Legislative History for Connecticut Act

Public Act: 01-34

Bill Number: 6131

Senate Pages: 1825, 1877-1878 3

House Pages: 2036-2040 5

Committee: Banking: 9, 11-14, 19-26, 28-38, 50-80, 87, 88, 108-123, 127-156 103

Page Total: [111

Transcripts from the Joint Standing Committee Public Hearing(s) and/or Senate and House of Representatives Proceedings

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S-457

CONNECTICUT
GEN. ASSEMBLY
SENATE

PROCEEDINGS
2001

VOL. 44
PART 7
1799-2156

Without objection, so ordered.

SEN. JEPSEN:

Page 17, 452 is PR.

453, PR.

454, PR.

455, PR.

456, PR.

457, PR.

Page 18, 458 is PR.

459 is Go.

460, H.B. 6131 I move to the Consent Calendar.

THE CHAIR:

Without objection, so ordered.

SEN. JEPSEN:

461 is PR.

462 is PR.

Page 19, 463 is PR.

464, PR.

465, PR.

466, S.B. 142 I move to the Foot of the Calendar.

THE CHAIR:

Without objection, so ordered.

SEN. JEPSEN:

467, S.B. 1010 I move to the Committee on Appropriations.

5861.

Calendar Page 18, Calendar 459, Substitute for H.B. 5654.

Calendar 460, Substitute for H.B. 6131.

Calendar Page 19, Calendar 468, Substitute for S. B. 1027.

Calendar Page 22, Calendar 480, Substitute for H.B. 6947.

Calendar Page 23, Calendar 107, Substitute for S.B. 1047.

Calendar 110, Substitute for S.B. 1008.

Calendar Page 22, Calendar 485, Substitute for H.B. 6763.

Calendar Page 27, correction, Calendar Page 24, Calendar 131, Substitute for S.B. 792.

Calendar Page 27, Calendar 189, Substitute for S.B. 1330.

Calendar Page 28, Calendar 244, S.B. 735.

Calendar Page 30, Calendar 298, S.B. 1250.

Calendar Page 31, Calendar 303, Substitute for S.B. 1011.

Calendar 336, Substitute for S.B. 1403.

And Calendar Page 34, Calendar 111, S.B. 1116.

And Calendar 310, Substitute for S.B. 1357.

Madam President, that completes the First Consent

Calendar.

THE CHAIR:

Thank you, Sir. Would you once again announce a roll call vote on the Consent Calendar. The machine will be opened.

THE CLERK:

The Senate is now voting by roll call on the Consent Calendar. Will all Senators please return to the Chamber.

The Senate is now voting by roll call on the Consent Calendar. Will all Senators please return to the Chamber.

THE CHAIR:

Have all members voted? Have all members voted? If all members have voted, the machine will be locked. The Clerk please announce the tally.

THE CLERK:

Motion is on adoption of Consent Calendar No. 1.

Total number voting 36; necessary for passage, 19. Those voting "yea", 36; those voting "nay", 0. Those absent and not voting, 0.

THE CHAIR:

The Consent Calendar is adopted. Before we begin with the Calendar, I would once again ask if there are

H-845

CONNECTICUT
GEN. ASSEMBLY
HOUSE

PROCEEDINGS
2001

VOL. 44
PART 7
2026-2372

The Clerk will please announce the tally.

CLERK:

H.B. 6775

Total Number Voting	139
Necessary for Passage	70
Those voting Yea	139
Those voting Nay	0
Those absent and not Voting	11

SPEAKER LYONS:

The bill passes.

Would the Clerk please call Calendar 108.

CLERK:

On page 23, Calendar 108, Substitute for H.B. 6131, AN ACT CONCERNING ABUSIVE HOME LOAN LENDING PRACTICES. Favorable Report of the Committee on Judiciary.

SPEAKER LYONS:

Representative Paul Doyle, you have the floor, sir.

REP. DOYLE: (28TH)

Thank you, Madam Speaker. I move acceptance of the committee's joint favorable report and passage of the bill.

SPEAKER LYONS:

The question before the Chamber is on acceptance and passage. Will you remark?

REP. DOYLE: (28TH)

Yes. Thank you, Madam Speaker. This bill is a broad based bill that seeks to curb, by our extensive statute, the practice - the abusive lending practices or commonly known as a predatory lending bill.

What this bill does, is it targets certain primarily second loans or second mortgages on properties or the companies or banks or mortgage companies that provide these loans, they've been criticized in the past nationwide and the press, alike for having high cost and high terms that adversely effect the consumer whose applying for them.

This bill specifically prohibits certain terms in any second loans that are to be made in terms of balloon payments. The balloon payments must have a term of less than seven years. It's got specific terms of prohibitions that would prohibit the banks from having terms in there that are very stringent and difficult on the loan.

It also prohibits certain acts and practices by the companies that execute these acts. For instance, it limits the ability to impose pre-paid finance charges. It also prohibits them from - when they initially file a second and execute a loan, they can't do anyone for a short term thereafter.

The bottom line is this bill prohibits practices

that really take effect and adversely affect our consumers.

The target of these consumers, to be honest, a lot of the low income people that often don't appreciate some of the terms and they're in desperate straits. This is a very good bill that protects these protect these individuals who are taken advantage by certain institutions and banks throughout the country.

This bill is very good. This will set the tone for the entire nation because this will become the toughest bill in the nation seeking secondary loans.

So, this is a very good bill. I move its adoption and I ask the entire Chamber to support this important bill.

Thank you, Madam Speaker.

SPEAKER LYONS:

Thank you, sir. Will you remark further the bill that is before us?

Representative Stripp.

REP. STRIPP: (135TH)

Thank you, Madam Speaker. Madam Speaker, I rise to support the bill because the bill puts us in the fore front of preventing predatory lending practices to people who are in desperate situations.

But in addition to that, it strikes an important

balance in that it doesn't become so draconian to lenders so that it's going to drive them out of the market and therefore, not be able to provide source of funds for people who are higher risks and do need the funds.

Madam Speaker, I think it's a well balanced bill and I think it's one we should all support.

Thank you, Madam Speaker.

SPEAKER LYONS:

Thank you, sir. Will you remark? Will you remark further on the bill that is before us?

If not, staff and guests come to the Well. Members, take your seats. The machine will be opened.

CLERK:

The House of Representatives is voting by roll call. Members, to the Chamber. The House is voting by roll call. Members to the Chamber, please.

SPEAKER LYONS:

Have all the members voted? Have all the members voted? Would the members please check the board to make sure that your vote is accurately recorded.

If all the members have voted, the machine will be locked and the Clerk will take a tally.

The Clerk will please announce the tally.

CLERK:

H.B. 6131

Total Number Voting	142
Necessary for Passage	72
Those voting Yea	142
Those voting Nay	0
Those absent and not Voting	8

SPEAKER LYONS:

The bill passes.

DEPUTY SPEAKER FRITZ:

Will the Clerk please call Calendar 90.

CLERK:

On page 23, Calendar 90, Substitute for H.B. 662, HB 6642 AN ACT CONCERNING TRAINING OF CASINO PERSONNEL FOR EMPLOYMENT. Favorable Report of the Committee on Judiciary.

DEPUTY SPEAKER FRITZ:

Representative Dargan, the very distinguished Chairman of the Public Safety Committee.

REP. DARGAN: (115TH)

Thank you, Madam Speaker. I move acceptance of the committee's joint favorable report and passage of the bill.

DEPUTY SPEAKER FRITZ:

The question is on acceptance and passage.

Please proceed.

JOINT
STANDING
COMMITTEE
HEARINGS

BANKING

2001
INDEX

PRESIDING CHAIRMEN: Senator McDermott
Representative Doyle

COMMITTEE MEMBERS PRESENT:

SENATORS: Bozek, Smith

REPRESENTATIVES: Green, Stripp, DeMarinis, Fedele, Graziani, Heagney, Janowski, Michele, O'Rourke, Pawelkiewicz, Prelli, Scribner

SENATOR MCDERMOTT: Moving to our next part of the public hearing, the first hour is for legislator's staff and Commissioners. Our first speaker is Commissioner John Burke.

COMMISSIONER JOHN BURKE: Good afternoon Senator, thank you. Co-chairs. I have, and I hope you have, all received copies of our proposal. We have many things today. There are six bills that we have. For those members who haven't had an opportunity to deal with the Department, just to remind you what as you look at it what we try to do is obviously with the position of having the bill itself is an overview of existing legislation and any changes that we are going to make or are proposing to make with our bill we have a chance to look at it and then the rationale from the department's point of view as to why we did it.

I will try not to be redundant in my remarks and I will, with the permission of the Chairs, go through the bills in the sequence in which subject matter was presented and kind of give you a brief overview from my perspective and then answer any questions that the Committee may have. If that's acceptable? Thank you.

The first bill is H.B. 6130 which is AN ACT

(inaudible).

COMM. JOHN BURKE: Number two is H.B. 6131 AN ACT CONCERNING ABUSIVE HOME LENDING PRACTICES. I was discussing this with the Chairs earlier in the year and I will tell you we had a lot of agita about doing something like this. Abusive lending we're using the term has been also, there's been synonymous with terms such as predatory lending, which you've also heard, of course, and the technical term in the industry is sub-prime lending.

What we have attempted to do with this bill is to still provide the public with access to funds where they are needed. So we don't want to cut off this source of credit. That's very critical in what we're trying to balance with this bill. So legitimate sub-prime lending, these are people who are in desperate need to have not good credit who still need to borrow money. So they are high-risk people but they need access to funds legitimately, from legitimate lenders.

So we try to balance that business perspective with what has become known as either predatory lending or what we have termed abusive lending practices.

Washington started dealing with this, oh gosh, I guess in the beginning of last year, maybe midway through the year and the federal agencies took the initial route of asking for additional disclosure. We took a look at that and took a look at what some other states were doing, North Carolina, New York, Massachusetts, and decided that additional disclosures didn't solve the problem.

I mean, as I mentioned earlier to someone when I was chatting before, that if you are desperate for money and somebody puts a disclosure statement in front of you and says will you sign this well you sign it I don't care just tell me how am I going to get my money. So we thought disclosure was not going to prevent the lending practices. We needed something to put in, to have put in place that would prevent the loan from occurring because a number of the situations that were being cared for

at the federal level were after the fact. So that the loan could happen, the damage had already been done, the borrower had already been hurt and then some action could be taken.

So what we have attempted to do with this Bill is define abusive lending practices. Preclude those kind of practices if you are going to operate under licensing in the State of Connecticut and yet, at the same time, make it from a business perspective, for those businesses that are writing these kind of loans, to still make it worth their while because it is high-risk business and we do understand that distinction. So that's what we tried to do.

