.

By law, the program allows residential customers to pay for the installation of this equipment through on-bill or another type of financing. To participate, a customer must first have a home energy audit.

The bill also requires the Department of Energy and Environmental

Protection to maintain an energy savings infrastructure program that offers financial incentives for installing combined heat and power systems; energy efficient heating oil burners, boilers, and furnaces; natural gas boilers and furnaces; and geothermal heating and cooling systems and heat pump dryers. The legislature created a pilot program for this purpose in 2011 (PA 11-80, § 116), but it did not apply to geothermal systems and heat pump dryers.

### **§ 1 — FMP PAYMENTS**

The bill requires a mortgagee that agrees to modify a mortgage under the state's FMP to send the modification to the mortgagor for execution at least 15 business days before the first modified payment is due. It allows the mortgagee or the mortgagee's attorney to fulfill this requirement by sending the modification either to the mortgagor or both the mortgagor and the mortgagor's attorney.

The bill makes a failure to timely send the modification grounds for a court, in a pending foreclosure action and after notice and a hearing, to order the mortgagee to send it. It also makes failure to comply with the court order conduct that is contrary to the FMP's objectives and thus subject to sanctions authorized under the program. By law, the court may impose sanctions for intentional conduct, or a pattern of conduct, that is contrary to the program's objectives. These sanctions must be proportional to the conduct and consistent with FMP objectives. Among other things, they may include ending mediation, prohibiting the mortgagee from charging the mortgagor for attorney's fees, or fines (CGS § 49-31n(b)).

### **§ 2 — MORTGAGE RELEASES**

The bill specifies to whom a mortgage release must be delivered by a mortgagee, or by a person authorized to release a mortgage, when:

1. the mortgage is paid off;
2. a bona fide offer exists to pay off the mortgage or part of the mortgage, in accordance with its terms upon a release; or
3. the interested parties have a written agreement to partially

release the mortgage.

It requires the release to be sent to the mortgagor or mortgagor's designated representative if either requests it in writing. Otherwise, the release must be delivered to the town clerk of the town where the property is situated, and a copy must be sent to the mortgagor at or about the same time.

### **§ 10 — MOBILE MANUFACTURED HOME WORKING GROUP**

The bill creates a 9-member working group to study ways to increase access to loans for purchasing mobile manufactured homes. Working group members include the following:

1. the Banking Committee's chairpersons and ranking members, or their designees;
2. the commissioners of the banking and housing departments and the CHFA executive director, or their designees;
3. a representative from an association that represents financial institutions in the state; and
4. a representative of an organization that represents credit unions in the state.

Under the bill, the Banking Committee chairpersons appoint the working group's two appointed members, who may be Connecticut state legislators, and fill vacancies in these positions. Initial appointments must be made within 30 days after the bill passes.

The bill designates the Banking Committee chairpersons as the working group's chairpersons. They must schedule and hold the first meeting within 60 days after the bill passes. The Banking Committee's administrative staff serves as the working group's administrative staff.

Under the bill, the working group must submit a report with its findings and recommendations to the Banking and Housing committees by January 1, 2024. The group terminates on this day or when it submits the report, whichever is later.

**BACKGROUND**

***Ezequiel Santiago Foreclosure Mediation Program***

By law, this program brings together judicial branch mediators; lenders; and borrowers or owner-occupants, as applicable. If an eligible borrower or owner-occupant files an appearance and requests mediation, the lender must participate.

The program is available to (1) owner-occupants of one- to four-family residential real property who use it as their primary residence and (2) religious organizations. The property must be in Connecticut, and the owner-occupant must be either the borrower under a mortgage on the property or a permitted successor-in-interest (i.e., someone who, among other things, has title to the property due to certain events such as divorce or the borrower’s death) (CGS § 49-31k et seq.).

**COMMITTEE ACTION**

Banking Committee

Joint Favorable Substitute

Yea 12    Nay 0    (03/07/2023)