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## OLR Bill Analysis

### sSB 284

#### ***AN ACT CONCERNING A SECURITY DEPOSIT LOAN ASSISTANCE PROGRAM.***

#### **SUMMARY**

This bill requires the Department of Housing (DOH), within available appropriations, to establish and administer a low interest loan program for residential rental security deposits that generally guarantees repayment of 25% of each loan's outstanding principal due to participating lenders. The bill establishes an associated state income tax exemption for interest deferred by or not charged to a renter with a security deposit loan that is included in their gross income for federal income tax purposes (§ 2).

Under the bill, eligible banks, out-of-state banks, and credit unions, as the Department of Banking (DOB) determines, may make program loans. Loan recipients must also meet certain eligibility criteria (e.g., state residency, rent to household income ratio, and household income).

The bill requires those who receive a program loan to (1) pay an application fee of up to \$50 to DOB, which it may use for rental reporting services, and (2) participate in financial literacy classes that DOB makes available virtually. DOB must also make enrollment and participation in a service to report on-time rental payments to credit bureaus available to loan recipients.

EFFECTIVE DATE: July 1, 2024, except the tax exemption is effective January 1, 2025, and applicable to tax years beginning on or after that date.

#### **SECURITY DEPOSIT LOAN ASSISTANCE PROGRAM**

##### ***Eligible Participants***

***Lending Institutions.*** Under the bill, Connecticut banks or credit

unions, federal banks or credit unions, and out-of-state banks may serve as program lenders (“eligible financial institutions”) as long as they have a physical presence in the state and are not subject to certain enforcement actions. The excluding enforcement actions include the following:

1. formal agreement with the federal Office of the Comptroller of the Currency;
2. consent order with, or cease and desist order issued by, the Federal Deposit Insurance Corporation or DOB;
3. letter of understanding and agreement with, or consent order issued by, the National Credit Union Administration; and
4. DOB finding that the bank or credit union failed to comply with the program requirements.

The bill requires institutions interested in participating in the program to apply to DOB as the DOH commissioner prescribes. DOB must determine an institution’s eligibility to participate within 15 days after receiving the application and so notify the applicant and the DOH commissioner.

***Loan Recipients.*** The loan program is available to prospective residential rental tenants (“eligible renters”) who:

1. are Connecticut residents;
2. are members of low-income households, veterans (i.e., members of, or honorably discharged or released honorably from, active service in the armed forces), recent college graduates (i.e., graduated not more than 12 months before applying for the program), or domestic violence victims (i.e., abused or subject to extreme cruelty by things like physical, mental, or sexual abuse, or deprivation of medical care); and
3. can show that the proposed lease rent amount does not exceed 35% of their household income.

For the purposes of the program, a “low-income household” is a group of people living in a residential property who are eligible for or receive benefits under HUSKY Health (i.e., Medicaid and the state children’s health insurance program), the temporary family assistance program, the state supplement program, or any state-administered general assistance program.

The bill specifies that benefits to anyone receiving temporary family assistance, aid under the state supplement program, or any state-administered general assistance are not reduced by security deposit loan assistance program payments.

***Rental Security Deposit Loan Terms***

Under the bill, approved lenders may make loans to prospective renters of up to one-month’s rent for paying a security deposit. A prospective renter must show the lender that he or she (1) is applying to rent a residential property in Connecticut and (2) meets the program’s tenant eligibility requirements (see *Loan Recipients*, above). The bill limits people to receiving one loan under the program. The loan agreement must require the recipient to fully repay the loan within 24 months by making between 12 and 24 equal installment payments.

The bill generally requires the lenders to make the security deposit loans using their underwriting policies and standards; creditworthiness and debt-to-income ratios may not be used to determine loan eligibility. It caps interest on the loan’s principal at 4% annually and prohibits the loan agreement from having fees for early payment or prepayment of the loan. Additionally, the bill requires lenders to:

1. refer prospective renters to the 2-1-1 Infoline program,
2. offer credit counseling services to the renters or refer them to a nonprofit that provides these services, and
3. disclose in the loan agreement that there may be federal tax consequences from receiving a program loan.

The bill allows the DOH commissioner to end any program loan if

the issuing lender misrepresents any information about the loan or fails to comply with any of the bill's requirements related to the loan.

***Direct Payment to Landlord***

Under the bill, the lender issuing the loan must send the loan funds directly to the renter's landlord. However, the DOH commissioner, or a local or regional nonprofit or social service organization under DOH contract to help administer the loan program, must first verify that the landlord has no history of bringing frivolous or unreasonable small claims actions or proceedings involving housing issues.

The bill requires a lender that makes a loan to notify the DOH commissioner in writing within one business day after doing so. The notice must include the loan-related information about the renter that the commissioner reasonably requests.

***State Guaranty***

The bill allows lenders that are unable to collect the full amount of a program loan from the borrower within 24 months after they made the loan to make a claim to DOH for 25% of the outstanding principal balance. However, they must first make a good faith effort to collect the outstanding funds.

Under the bill, the DOH commissioner sets the process for making claims. A claim must (1) include any information she finds reasonably necessary to consider it and (2) show, to her satisfaction, that the lender made a good faith effort to collect the funds according to its loan servicing and collection policies. If the DOH commissioner approves the claim, she submits it to the treasurer for payment, within available appropriations, from the General Fund.

The bill requires a lender that receives a claim payment to assign the defaulted loan to the state, which gives the DOH commissioner the authority to continue collection efforts.

When the total value of all payments made to honor guarantees exceeds 10% of the total value of issued program loans, the bill requires the DOH commissioner to immediately stop guaranteeing new loans.

She must also notify the treasurer and each participating lender of the total value of all payments made to honor guarantees and that she will not guarantee loans made after that date.

**Other Provisions**

**Recordkeeping.** The bill requires the DOH commissioner to keep records on the program’s administration, including the loans issued and payments made to honor the loans. She must regularly review the records to determine the number of issued loans and identify duplicate applications.

**Community Reinvestment Performance.** The bill requires the DOB commissioner to consider security deposit loan assistance program participation when assessing an eligible financial institution’s community reinvestment performance. By law, this assessment is of a bank’s or credit union’s efforts to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods. It is used by DOB when making decisions on an application for things like opening new branches, relocating main offices, or mergers.

**COMMITTEE ACTION**

Banking Committee

Joint Favorable

Yea 11    Nay 1    (03/12/2024)