I will speak, personally I am not in favor normally of having government start setting price controls. I mean that is always at risk not knowing what is going to be happening in the future and of course, with the exception of World War II, it has never really worked well.

So what we have done, however, is in order to do the kind of things I've talked about, establishing those objectives, we've had to establish some lids on this type of lending by purposes of definition and then by precluding it.

We have, I can go through some of the items briefly with you, but one of the ways that people are, if you will, abusing this need is the use of points. The famous points of it started on loans and so if there was a rate limitation, as there is on second mortgages, then, well, you can't charge anymore than this rate but you are going to add on points all over the place and essentially get your money up front.

So we took a look at this and decided to put a limit of five points on these type loans. And felt that, and reviewed it with the industry. There is some question of we have also included in those points the mortgage insurance which they sell at up at the point of origination and they have to be included if you are going to finance them as opposed to paying your mortgage insurance on a monthly basis if you, they do it on a front end

basis, front-load it and add it to the points and then finance it.

We say that's fine, you go ahead and do that but it's included in the five point limitation. The industry has some concern about that. Frankly, we feel very strongly about that. It's the kind of thing that you don't sit in on some of these conferences where people are looking for a loan but if the implication is, you know, if you had your insurance we could probably, you know, your credit would look a little better and it would be less risky for the institution or whoever it may be to make this loan so you get the private mortgage insurance and you charge that up front and it's only added to the balance of your loan and you pay it off over the next 30 years.

One of the difficulties with the insurance is that when the loan gets either prepaid or paid off early, or a refinance, you start all over with the insurance and in most cases that we could determine, unless the individual asks for a refund from the insurance company, he never gets his money back.

So the insurance company and the broker of course gets his money up front, the broker or if you will, whoever is making the loan up front and the consumer ends up paying for it in the long run. So we would like to be, I can only say relatively rigid, on that requirement but would obviously be happy to discuss it.

We have limited, we open it up a little bit with smaller loans. The five percent, if you will, the five point limit, pertains to all those except that the minimum you can charge is two thousand dollars and that's a number in a way, kind of an arbitrary number but again, going back to our original concept of saying we don't want to shut off the business world, these are loans of less than twenty-five thousand dollars, and are very high risk, probably minimal collateral and minimal cash flow but we felt it had to at least pay the originator for the risk that was being taken. It's the same amount of work required to book a twenty-

five thousand dollar loan than it is a two hundred fifty thousand dollar loan.

So we picked that number and said that that would also be permitted and would not, if you will, endanger the action being taken under this abusive lending practice statute.

Keep in mind, we are only affecting people who make these kind of loans. Not first mortgage lenders, not the banks, not people who don't do these kinds of loans. So it is only those that make these kind of loans. So none of this goes into effect unless some of these limits that we talk about are passed and then of course it goes into effect to become subject to this law and subject to any penalties under this law. I think that's all that I need to say at this point on that and I'll wait for questions on that one.

The next bill is H.B. 6132 which is AN ACT CONCERNING FINANCIAL PRIVACY. This has been the subject of national discussion, Gramm-Leach-Bliley was passed in Congress two years ago and set up, if you will, privacy regulations which has essentially permit financial consumers to opt out on release of non-public information.

There has been lots of discussion about this. There's mixed emotions in Washington. Senator Graham is not very big on these kinds of things, but Gramm-Leach-Bliley is still in effect. So what we have attempted to do here in Connecticut, as opposed to write our own, which would make it difficult for people to do business across state lines, is to piggyback on the Gramm-Leach-Bliley specs, if you will, of the bill for financial privacy, incorporate those into our state law and to provide the Commissioner with the ability to enforce this and that's what was lacking.

So, we have added, and I use the term added because we already have privacy laws in regard to disclosure of financial information of depository information from our financial institutions, so we've added this on top of this so what we are going to do is not re-invent the wheel, not create

worse than it has to be for them, more expensive because it is expensive. Some of the earlier numbers out on some of the larger institutions are spending in the millions just in notification. So, we felt that it was a good first step and it does, in essence, give the consumer an opportunity to do similar now what we have just done in the state under the consumer protection.

SEN. MCDERMOTT: I think it was, I mean we've seen through the telecommunications opt out where people can stop solicitations from telemarketers from calling the house. Consumers got educated on that issue through a variety of sources in the, it was quite successful. A lot of residents in the State of Connecticut called up to be put on the opt out list on getting calls from telemarketers.

I think the same thing can be done on this successful opt out type of a program where consumers adequately educated can opt out of these issues and help them to protect their privacy and we want to make sure consumers are aware of all their rights as needed before but it's a good start.

The bill I have the most questions on at the moment is Abusive Home Lending Practices. When you first started your testimony I think you might have had a slight of tongue or a misunderstanding. I just want to make sure we set the record clear that you said the technical term for abusive lending is sub-prime. I don't think that is synonymous, sub-prime lending can be respected as business, sub-prime doesn't mean that they're abusive lending, I just want to know if that's -- HB 6131

COMM. JOHN BURKE: No, no, if I state, what I try to point out is that the term predatory lending has been used a lot to talk about what is abusive lending. We were very careful to use the term "abusive lending." What is the legitimate form of lending, I think I used that term, is sub-prime and that is a legitimate form of lending and there are legitimate lenders doing that.

It's those who take the next step up into what we

have termed in our mind, abusive practices. Takes them out of that.

SEN. MCDERMOTT: I just wanted to make the record clear on that --

COMM. JOHN BURKE: Some prime lenders are fine.

SEN. MCDERMOTT: I just wanted to make sure that that was clear on the record, that abusive lending is not the same as sub-prime.

COMM. JOHN BURKE: Absolutely not.

SEN. MCDERMOTT: There are some abusive lenders sub-prime lenders, there are abusive lenders in all areas, as well.

COMM. JOHN BURKE: No question.

SEN. MCDERMOTT: Some of the concerns I have on it are on the issues that have been addressed to me are dealing with the pre-paid finance charge. Can you tell me, what is the difference between mortgage insurance and credit life insurance? Is there a difference, or --

COMM. JOHN BURKE: Not essentially. It's a different contract but it is the same, it's the same. It covers you in the event, credit life insurance covers you in the event of default, mortgage life insurance covers you, pays off if you die. So they are two different forms of insurance.

SEN. MCDERMOTT: And that, they are both included, life insurance is included as well as mortgage insurance is included in the cap, of the five points.

COMM. JOHN BURKE; Yes, if they want to finance it. They can still, the customer is still allowed to pay for it on a monthly basis, which is another alternative, so it's not saying you can't sell it. You can sell it, that's fine, or if you want to include it in the finance charge up front, and book it in as part of the loan you are allowed to do that, but there you have the five point limit.

But if you want to sell it, you can still pay the monthly expense. We've looked at that, we think that it is probably cheaper for the consumer to pay monthly.

SEN. MCDERMOTT: What you are saying then is they still have the opportunity to buy insurance or life insurance, credit life insurance outside of it being financed.

COMM. JOHN BURKE: Absolutely, and they can also finance it, but in this case the lender is limited to a total of five points, at the discretion of the lender. But, if the consumer wants it, or if you will, the originator wants to sell it, he can still sell it, and the consumer can pay for it on a monthly basis, as a number of loans are set up to do.

SEN. MCDERMOTT: We had talked about, and my tenure on the committee is also, and you had mentioned your sensitivity to price controls and I have similar sensitivities to that as well, has been documented as my tenure on the committee, and part of this, while I understand the five percent gap on loans, you mentioned something in your testimony about the two thousand dollar cap and that most of those loans are for twenty-five thousand dollars and less.

COMM. JOHN BURKE: Well, no, not most of the loans, if you are going to, our intention here is to, if the loan is going to be over twenty-five thousand dollars or less, if we put a five per cent cap on that, then obviously you can make a twelve hundred and fifty dollar charge on that loan. That's five points. We picked a number of two thousand dollars after consultation with some members of the industry, and said, look, we understand that these are high risk, and there are a lot of expenses involved in managing them, and administrating the loan, and in some cases collecting it, so you have to get some of your money up front, and we appreciate that. So, we will, for those small loans that are high risk, high turn over and probably high delinquency, we'll let you get some of that money up front by making it, instead of the

five per cent limit on small loans, up to two thousand dollars, as you cross the bridge, in this case, forty thousand dollars you can then charge the five points. So that's really what we are trying to do, is to balance it.

The risk here, and I've heard testimony elsewhere, of a large sub-prime lender, say look, if you guys, this was in North Carolina, if you do this to us, then there's not going to be any of this credit available. So you are going to leave the people either without the availability of credit, or go on the street to get it, which we know is even more expensive and more dangerous to do.

So we attempted to balance that, understanding that the originators still need to make money, they're not in business to give it away.

SEN. MCDERMOTT: You confused me a little bit by what you just said. It's five percent, or two thousand dollars, the greater of the two, or the lesser.

COMM. JOHN BURKE: No, it's five, I want to make sure I say this right.

SEN. MCDERMOTT: It's a maximum of two thousand dollars.

COMM. JOHN BURKE: Yeah. It's two thousand, you can charge up to two thousand dollars or five points if it is greater.

SEN. MCDERMOTT: Now, what's your, I look at sub-prime lending and you think of a hundred thousand dollar mortgage not being out of the realm of being a sub-prime loan. With this two thousand dollars cap on it means that their maximum --

COMM. JOHN BURKE: No, no, five points, they can go five points. So, maybe I am confusing you, obviously I'm not saying this correctly. It's the other way. It's, let's say you have a loan of less than forty thousand dollars, you can charge up to two thousand dollars for that loan. Anything over that, you are limited to five points, so that if you have a hundred thousand dollar loan, you can go up to a maximum of five points, including some of the

factors that we threw in there.

SEN. MCDERMOTT: So if you had a hundred thousand dollar loan you could charge five thousand dollars.

COMM. JOHN BURKE: Which could then be financed too. I want to make one other comment, if I may, Senator, which I should have commented on earlier. One of the other things that we have put in here. In reviewing some of the contracts, and I think that I mentioned early on, to the Chairs, that initially we had no information that this was happening in the State of Connecticut. We had one complaint from a national originator, only one complaint.

So we thought, this isn't really a problem. So, we decided to do a little looking around, and we did. We talked to some neighborhood housing development corporations which run around the state, and in fact, it is happening. So we thought, well it's important that we do kill it before it happens. That's the thing I meant, we're trying to be preventative here, to get them before they make the loans.

One of the items that we discovered in some of the, even the sub-prime loans, is that there has been a tendency by some of the originators to say, if you sign this loan, you give up your right to sue us. You are forced to take arbitration.

You will note in my comments here, that we say that is not going to be allowed. You can do it after the fact, offer both arbitration and/or any legal remedies beyond arbitration, but it cannot be if you will, prevented up front. We feel very strongly about this, that what you do is, again, keep in mind, when this happens, if you had to borrow in a desperate situation, that someone says to you, sign this and you have to give up your right to sue us. You say, hey give me my money, I'll give up what I need to get my money.

So, really, we are uncomfortable with this. So we're saying, if you are going to write this kind of loan, that you cannot put that clause in your contract. You must provide the alternative to the

borrower. After the fact, if there is a problem with the loan, or with the borrower, you can offer arbitration, because there are problems with arbitration, and one of the problems is that in many cases it is not convenient for the borrower. Remember, these are people who are desperate, they don't have a lot of money anyway, so an arbitrator may not even be in the State, so you have to give up a days work, if you want to go to that, you have to do a lot of other things.

So we just said, no, not up front. You can do it after the fact, offer them the alternative, and that is what we allow them to do, so it doesn't preclude them from say, offering arbitration, but what it does do, is say, you can't have it up front. You can't deny that right to the consumer right up front.

SEN. MCDERMOTT: It's funny because I didn't ask you that question, but it was my next one. I was wondering which question you were answering, but that was reading my mind ahead of time.

COMM. JOHN BURKE: Well, good, I'm glad, thank you.

SEN. MCDERMOTT: So they can have arbitration clauses in the contracts, but they just can't have it, that every contract is mandatory with arbitration with no exceptions. They still can, under the contract with the client, negotiate that fact --

COMM. JOHN BURKE: Negotiate and after the fact say, look we have a problem here, this is what we can do under arbitration, here's what it would cost you, here's how it would happen, and then you make your choice. Either that or you want to go to small claims court, or do you want to sue? But by doing that, up front, you're precluding the consumer from doing those other alternatives, which we aren't comfortable with.

SEN. MCDERMOTT: They do have the option up front, before they sign to determine if they want to go to arbitration or not.

COMM. JOHN BURKE: No, not under, some of the contract

we see is just arbitration. You sign up, when you sign for this, for taking this money, you agree that the only, your only course of action after the fact, in the event of a problem, is arbitration. You give up your right to sue. Ahead of time. We are uncomfortable with that.

SEN. MCDERMOTT: Are there other questions from members?

REP. DOYLE: Thank you Mr. Chairman. I just have a few brief questions. Just to stay on the abusive lending practices, I guess, could you just comment a little further on the scope of the problems in Connecticut, and like, what institutions do you think are doing it, just so the committee can know, really what we are talking about here.

COMM. JOHN BURKE: No names, no names, there are no names. There are no banks that we are aware of are doing it, no legitimate mortgage lenders. There are people who are in the business, licensed to do business in the State of Connecticut, some of which are doing this. What we, I don't have any names, and at this point don't have the ability to share with Representative Doyle, but it is happening, and it is, in some cases, you're talking maybe fifteen, eighteen points sometimes, in loans. It's really scarey when you see some of these things happening.

You know, there is the classic situation, if someone really wants to abuse somebody that is desperate. Loan flipping is another thing that we preclude in here and a lot of things, when you read it, you'll see that there are actions that we preclude, which really work against the customer. Pre-payment penalties that extend out beyond three years. So that if you are in a desperate situation, and you borrow money, five years from now things have turned around, you won the lottery or something, you can pay off the loan, they charge you for it. Some of them. Abusive lenders, keep this in mind.

What we have done is say three years, you have three years to do that. We limit the pre-payment penalty, staggering it down for each year. So, those are the kind of things that we are trying to,

if you will, preclude happening by doing this.

REP. DOYLE: Is there a means to really determine if they are out there, if citizens contact you, how would you find out about these loans?

COMM. JOHN BURKE: Well, number one, we deal with them when we get the calls from the citizens. And what we need to do if you will, in education, with any industry, sometimes we hear it from legitimate lenders, because they get tired with this, with the question you asked. You know, there are a lot of people in this business, and it's a good form of legitimate lending, who get tired with this brush of, as we talked about earlier, the legitimate sub-prime lenders being looked at as predatory lenders, well that's just not synonymous. It just isn't. So, we would hear from them.

We have now made contact, I mentioned this neighborhood housing group, who do housing developments within, in most cases, central cities in the State, and they now know they have access to us, so we are going to need to do more of this, to be sure that we hear about it. And, now we have some leverage to do something about it.

REP. DOYLE: So, if this bill is passed, so you anticipate working kind of working on outreach --

COMM. JOHN BURKE: Absolutely, no question about it. That would be our intention.

REP. DOYLE: Thank you. Another, just a comment about the privacy bill. At this point, it seems to me you are proposing ways to comply with federal law, in the sense that, in the long run, because, there are proposals that say or mention whether we go farther at this point, but is it your opinion that this point go consistent with Federal, and then see, down the, because the whole transformation of it is basically is new, recent. HB 6132

I think if we were to go too far, is it your concern how we would impact the Connecticut banks?

COMM. JOHN BURKE: Yes, very much so. I think, as I

reporting system, so I would be very happy to provide that to you.

REP. DOYLE: Thank you.

SEN. MCDERMOTT: I have questions from Senator Smith, Representative Stripp, and Representative Green.

SEN. SMITH: Thank you Mr. Chairman. Commissioner, the State of Connecticut right now, the state law, right now, are there any caps at all on these loans, or this would be the first time that we are imposing one? HB 6131

COMM. JOHN BURKE: On this type of lending, there were no caps in the State of Connecticut on first mortgage loans, on second mortgage there are caps.

SEN. SMITH: So this would be the first?

COMM. JOHN BURKE: There are interest rate caps, and yeah, there are already interest rate caps on some second mortgage loans. The way to get around that, is you charge points, which are not part of the interest rate. And that is how you can avoid the current controls on second mortgages, particularly, by adding points, which there is no limit on. So what we have done is to try to counteract that by including points in the limitation. That's really what, so as I mentioned, there are no limits on residential first mortgages.

SEN. SMITH: And you met with the industry people and kind of came up with five as a consensus number?

COMM. JOHN BURKE: Yes, yes, and oddly enough, with the exception of the current life insurance, now, again I'm not going to speak for them, I'm sure they will testify here today, but with the exception of the life insurance we met with the industry and met with one of the biggest suppliers of that, that would be Citigroup, and they had no objection to the five points.

Credit life insurance, they would like to throw that out. We're saying no, it ought to be in, even though you can still sell it, as I mentioned, and

charge monthly which we think is cheaper for the consumer.

SEN. SMITH: And there is kind of a two year look back window on that five points, so if somebody gets a loan for three points, and then a year and a half later you go back to the same person, the maximum points that could be charged at that point would be two points?

COMM. JOHN BURKE: Maximum for the same amount of money. All right? Unless there is some problem with the loan. The flipping is when you refinance the loan, the same amount of money, you don't get your, you're the borrower, they refinance, you get no new money and maybe drop the rate a half a point and charge you five more points. Well, that's a big moneymaker for that kind of thing. That's loan flipping. This is precluded from here, from doing that, but if you are going to add new money, you can charge your five points on the new money.

So, if you are going to refinance and let's say the situation has changed or there is more equity and you want another ten thousand dollars on top of your loan, you refinance, the lender is allowed, under this, to charge five points on the new money. Not on the existing debt.

SEN. SMITH: And then, as part of the pre-paid finance charge section of the bill, and I think we talked a little about this earlier, that defines what a prepaid finance charge is includes a variety of different things. It says transaction fees, or similar finance charges. What's included in a transaction fee? What's included in a transaction fee? I think somebody might have mentioned it earlier. Do attorney fees, are they included in?

COMM. JOHN BURKE: No. Attorney fees are not included in. Normally not.

SEN. SMITH: But this doesn't say points, it just says transaction fees. If you're not in the transaction, you don't pay the attorney's fee, if you enter the transaction you have to pay the attorney's fee, from a certain perspective, the

attorney's fee is a transaction fee.

COMM. JOHN BURKE: No, it was not intended to be that way. It was intended to be what are normally points, which are included as, I can't even think of all of the things that they do with them, but you have documentation fees, filing fees, all those fees?

SEN. SMITH: You count those? Those are transaction fees?

COMM. JOHN BURKE: Those are part of the financing. If you're going to finance, I mean you could charge whatever you want to charge, nobody is saying that you can't charge whatever you want to charge. What you can't do is finance that beyond five points.

The reason that they throw them into the financing is that is that these people don't have any cash. So they say, we are going to build in all of these charges, and we will throw it in with the balance of the loan. And we are saying, you are not allowed to finance that.

You can charge whatever you need to charge. Documentation fees, legal fees, whatever you want to do, but if you put it into the loan, if you finance that, you are limited to five percent of --

SEN. SMITH: Okay, you have legal fees there.

COMM. JOHN BURKE: Legal fees you can't finance. You can finance them, but they become part of the --

SEN. SMITH: So, if legal fees are charged in a refinancing transaction, and they are financed --

COMM. JOHN BURKE: They are part of the limitation.

SEN. SMITH: Okay. And as well as the document preparation fee and broker discount fee and there there's usually on the HUD closing statement there's a whole section that deals with all these gazilion fees, and you add up all those fees, so it's not just the points, it's everything that comes --

COMM. JOHN BURKE: No, no, points are different. It's a total of five points, including the standard points, two points, or whatever they might be . Anything else you are going to finance is limited to five percent.

SEN. SMITH: Sometimes they have these back end points, back end fees, broker discount fees.

COMM. JOHN BURKE: Yes, those are in there, I guess.

SEN. SMITH: It depends on how they put them in.

COMM. JOHN BURKE: I want to be very clear --

SEN. SMITH: Assuming they are financing it, assuming that they are not charging it out of pocket.

COMM. JOHN BURKE: if they are financing it, it's limited.

SEN. SMITH: Transaction fees then, if it's financing, as well would it include title insurance.

COMM. JOHN BURKE: Yes, if it was financed. An appraisal?

SEN. SMITH: Appraisal fees?

COMM. JOHN BURKE: Financed, yes that's right.

SEN. SMITH: Recording fees?

COMM. JOHN BURKE: Yes. If they are financing.

SEN. SMITH: All right. That's interesting. So if you had a sample HUD Statement, it might be that you had a one hundred thousand loan, all those fees that, I'm not talking about points at all, might well come to two or three, four thousand dollars.

COMM. JOHN BURKE: They could, and if you wanted to finance them. Keep in mind, one of the things in here that we keep talking about, is that you have to be able to show us that the borrower has the ability to repay this loan. So if you are saying,

the only way they can make this loan, is that we have to book all these fees that cost us to do business, all right, the recording fees and everything else, into the value of the loan. Remember the consumer is not benefitting from this at all. So, we are just saying, that is the limit.

SEN. SMITH: All right.

COMM. JOHN BURKE: I mentioned, Senator, number five is what we looked at, but we did check with the industry and as I said, with the one exception, the one exception of the life insurance, the credit charge that was the only one that they --

(GAP FROM SIDE A TO SIDE B)

which surprised us, because we expected more of a battle from them on that, maybe pick four points or pick six points or whatever, but it seemed to be acceptable.

SEN. SMITH: I remember last year we had three points, I think somebody had put in a three point cap and there was an insurrection.

COMM. JOHN BURKE: And keep in mind this is only affecting, if you will, what are construed as sub-prime, or predatory lenders, if they make that definition, this is the limit (inaudible). So if you are making a residential mortgage to someone and, this does not affect that, other than there is a five point limit by the way on residential mortgages too. But you can charge whatever you want.

SEN. SMITH: So if you're making, if you're --

COMM. JOHN BURKE: If you are not considered a sub-prime lender under the definitions here, that you see here, doesn't affect you at all, with the exception of five points on residential mortgages.

SEN. SMITH: And then I notice that you said that, adding additional notice requirements you really don't think has any impact. If people are desperate for money, they are going to sign anything you put in front of them. Is there a

notice here in Section 4, I'm looking, and there is new notice that there is going to be another statement that has to be signed at the closing.

It says, it's on lines 217 through 222, it sounds like there is another notice, and --

COMM. JOHN BURKE: Another? I'm sorry, I'm not prepared.

SEN. SMITH: On mine, it's on line 217 through line 222, it looks like we are going to be mandating the delivery of another sheet of paper at closing that says you're taking out a loan, the lender will have a mortgage on your home, you could lose your home and any money you have put into it, if you don't meet the obligations under the loan. It's in quotes, and it says, this is going to have to be disclosed.

I assume that is a notice that we are going to be requiring at the --

COMM. JOHN BURKE: Yes it is. It is a notice that we will be requiring. When I talk about, this is my personal reaction to disclosure alone, disclosure is critical. They still must do that, you have to disclose all of the things you have to disclose APR, disclose all the fees, that's important. I don't think it prevents a loan from being made. That's a personal judgement. So that's what my comments were early on. I don't think disclosure is enough, we needed, if you will, put some lid on this type of lending only.

SEN. SMITH: All right. Thank you. Thank you Commissioner, thank you Mr. Chairman.

SEN. MCDERMOTT: Representative Stripp followed by Representative Green.

REP. STRIPP: Thank you, Mr. Chairman. Good afternoon, Commissioner.

COMM. JOHN BURKE: Good afternoon.

REP. STRIPP: Is this bill H.B. 6131 also, does it

cover, in all it's provisions, second mortgages, as well as first mortgages?

COMM. JOHN BURKE: I'm sorry?

REP. STRIPP: In other words, the five point cap, will that now apply to second mortgages?

COMM. JOHN BURKE: It applies to second mortgages, and it does now apply, we recommended it apply not only to that, but first mortgages too.

REP. STRIPP: So second mortgages would be capped at five points also.

COMM. JOHN BURKE: Five points.

REP. STRIPP: What does it really cap in terms of APR? In terms of the interest rate?

COMM. JOHN BURKE: Well, what it does it looks at federal regulations, and says, that if you are going to be, now currently it was, I believe, it was ten percent, but eight per cent over the equivalent treasury rate, you are in a sub-prime mode, so that's, if you will, the limit.

We do not establish a specific limit on interest rates, but if, as you note in the legislation, that we find that you are out of the market, so somebody else might be charging twelve per cent, and you are up to fifteen, you know, we're going to say, you're not, even, you are out of the market, if you will, on this. We will look at that, so that's part of the review that we do as we receive either complaints or questions. But, there is no specific cap on interest rates.

We feel very strongly that is a very dangerous thing, not knowing, trying to forecast interest rates which they attempted to do in some states back in the sixties and it was a disaster.

REP. STRIPP: But the federal cap would apply?

COMM. JOHN BURKE: Yes, the federal cap, which really is a trigger. It doesn't do anything other than say

it makes it, it defines it as another type of loan.

REP. STRIPP: It doesn't prohibit it but now checks it off as being a loan to be looked at. I have one other global question, and that is looking at the economy and looking at the Federal Reserves reaction right now to reducing interest rates because maybe the economy is going down, in the regulatory world, that is one thing that you do to try to pick the economy up.

The other thing is become overly exuberant on safety and soundness. In other words, cut off loans. Is there any indication now, that we are so concerned about safety and soundness that we are starting to perhaps actively limit loans that are being made, and perhaps by doing that creating a problem for our economy?

COMM. JOHN BURKE: I know that Chairman Greenspan is speaking this afternoon, but no, keep in mind, we are only affecting the sub-prime market in this type of lending. We are not doing anything with regular first residential mortgages or second mortgages, home equity loans, none of that is affected by this. So there is no attempt to put the lid on this.

I did hear some, if you will, speech by, it was actually by Bank America who is a big lender in the North Carolina area, and they had within two months of the legislation, which North Carolina put through, saying we have already seen a reduction of some thirty-one or twenty-eight per cent in demand, because we can't make these kind of loans. We're going to cut them off.

Well, I'm not so sure that is valid and I'm not going to speak to their credibility. What I am suggesting, is that we try to counteract that by letting them get, not their full pound of flesh, get paid for their risk, is the thing that we have tried to do. So we are not trying to cut off lending, we think this is a legitimate form of lending, and there is a legitimate demand out there in the marketplace for this.

We would much rather have it regulated than have it unregulated, and that's why we want this passed.

REP. STRIPP: Thank you.

SEN. MCDERMOTT: Representative Green.

REP. GREEN: Thank you Mr. Chair. Commissioner, just some clarification, trying to understand this a little bit better. You stated that you believe that no banks are involved in this practice, but can you tell me if any banks might have subsidiaries that might be involved in this type of practice.

COMM. JOHN BURKE: Not that I'm aware of in the state. None that we are aware of in the state. There are many banks, the national banks, that have very significant sub-prime lending subsidiaries, sub-prime lending. This is again, keep in mind, this is fine, this is legitimate lending. We haven't seen, as I mentioned, in Connecticut, many abuses in that area at all, other than what you may hear from the neighborhood housing, and we are already responding to some of these complaints which we received over the last month.

But, to the best of our knowledge, now we do examine all the banks, so we would see this obviously, if it was happening in the banks and in their operating subs, their lending subs. We don't see that in the banks that we regulate, nor do we hear of it happening, generally in New England, in other banks regulated by another, if you will, federal regulator.

REP. GREEN: You haven't seen any bank that you regulate?

COMM. JOHN BURKE: That is correct.

REP. GREEN: What banks do you regulate?

COMM. JOHN BURKE: All the state chartered institutions.

REP. GREEN: So national banks may have subsidiaries?

COMM. JOHN BURKE: National banks could have, but if they're operating in the state, we would have heard about it, and we haven't. To date, we have not.

REP. GREEN: But in other states you are aware that some banks have subsidiaries that do these things.

COMM. JOHN BURKE: Oh yes, this is really a problem that, I don't want to say that it is a national problem, but it is a problem of gouging, and keep in mind, you have brokers, who then sell this paper, and it is legitimate paper to sell. What we are trying to do is to limit that market. So you may have investors whether they be banks, or insurance companies, or GE Credit, or whoever it may be, buying this type of paper from brokers. We're trying to cut it off, if you will, at the source, so they don't get made.

REP. GREEN: Did I hear you say early that in Connecticut that you have had only one complaint of this type?

COMM. JOHN BURKE: That's the only complaint that we have heard over the last year, you know, since this subject came up nationally, and it was from an out of state lender. Which was addressed by the way.

REP. GREEN: In the title of this, it talks about abusive home loan lending.

COMM. JOHN BURKE: Yes, Sir.

REP. GREEN: So, am I to understand that if someone wants to get a certain kind of a second mortgage or loan on their home, this would apply. If that person applied for a loan and used their home as collateral but the purpose of the loan was for a business start-up, or whatever, would this apply?

COMM. JOHN BURKE: If the loan were classified as commercial it would not apply. This does not affect commercial lending at all, but if it was booked as a residential mortgage loan, first or second mortgage, this would affect it. Use of the proceeds is really not, not a factor, frankly. You can use it for what you want, but if you are

putting your home up as collateral, it becomes a mortgage loan and would be covered, the limits would be covered under this proposed legislation.

REP. GREEN: Thank you. Just a few more questions on the Community Reinvestment Act bill that you have proposed.

COMM. JOHN BURKE: Yes, Sir.

SB 791

REP. GREEN: I guess I am trying to understand, I was reading this letter from the Connecticut Credit Union and also reading your bill and the Connecticut Credit Union states that only four credit unions would be affected by your bill.

COMM. JOHN BURKE: That is correct.

REP. GREEN: Out of fifty-two credit unions.

COMM. JOHN BURKE: Fifty-two state chartered credit unions.

REP. GREEN: Okay. Help me understand why only four out of fifty-two would, does it have to do with the amount of money and the term, community credit union.

COMM. JOHN BURKE: No, only those with a charter that is signified as a community based charter would be affected. As I mentioned there are, most of the credit unions, this is the way the credit union business got started. The state credit union, the one that's here is a single bond credit union. It's state employees and their families. They are not affected by this because their only source of deposits are state employees and the only people they can lend to are state employees. So, CRA would not realistically apply to them.

It's when you have requested a change in charter or modified your charter to operate on a community wide basis. I mentioned earlier, Sikorsky is the most current example of that, but there are three others of size, that have a community based charter. They operate in the entire community, so you don't have to be say, a state employee, or

Peter Spalthoff. Rafie Podolsky first.

RAPHAEL PODOLSKY: Representative Doyle and Members of the Committee, thank you very much. My name is Raphael Podolsky. I'm a lawyer with the Legal Assistance Resource Center of Connecticut which represents low income clients of the legal services and legal aid programs.

I'm here in support of H.B. 6131, the Banking Commissioner's bill which deals with abusive lending practices. We very strongly support this bill and we very much hope that you will send it forward.

I apologize to you that my voice is not quite what it usually is, but I will do my best to communicate this to you.

In terms of our client base, the bill has major impact on low income home owners, who very often at various times have been the victims of a variety of lending practices to take advantage of the fact that they need money badly and are not and may not be able to compete in the market as well as others.

Examples of the kinds of things that we have seen at different times, would be various combinations of high interest rates on loans, large numbers of points which in a sense, obscure what the true interest rate for the loan is, frequent refinancings of loans, and balloon payments.

One of the things about this bill that is especially important from our perspective are the provisions that deal with refinancing practices, because one of the, one common event that we have seen over the years is that someone takes out a loan with a large number of points. The loan is then refinanced six, seven, eight, ten months later for a small amount of new money. You have a forty thousand dollar loan, someone needs an extra five thousand dollars, the lender pays off the forty thousand dollars, adds another five, so you now have a forty-five thousand dollar loan, and then charges points on forty-five thousand dollars, not on the five thousand dollars of new money.

This bill addresses that, so that you do not get to keep retaking points on the old money that you have already lent once before. When you have a lot of flipping of these loans in a period of two or three or four years, you may flip a loan several times, and if you are allowed to take points every single time, on the total amount, rather than just the new money, you end up with huge numbers of points which creates a true interest rate that is very very high, but is not disclosed in that manner.

In my written testimony, I have asked you to make three changes in the bill, and I would call, I would describe two of the changes as modest substantive changes, and one is a technical change, but I want to call them to your attention, so that you will understand them.

The first is, that since 1983, we have had a statute on the books that caps the number of points a second mortgage can charge on a loan. Originally it was ten points, and then in 1993 it was lowered to eight points. This bill puts a cap of the higher of five points, or two thousand dollars on both first and second mortgage loans.

What happens is, that if a loan is less than twenty-five thousand dollars, you have a second mortgage loan of less than twenty-five thousand dollars, it's unclear from the way that this bill is written whether the old cap of eight per cent applies, or whether you could go all the way up to two thousand dollars, because at that point, two thousand dollars is higher than eight percent.

I would just ask you to make clear in the wording of the bill, that we do not loose the benefit that we already have. That is to say, whether those two statutes might produce different results, if the lower result of the two statutes that governs, so that we are not actually raising the limit for the limit that already exists in Connecticut. I would ask you to coordinate them in that way.

Related to that, this bill treats first and second

mortgages in the same manner, using the same caps. What I would suggest to you is that you ought to amend that existing statute which is 36A-521 so it would apply to first mortgage loans, so that you would have again essentially that same kind of rule. So that where they would produce a different result, the lower one of those two would apply. Again that would be dealing with loans only under twenty-five thousand dollars.

The third thing, which is again in my written testimony, if you read sections three and section twelve very carefully, at line 303 and line 464 I believe you will discover that the bill does not say what the Commissioner intends it to say. I have discussed this with the Commissioner's staff, and I believe that staff agrees at this point.

It is my understanding that the intention of this bill is, if you have a refinancing within two years by the same lender, the points that are allowed to be charged on the refinancing are essentially the maximum points allowed on the original, which in this case would be five percent or two thousand dollars plus on any new money you can charge an additional five percent. You can't take it on the two thousand.

So in a sense, what the bill is saying is, that if you do a refinancing within two years, you can pick up anything that you could have gotten on that first money, plus five percent on the new money. You can't recharge new points based on paying off of the old money. If you read the bill very carefully, I don't think that is what it says. I think it allows you to do a double charge.

I have suggested language that I believe would make clear so that the bill means what it is supposed to mean, and that is an entirely technical proposal. It is my understanding that is exactly what the bill is meant to say. In any event, with those three changes, I very strongly urge you to pass this bill. I think it is an important benefit for low income home owners, and I hope you will move the bill forward.

I think it is very fortunate that the Commissioner has proposed this bill this year. I'll answer any questions that I can.

REP. DOYLE: Any questions? Thank you, Rafie.

SEN. MCDERMOTT: We wanted you to save your voice.

RAPHAEL PODOLSKY: Okay, thank you very much.

REP. DOYLE: Next up is Peter Spalthoff, and after that is Dan Blinn it looks like, Consumer Law Group.

PETER SPALTHOFF: Chairman McDermott, Chairman Doyle, Members of the Bank Committee, good afternoon. Representative Doyle, thank you very much, my wife still hasn't been able to pronounce Spalthoff after all these years, I really appreciate that.

I'm the Executive Director of the Connecticut Society of Mortgage Brokers and if I can just take one minute and give you an overview of who we are and what we do, I think it will give you a better idea of understanding why I'm here. I'm taking to H.B. 6131.

The Society has been in existence since 1992, we presently represent more than one third of the licensed mortgage brokers from Vernon to Danbury, down the line to Greenwich and basically in all eight counties in Connecticut.

We are in the process of doing a volume survey and a general membership survey and right now as of this afternoon, from the survey we generated just over two billion dollars in originations in the year 2000. So, we do pay our dues and we do get involved. The bulk of the loans, we really believe is coming from the mortgage broker.

Someone asked earlier who is at fault with the predatory lending, it has to be someone else, it's not our group. So, we will share that with you right now.

On a very serious note, just the word predatory lending, the word just sends a little shrill up

back, and I think it is kind of a misnomer. It's too bad that it's out there. It really is happening. I applaud the Commission, without sucking up to them, I applaud the Commissioner for coming out with this bill. I can tell you that in the nine years that I have been before this board three times opposing capping points. I think it has some major negative to it, I'm not going to get into all the wheres and the whyfors, but I really believe that this is probably the only way we are going to eradicate, we are going to get rid of the predatory lenders, if you would.

When we say predatory lenders, I apologize to the banks that are here, because it's really not necessarily the lenders, some of it comes from the mortgage brokers. We are the ones that for the most part are at the front line, we're taking the loans, we're seeing the consumer. The consumer is our only business.

We don't do insurances, we don't do safety deposit boxes, we don't do anything else, but sell, package and originate mortgages.

Again, while I say I'm a little concerned over the capping of the points at five, we can live with it. There is money out there to be made and I think we can all have a good living doing it. I'm pleased that the Commissioner has started some, not started, he's been doing this, but we are into some dialogue. I hope that we can massage this a little more as we go along, and again, it is in my opinion and our opinion, a consumer positive bill that is being proposed, and the Society is in support of it. Any questions?

REP. DOYLE: Any questions? Thank you very much. Next up is Dan Blinn, Consumer Law Group, and then Al Watson. Mr. Blinn, Consumer Law Group, is he here? All right then, Al Watson.

AL WATSON: Good afternoon Senator McDermott, and Committee. Thank you for this opportunity. I'm Al Watson, and I'm speaking for Christine Tracyk of Neighborhood Housing. She is the Executive Director of Neighborhood Housing Services in New HB 6131

Britain. We are a 5013C Community Development organization. Our organization, known as NHS is a certified HUD counseling agency and we have been a participant in the national campaign to provide home ownership.

We provide home buyer education for new buyers as well as delinquency counseling for families who are behind on their mortgages. NHS counsels and educates approximately four hundred families a year. In addition to our education and counseling, NHS provides technical and financial assistance to property owners enabling them to make repairs and improvements to their home.

Over the last several years, NHS has counseled and assisted families who have subprime mortgages on their property that we would classify as abusive practices and even predatory. We have seen the effect it has had on individual families and how it impacts the neighborhood when an owner is unable to maintain their home or complete needed repairs due to high housing costs or the inability to take on additional financing.

I applaud the efforts of the Banking Department to make a pro-active stance and end abusive home loan lending practices. Any of the recent studies conducted show that statistically people of lower income are more likely to be users of sub-prime products that have abusive terms and conditions. Typically, the borrower is not as knowledgeable about mortgage products or even borrowing money.

Many of them thought they would qualify for a loan, and most have no idea what a more conventional loan would cost in terms of interest rates, or fees. They don't understand the truth in lending forms, good faith estimates, etc.

My organization has seen client papers where they're given four or five different sets of disclosures due to changing interest rate fees.

I would like to comment on the proposed bill. The bill addresses the major issues that arise in predatory lending as it's called in the industry,

including high interest rates, excessive fees and penalties. The proposed legislation represents a balanced view that protects borrowers while it maintains credit availability and allows lenders to write new business.

There are several points that are important. Section five, balloon payments. Many abusive sub prime lenders write mortgages with thirty year amortization schedules and mandatory balloon payments after three, five or seven years. Since most of these mortgages are close to a hundred percent or higher of current market value, the borrower will be required to refinance the mortgage with the same lender.

The typical pattern is to charge five or six points, collect on the prepayment penalty incurred, under the mortgage being refinanced, and in most cases increase the interest rate. Borrowers never have an opportunity to realize equity in their home and most cases end up in debt far in excess of the market value.

After two or more of these refinances, the borrower may end up making payments against ten or fifteen or twenty thousand dollars in fees.

The proposed legislation provides a level of protection for the borrower, enabling them to accrue some equity and perhaps refinance through more conventional lower rate mortgages.

Section five, which refers to prepayment penalties, I would encourage the Committee to review this section. The three year limit and cap on percentages provides some protection. However, it penalizes a borrower who has been able to obtain a new loan at better terms.

I realize this is a two edge sword, and the total elimination of the penalty can also result in borrowers refinancing at worse terms than their current loan.

Our experience with these loans is that the borrower is having trouble making the payments to

the loan to begin with, and while more conventional loan is affordable, the prepayment penalty increases the principal balance to the percentage that is higher than the market value and therefore makes the borrower ineligible for a conventional loan.

Prepaid finance charges. This section --

CASS. 2 (GAP FROM CASS. 1 TO CASS. 2)

two percent as fees, a five percent cap allows a lender a fair return based on a preconceived risk. The bill would eliminate charging fees against the mortgage balance that includes financing fees, in essence, getting paid twice for the same loan.

Borrowers' ability to pay. The bill should be clarified to define fifty percent of the borrowers monthly debt. For example, is their debt obligation that will take longer than twelve months to pay off, would, as an industry standard, or does it take into account other factors such as utility bills, etc.

In the same section, the requirement for verifying borrowers' income is an important distinction. There are many lenders who are, once again, doing no income verification on loans, one of several factors leading to the real estate crash in the eighties. I would ask the Committee to consider making this section stronger.

Lastly, the bill does not clarify, clearly address the practice of requiring credit insurance and mortgage life insurance. Many subprime lenders make purchase of these insurance policies an unwritten condition to obtain a loan. The payments are monthly, and therefore, could be argued to be something other than a prepaid finance charge.

NHS counselors have seen lenders refuse to allow borrowers to cancel the policy once the loan is written. Twenty to twenty-five dollars a month does not seem excessive until one looks at the borrowers who are qualified for the loan at fifty percent of their gross income, which translates

into approximately sixty-two percent or more of their take home pay.

I recommend the work that has been done to address these issues of abusive lending practices. I urge the Committee to review the bill and consider how beneficial this bill will be in supporting responsible lending. Thank you for the time and my apologies for being unable to deliver this in person. Signed, Christine Traczyk, Executive Director.

REP. DOYLE: Thank you Mr. Watson. Any questions for Mr. Watson? Senator Bozek.

SEN. BOZEK: How are you Al?

AL WATSON: Good.

SEN. BOZEK: Does Neighborhood Housing Services lend any money to any purchasers of homes?

AL WATSON: Yes we have a banking pool that consists of banks in the city that we lend money out.

SEN. BOZEK: How does it work? Do you guys loan the money, or do you guarantee it?

AL WATSON: I don't know enough to answer that question. Chris could, or we have other people here from my agency that could.

SEN. BOZEK: I'm curious to know if you are loaning money for the properties that you are assisting people in acquiring. If you do, if in fact you yourself, your organization loans and has these balloons and how they handle --

AL WATSON: I know that we do not have any balloons. That's, we do --

SEN. BOZEK: How do you handle second mortgages. How do you do that?

AL WATSON: I can't answer those questions, I don't know. Sorry.

SEN. BOZEK: Thank you Mr. Chairman.

REP. DOYLE: Thank you Senator. Any other questions? Thank you Mr. Watson. Next Ron Pugliese and then Heidi Green.

RON PUGLIESE: Thank you Mr. Chairman. Good afternoon Members of the Committee. My name is Ron Pugliese. I represent and am employed by Household International, and also I am here today representing the New England Financial Services Association.

HB 6131

We recognize that in some states problems and abuses have occurred in the area of home equity lending. Very few of these problems have taken place in the State of Connecticut. We believe that is the case because it is small number of lenders who make these problems, and Connecticut's present laws, combined with strong regulatory oversight by the Connecticut Department of Banking has resulted in significant scrutiny and oversight for the citizens of this state and for those in the mortgage lending industry who are legitimate, law abiding lenders.

The Commissioner mentioned something regarding predatory lenders and subprime lenders, but I want to make that same point, that the issue that often results in confusion when abusive lending practices are discussed is that distinction between sub-prime lending and predatory.

Sub-prime borrowers generally are borrowers who do not meet standard underwriting criteria, either because of previous late payments, bankruptcy filings, or an insufficient credit history. Like prime borrowers, sub-prime borrowers have the same needs for capital. Sub-prime lenders help make that happen.

The most important point I want to make is that home equity lenders in the sub-prime market are not predatory lenders. It is important to realize that sub-prime lending and predatory lending are two totally different items. Sub-prime lenders fulfill an important need, predatory lenders engage in

illegal activity.

The mortgage lending industry is one of the most heavily regulated industries in the United States. Mortgage lenders are subject to a multitude of federal statutes and regulations. In addition to federal requirements, the State of Connecticut also regulates mortgage lending through numerous laws and regulations under the Banking Department.

Home equity lenders in this state must be licensed and they must go through periodic examinations by the Department. Very few industries face the kind of scrutiny and oversight that home equity lenders undergo.

H.B. 6131 is a very comprehensive bill that would incorporate many new provisions into Connecticut's lending laws. It establishes new disclosures, it sets new limitations on mortgage loan fees and charges, it would place new limitations and restrictions on several aspects of mortgage lending.

Many of the specific provisions make sense but some serve no purpose in addressing potential predatory lending problems and will actually serve to eliminate the consumer options and drive up the cost of the credit for the very people that this bill in trying to help.

Specifically, I'd like to just address two points. The first is the definition of prepaid finance charge which would limit the amount of such charges by requiring single premium credit insurance costs to be included in the prepaid finance charge amount. We think this inclusion is inaccurate because single premium credit insurance costs are not prepaid finance charges; they are premiums that are paid to a third party.

In addition, credit insurance is totally voluntary. It is totally disclosed, and some borrowers, especially those who are uninsured, elect to purchase credit life or credit disability insurance on their loans. If a lender must include this items in the prepaid finance charges figures, some

lenders will just cease offering these products, which will be harmful to those borrowers who desire this coverage.

Some people who are in this situation this is the only insurance that they have, and it is the only insurance that they can afford.

The other point I would like to make is that this bill includes open end loans or revolving loans in the definition of high cost loans. Current federal law does not cover open end loans and we would like to have that removed from this particular bill.

In closing, I simply want to say that most mortgage lenders in this state, whether they are banks, credit unions, mortgage bankers, or whatever, regardless of whether they serve the sub-prime or prime borrower, all fulfill a very important need. Most conduct themselves in an honest, lawful and ethical manner. The actions of a few concern all of us. I would be happy to try to answer some questions.

SEN. MCDERMOTT: I have a question about the Commissioner's comments about mortgage insurance and credit life insurance and the whole other variety of costs that the sub-prime lender didn't have any objection to with the exception of credit life.

Why is credit life the only one that there is an objection to, as opposed to the others that are being included in the financing of the package.

RON PUGLIESE: I'm not sure, I can't speak for other companies, or what they may have said to the Commissioner, or what they may not have said, but if I understand your question, you're questioning why we don't like the fact that credit life is included?

SEN. MCDERMOTT: To the exception of all other things that are included, that you didn't have objection to, mortgage insurance being included, or the variety of other fees being included, or not included, you know, included in the cap.

RON PUGLIESE: Right.

SEN. MCDERMOTT: Why was there only one thing pulled out?

RON PUGLIESE: I think the clearest answer that I can give you on that is that most of the customers that we have, that Household has, elect to finance the premiums for credit insurance. They just find it easier to do it that way. They don't like to pay the monthly bill.

I know the Commissioner mentioned that they could still offer that if they choose to pay it monthly. We find most of our customers chose to pay it in the finance charge, or pay it up front like that. They just find it easier for them to do it that way.

One of the other speakers mentioned, I'm not sure which speaker, but one speaker mentioned that some sub-prime borrowers force people to take this credit insurance. That is totally against federal law, and that is not done.

SEN. MCDERMOTT: Did the Commissioner or any of the previous speakers answer the questions or concerns that Household may have on the arbitration clauses or the five percent cap, or two thousand dollars.

RON PUGLIESE: Yes, the five per cent cap is, as you and I have discussed, it is, it's the greater of, it is not a two thousand dollar cap, it is the five per cent or two thousand dollar, so, in essence, what it does is that it caps points at five. I find that acceptable.

The arbitration clause, I think the initial reading of it made it sound as if arbitration clauses wouldn't be allowed at all. I think that if the, and I believe the Commissioner indicated that if the consumer and the lender both agreed that arbitrations clauses, if that is the case, then they are allowed, then we wouldn't have any objection to that.

SEN. MCDERMOTT: Do you have an objection with the open end loans?

RON PUGLIESE: Open end loans, yes, we find, I think, that open end loans should not be included in the definition of a high cost mortgage.

SEN. MCDERMOTT: I know you are saying an open end loan, but why don't you, an open end loan is basically a line of credit.

RON PUGLIESE: That's correct.

SEN. MCDERMOTT: What would be an example of a typical client that would have a line of credit loan. Small business people, or is that --

RON PUGLIESE: Oh no. It would be a consumer, a home owner, more times than not it would be a second mortgage. He or she would come to us and ask for a line of credit. It could be any amount. Let's say, for sake of discussion that it is fifty thousand dollars, they may not take that fifty thousand dollars right away. It's in place whenever they need it, and in some cases they could write a check against it, or just take it out.

It just, to me, it would seem that it should not be part of the definition of a high cost mortgage.

SEN. MCDERMOTT: Any other questions of Ron. Senator Bozek.

SEN. BOZEK: Ron, how does Household phrase their offer to a client who wishes to decide on what type of insurance to take?

RON PUGLIESE: I'm not sure I understand your question.

SEN. BOZEK: Well, if I'm taking a mortgage from Household, how is the offer made with regards to mortgage insurance, life insurance to take, with regard to the opportunity for affecting my monthly payment.

RON PUGLIESE: Well, when the mortgage is set, and after, at closing, after the mortgage has been

approved and everything, at closing we will then offer a credit insurance product. It could be a life insurance product, it could be a product for the loan itself, it could be a product for unemployment insurance, there are a variety of credit products that would be offered, credit insurance products.

SEN. BOZEK: You wouldn't just leave it as life insurance protecting mortgage.

RON PUGLIESE: Right, and it is offered that way. It would be a separate charge, it would be whatever the charge is, but it is totally voluntary. I mean, it is not conditioned on the acceptance of the loan. The loan has already been approved.

As I indicated, one of the previous speakers said that they, that a company such as, he didn't specifically mention Household, but a company would force somebody to take credit insurance. That is against the federal law. So, we have already approved the loan, we would then offer you a credit insurance product, and then you make the decision whether you want to take it or not.

SEN. BOZEK: Okay, thank you.

SEN. MCDERMOTT: Any other questions? Thank you, Ron.

RON PUGLIESE: Thank you, Mr. Chairman.

SEN. MCDERMOTT: Next up is Heidi Green, then it's Charon Anderson, and then the last speaker signed up is Jack Logan. Heidi Green.

HEIDI GREEN: Good afternoon, I'm Heidi Green, I live in Mansfield. I am a student in the Individualized Degree Program at Trinity College. I have been concentrating for the last year on predatory home lending, and policy prescriptions, to address it, and I believe that the Committee has before it now a very sound bill that will provide home owners an assurance they will have the information that they need to make good choices and legal tools at their disposal that would help them to fight those who would rob them of their credit, their homes and

what is for many of us, the only store of wealth we have, our home equity.

We don't know the exact extent of the problem in Connecticut, but we do know that predatory lending is concentrated among elderly people, the low-income, and minority population and while not all subprime lenders are predatory lenders as we established already.

Predatory lending practices do happen here. There is marketing of loans to consumers without fully disclosing the terms. Loans, or borrowers are steered to loans that are not at market rates. Many consumers are pressured to borrow at rates that they can't afford, and this bill would protect people from having that happen.

Often you hear that the transaction cost and the additional fees that are tacked onto sub prime loans are necessary in order to cover the cost to do business in what is often a smaller loan. I just want to assure the Committee that this is in fact, a very profitable market. Even disregarding fees additional transaction fees or other costs, lenders can make a substantial profit in a number of ways. The number of loans has risen. Marketing of the loans has become more sophisticated. Lenders are able to reap economies of scale.

In addition, lenders can issue asset based securities and profit in that way. They also sell groups of loans, similar to mutual fund shares to institutional investors at large profits as well.

And most importantly, the cost of credit actually does not reflect the additional risk of most subprime borrowers. In looking at the statistics, borrowers are often charged eight and a half to fourteen per cent interest on fifteen year loans and pay servicing costs that can be as high as thirty-three percent higher than their prime counterparts.

But the additional risk to the lender is minimal. Ninety-four percent of subprime lenders, subprime borrowers, I'm sorry, are current on their

payments. That is only three percent less than the prime rate. Twice as many subprime borrowers do default on their loans, but that is still only two percent of the total loans. So, and, subprime losses are one thousand percent lower than losses in credit cards. But they carry interest rates that are only about twenty-five, credit cards carry interest rates that are only about twenty-five times per cent higher. So there's plenty of protection built into these loans already.

Home equity, as I said, is the greatest store of wealth for most Americans. H.B. 6131 is a really good beginning toward protecting the credit and wealth of all of Connecticut's borrowers. I am concerned that in some cases the limit set in this bill are, as Rafie mentioned, less stringent than those currently on the books and I would urge you to keep the higher standard in place.

I would also encourage a provision that would allow borrowers to, lenders, I'm sorry, who are violators to be responsible for the legal fees of borrowers who are pursuing cases against them. I think that this would be a good prohibitive measure as well. And I thank you very much for your attention. Do you have any questions?

REP. DOYLE: Thank you. Any questions for Ms. Green. Thank you very much. Next up is Sharon Anderson and then Jack Logan.

SHARON ANDERSON: Thank you for this opportunity to talk with you about abusive lending practices and ways in which they can, through raised H.B. 6131 be prevented from further damaging home buyers in Connecticut.

My name is Sharon Anderson. I am the Connecticut State Coordinator for Neighborhood Reinvestment Corporation. I coordinate technical assistance, training, operating and capital investment in seven neighborworks organizations throughout Connecticut. That includes the Neighborhood Housing Services of New Britain, New Haven, Norwalk and Waterbury as well as a Mutual Housing Associations of Greater Hartford, South Central Connecticut and South

Western Connecticut.

In 1999, we helped seven hundred and eighty families prepare for home ownership. We counseled eight-seven families to avoid foreclosure, helped one hundred and two households rehabilitate their homes, invested over $1.7 million dollars in home mortgages and serviced loan portfolios in excess of $3.7 million dollars. That's just the money we bring to the table.

We work in partnership with banks throughout Connecticut and enjoy very good working relationships with responsible lenders throughout Connecticut. We are in fact, sub-prime lender in many cases, because we will lend to borrowers who are not yet ready to be in the prime market. Sometimes it is because of credit risk that they offer sometimes it's simply that they don't have credit. Sometimes it represents the property they are buying, will need investment that approaches so close to the actual value that the prime market doesn't want to participate yet.

Unfortunately, there are some other sub-prime originators that as we've discussed, use abusive practices and drain the equity out of our communities. These practices are described and addressed in the legislation you have in front of you.

One question was how much of this practice many be going on?. One of the difficulties that we have is that while we are counseling people who bring their issues to us, it's very difficult to get a handle on the number of incidents and the impact. Part of it is because the reporting, many of these organizations have very good ways, the abusive organizations, have very good ways of hiding what they do. They are not going to record that at the registry.

So we have to do a lot of work to gain people's confidence in explaining to us why they feel they're at risk with their loans. I wish very much that I could have with you, some of the people that come to us but we also work with them in great

confidence. And to be honest with you, many of them are in financial situations where they're being called for some sort of failure of terms in their loan or pressure to refinance and so they're afraid to lose their home.

And so they come to us, they speak to us in confidence, and we're here to share that information. To the extent that we can get them to come forward with their stories, we do that. We're very pleased with the response from the Banking Department in helping us to find ways to get people to feel more comfortable in bringing their stories forward.

What we do know, we're members of a two hundred and fifteen member national network and so we are very familiar with what's happening in other states and quite frankly, that scares us. We think we have a luxury here to have a Banking Department that is so proactive. But we also look out there and say, but wait a minute, those lenders aren't going to be able to do business in other states, they are going to look for new markets, we want to make sure they don't come here.

We do know that in looking at activity you can look at sub-prime lending as an indicator of where predatory is likely to occur. Because some percentage of sub-prime is where the predatory occurs. So the question then becomes, how much sub-prime activity has there been? And just to give you a sense of that, between '96 and '98, it increased 42%, whereas prime loans went up 17%.

To get a sense of where it's happening, in modest income neighborhoods, sub-prime lending went up 46%, in low income it went up 62%, and in minority neighborhoods it went up 85%. So when you have that much increase in activity, then you have the indication that there is likely to be riding on that coattails some of the abusive practices that we are seeing recorded in the anecdotes.

These patterns do indicate an exceptional growth in abusive practices. We're doing what we can to continue the research and as we do we will continue

to work with the banking department to share that information and also work with them and Representative Doyle in the outreach around helping people as they do come forward to try to resolve their issues.

We are, this legislation begins to fill a gap that is left by federal legislation. Right now, federal legislation, according to data from the Federal Reserve Board, offers some protections to just 5% of the sub-prime market. We are very pleased with this legislation going to protect beyond that very small part of the market. Our letter to you which is from Jim Paley who is the President of the Connecticut NWOs, outlines some of the ways we believe this legislation could be enhanced.

For example, we do believe there should be clarification on credit insurance and where it fits into the calculations. We believe it belongs there. Sad as it may be, we know that with the mortgage brokers that we work with, we are very pleased with how they handle offering such products. We want them to be able to offer that but we find that there are owners that show up at closings are told sign this, you are getting insurance. Their perception of whether that is pressure, to us, their perception is that they've been pressured.

We believe that having a calculation, a mathematical calculation, will help set the market and we believe the Banking Commissioner has down a good job of that.

Some fear that in implementing such protections, the market will be chilled. We find responsible lenders in Connecticut are looking for business and we find that we can work with them and we can stand ready to provide markets or products to help people who might end up in a sub-prime move closer to a prime market or at least a prime interest rate when blended with the rate that we can offer.

By filling this niche, we help both individual families and a state economy. For example, an eleven and a half percent loan on a one hundred and

fifty thousand dollar house costs thirteen thousand per year. Whereas an eight percent, it costs seventeen thousand. So over thirty years, don't include inflation, those additional three and a half points cost the homebuyer nearly the same thing their house originally cost them, a hundred and thirty-eight thousand dollars.

So when there's additional points that is in excess of what is appropriate for the risk, the homebuyer ends up paying. We also found that more than two thousand one hundred families in Connecticut were eligible for prime loans, could have gotten them at prime rate, but somehow ended up getting steered into sub-prime loans.

We believe this legislation will help deter that. We believe that that will actually help us keep between sixty-three million and two hundred and twenty million dollars of equity in the hands of the homebuyers. That's a lot of money for them to be spending on appliances, for them to be spending on food, and to be putting it other places in our economy other than in the hands of predatory lenders.

The NeighborWorks organizations throughout Connecticut are actively working to combat abusive practices through education, counseling and responsible sub-prime lending. We hope we'll have the opportunity to continue our research and assist with outreach. Action is needed to fill in the gaps in federal legislation and we thank the Banking Department for their pro-active stance to stop the abusive practices.

We urge the Committee to review the proposed legislation and consider how beneficial it will be to support responsible lending practices throughout Connecticut. You will find, in attached, along with the letter from Neighborhood Housing Services of Connecticut, you received a copy of a report analyzing trends and sub-prime originations. It's a case study in Connecticut, there is really what we see as Phase I and we hope to be continuing on to drill that down to be talking exactly about the predatory lending.

In the meantime, we are thrilled that the Banking Commissioner has come forward has forward with the legislation.

REP. DOYLE: Thank you Ms. Anderson. Senator McDermott has a question.

SEN. MCDERMOTT: Yes, I was wondering, you talk about people that have come forward to talk to you about issues or the problems they face in the community, just earlier the Commissioner was saying that there is not, or he has not aware of that many cases or which ones are doing it.

Do you report those to the Commissioner by any chance or is there a way of letting the Commissioner know, if you have direct experience with this and the Commissioner doesn't seem to be aware of that many instances of any instances in Connecticut, that this has been effective over the last couple of years. I mean, do you have any mechanisms of reporting that.

CHARON ANDERSON: One has been created? No. In that in the linkage with the Banking Commissioner we're quite pleased. Part of it is in the day to day work sometimes you don't realize how easy something will be. Even, you know, we say our clients don't understand and sometimes we forget.

One thing we are very happy with is creating some way that we can be a conduit for those clients where we hear about the same mortgage broker who was first employed by this company and now employed by this company jumped over here, we hear about that. We now have a vehicle to report that without having a person feel that they are at risk for losing their home.

SEN. MCDERMOTT: So you have no other way of doing it before this bill comes into law, if it becomes law?

CHARON ANDERSON: What we felt was that the opportunity was going to make the person feel at risk. So what we think we have established is now a way that our clients won't think that we betrayed them.

SEN. MCDERMOTT: Some of the statistics you gave out, I think you were saying something, I tried to jot it down but I missed a few, you were going a little quick. About 46% or something of that affect of prime or sub-prime loans, there is an increase of forty-six percent in sub-prime loans over the last year as it compared to an increase of I think sixteen percent of prime loans.

CHARON ANDERSON: Seventeen.

SEN. MCDERMOTT: Seventeen percent. I think that number impresses me but for different reasons then I think in your testimony. I think that it's and I want you to kind of give me a little direction, I think it's a good thing that there is such an increase in sub-prime lending taking place that that forty-six percent number, and I think you said an eighty-five percent number in minority communities. That's what we've tauted in. Former President Clinton is tauted in new wave of first time homebuyers. That is what we are trying to be able to accomplish.

We had record numbers of homebuyers, first time homebuyers, coming forward with the access of, because of the access to sub-prime lenders. So, I'm quite pleased that there's an increase of forty-six percent or eighty-five percent and I don't mean to say that quibbling because you might be able to say give me a good reason why I shouldn't be pleased by that, because your argument seems to be saying that that was shocking and we should be concerned about that disparity.

CHARON ANDERSON: In the sense that we have found that there is a high percentage that could have been eligible for prime and you say, ok, eight-five percent growth when we didn't see that growth in prime, why wasn't there some growth in prime that approached the same percentage, we have to look further into it. It's simply that this pattern where it seems where this activity of the sub-prime lenders is concentrated in low-income areas has met with the same pattern in other states that indicates an increase in the predatory practices.

SEN. MCDERMOTT: Here those numbers are different because, I mean, there's probably been every year a fifteen or sixteen percent increase over the previous year in the prime market but because of new initiatives that the government has put forward and they get more accessible, for people to get into housing, that that group that never felt they could own a home in the past, never looked at it, that because of new programs you put into place in the last eight years, first at the federal level, to allow people access to the home ownership, that that market, it doesn't surprise me that that number is jumping so high, the numbers are separate to me.

CHARON ANDERSON: Keep in mind that this includes both home ownership and home repair loans and rehab loans that we believed belonged in the prime market. So, the, we want to look further into why such an extreme, when our prime lenders who say they're more than happy to go in there, say we'd be happy to do loans there, and we believe would be, because when we bring clients there, they do them and yet what we find, to be honest with you, to give you anecdotes of this and we're looking for, I hesitate to give it until we have some way of quantifying that the anecdotes include the fact that some of these areas are being targeted by, essentially, door-to-door sales people.

And so what we end up, is that people are hesitant because so and so referred them because this is the person that they used, because the person down the street used them, and then you follow this pattern and realize well, they're all very happy but they don't realize that they just got taken and so we are worried about the link between the certain sub-prime lenders and those markets.

We don't want to chill a market, trust me, we love that we're not the only ones lending there, we only have so much and we want more people with us in a responsible way.

SEN. MCDERMOTT: Thank you. Any other questions? Thank you, thank you Ms. Anderson. OK, so next is Jack Logan.

JACK LOGAN: Good afternoon Representative Doyle, Senator McDermott, Senator Bozek and other members. My name is Jack Logan. I reside in Wethersfield. I am a financial consumer consultant. I do work for Neighborhood Housing Services in New Britain, I do work for Connecticut Housing Finance Authority. I do work for HUD/FHA.

I'm here to testify and my experiences and my comments on H.B. 6131 regarding predatory lending. I'm glad we're having this discussion. The issue has been raised considerably in all the trade journals and indeed in public newspapers and magazines over the past few years.

You know in 1970s, everyone who got a mortgage loan got it from a bank in Connecticut, right? And then things happened, interest rates went way up and the savings banks and S&Ls that normally made most of the home mortgages couldn't make them anymore. Their money was flying out disintermediation they called it. Money went out and went to California and other places where they were getting high interest rates.

So the federal government came up with their law in 1980, which in effect, allowed the savings institutions to get into more businesses, not to have a cap on the difference of what they could charge for deposits and also it did away with any kind of rate maximums that states had put it.

New York had a maximum interest rate on home mortgages, I think, of eight percent or the market rate was like, twelve percent. No one was buying a house in New York, so, the fed came up with that which did away with federal preemption of state usury rates as they apply to one to four family residential mortgages.

Subsequent to that, the lending sources of one to four family has changed dramatically. The bank's now account I would guess for less, certainly less than 50% of the originations of one to four family first mortgages in this State and the rest are done by mortgage companies. And mortgage companies are

created fairly easily now because of the way the system of mortgages are collateralized and the way the Wall Street investment people has made a market in them.

Some of the mortgage banking companies like Country Side, which does more mortgage lending than any bank or any other institution nationally, has a pretty good track record of lending. Then there are others, and I think it's the others we are trying to direct our attention to and how we can protect our homeowners who as been noted by Senator McDermott, are increasingly becoming into buying homes and there is nothing wrong with sub-prime lending for people who have a blemish on their credit report.

We don't classify banks as prime and sub-prime, now you do mortgage originations, they're A, B, C and D paper. Ok, if you have a good credit, a good employment history, have a good down-payment, you're an "A" borrower and you get the best rate.

If you're a "B" because you had unsteady unemployment, a little down-payment and you've been short a couple months and haven't fully paid your credit card, you're a "B" or a "C" - you're going to pay more. Your interest rate is high but it does get you into the house. That is fine as long as the person getting into the house is informed about what his responsibilities are once he gets in there. Because you want the loan to be made and sustainable.

Now, Connecticut Housing Finance Authority requires a three hour class before they allow any of the first-time homebuyers that you finance through CHFA to get in the house. I teach that class, I'm one of the teachers. I spend three hours once every two or three weeks with first-time home buyers. They're not allowed to close on the loan with the originating lender until I give them a certificate saying they have completed the class.

Now, why are they doing that? Why is FHA doing that? Because they want to be sure as we lower the bar for people to get into home ownership, we want

them to be aware of what it entails. We all know, if we're all homeowners, the difference between renting and borrowing, the fact that you don't pick up the phone and call the landlord anymore, you have to take care of it yourself.

Budgeting is important, and getting your debts in order is important. The first thing I do is I hold up the one credit card I have and I say that you are going to get deluged with credit cards when your name gets on the record as buying a home. Tear them up. It's free money, you think it's free money, and you will get in more problems because all you will be doing is making the minimum payment.

When I advise delinquents who come in and want advice because they are in the process of being either foreclosed or close to being foreclosed, that is probably the number one cause of it, is they get excessive credit because it is being given to them. Look Martha, I got a credit card in the mail, I can borrow up to ten, five thousand dollars and they even include checks with our name on it. Right, and these are first time homebuyers who suddenly are tempted to go out and buy whatever they can.

So then they come into me for delinquency counseling, I say just don't pay those guys, all they can do is bother you at night, but the mortgage payment, he can take your house. He has to go through the court to do it but he can take your house. Keep your mortgage payment current if you can and just ignore those unsecured creditors, ok, until you get back in shape.

Now, what's a predatory lender? I'm going to give you a specific example, ok, I'm going to even mention names in this case. Back in 1996, when I first started doing counseling and other grant applications and lenders over in Neighborhood Housing, yes?

SEN. MCDERMOTT: If I can interrupt you for a minute, I just want you to be aware that this isn't the three hour class you're going to be giving.

JACK LOGAN: Do you want me to stop?

SEN. MCDERMOTT: No, no, no. You don't have any written testimony so I have no idea how long you'll be going. How long do you think you'll need to --

JACK LOGAN: Ok, ok. Any time you want to knock me off, go ahead. If you want to hear the definition of what I --

SEN. MCDERMOTT: How long will you go?

JACK LOGAN: Another ten minutes. Okay? Predatory lending - here's the case I had, a couple in New Britain who we had previous counseled weren't ready for home ownership but they wanted, they had three kids, and they wanted to get into a house. They found through a local realtor, a lender that would get them into the house. He had almost no income, he had a small business of his own but it was failing at best, and she was on some kind of a state assistance program.

But they had accumulated three or four thousand dollars and with that, the lender stepped up with the broker, identified the house, made the sale, made the loan and they defaulted after the third payment where he came into see me. I said, well, Pete, I told you, you weren't ready to buy a house. He said, but, I got the loan on it, now how do I stay there? I said, well, I don't think you do, but let me see the papers. I went through all papers, the application, the truth-in-lending and everything else and I decided that there was fraud involved here, ok?

These people could not have been qualified to buy the house based on their credit, their income, their jobs or anything. I got, Dan isn't here but he was supposed to speak earlier, I got Dan Blynn, a local attorney, to do a counterclaim on the foreclosure based on fraud. That he would testify, we finally settled out of court, but the reason it exists is because the originating lender, as soon as he closed that loan, that same day, there was an assignment of the Note to another lending entity.

In effect, the Wall Street third party represent that. That loan was sold in the secondary market, originating lender took the three thousand dollars, distributed it to the other people that helped him close the loan but in effect, didn't have any reason to seek or even want a payment to be made. It was no longer his money. His money was returned to him when he assigned the Note the day of the closing.

That is predatory lending and it does exist. It exists in the urban areas particularly where people who do not, unfortunately, avail themselves to some of our free pre-ownership classes about ownership get involved with the predatory lenders through their agents or through what they hear on the street or through a realtor and it does need to be abridged, no question about it.

Now as far as the specific bill, I will try and give you some, I read it yesterday and didn't get it until five o'clock last night but I started reading it last night and today.

As far as some of the items in here that I think we can improve on. There is a balloon payment that is allowed after seven years. I think balloons should be outlawed, okay? Secretary Cuomo of HUD last year, I heard him speak and he said we should have all one to four residential mortgages have no prepayment and no balloon payments.

And that is my belief as well. Because a balloon payment only causes problems for the consumer. Why you would want a balloon payment, I don't know. If you have a seven and a half per cent rate and seven years from now the rates are ten, that loan may have been sold twice and the new lender says, Oh, I'm calling in now because, I want to put your money out at ten and if you want to deal with me and charge some points, I will refinance you.

Now, the guy is stuck, and has to make the decision. His note is due and callable. We all want a fixed rate for three hundred and sixty payments. This is what you have on your mortgage,

I imagine, that is the way I had it. Why have a balloon payment?

Prepayment penalties. They should be eliminated entirely. See, it's abridged, and I think that is good that it is only three years, but I get a client who comes in, as a matter of fact, coming in tomorrow, who I think got a predatory loan. She has a fourteen point nine per cent interest rate. Now I can maybe refinance her with local better rate. I have to do an analysis of her income and expenses, but she took out a seventy thousand dollar loan.

For me to refinance her and get her where she won't default requires her to send a check of what, three percent of seventy thousand dollars, which is six hundred dollars, twenty one hundred dollars. Okay? The prepayment penalty, first year, you say, well, it's no problem. It's a huge problem for her. She can't do it. She can't come up with it. She can't get out of that fifteen percent interest rate.

Section 5-3. If you go to that, there is a sentence in there, it says, a payment schedule that consolidates more than two periodic payments and pays them in advance from the proceeds. Okay, so you can't do more than two payments. I don't what that means. I don't know if that's a way of a lender to get more interest. I have no idea what that means. It's a mystery to me, what that is, that someone can go two periodic payments and be allowed to do it. Does that mean they can require it up front. And I don't know what that means. If you do, fine.

The five points are very good, that should stay in, the fifty percent debt to income is good, that should stay in. The other thing I think, outside of prepayment and balloon that you should eliminate, I think that you should require that all one to four residential mortgages should have the note, a copy of the note, attached to the last page of the mortgage. It costs an extra five dollars at the clerks office, but it will alert you, and us, to who the lender is, and what the terms of his borrowing, his note is. Because it's not in the

mortgage of course, the mortgage doesn't specify the interest rate, the payments or the prepayment. Thank you. Any questions?

SEN. MCDERMOTT: Thank you. Any questions from the members. Thank you for being here. That is the end of the people who signed up.

Is there anybody in the audience here that hasn't signed up that would need a brief couple of minutes. No one? I move that we adjourn.

(Whereupon the hearing was adjourned.)

January 25, 2001

The Honorable Brian McDermott
The Honorable Paul Doyle
Co-Chairmen, Joint Committee on Banks
Legislative Office Building, Room 2400
Hartford, Connecticut 06106

Dear Senator McDermott, Representative Doyle and Members of the Committee:

HB 6131

HB 6132

There are a number of bills being heard by the Banks Committee on January 25, 2001 which impact or are of interest to Connecticut credit unions and the Connecticut Credit Union Association (CCUA). I would like to take this opportunity to respectfully state our positions on the following bills:

SB 791 – AAC Community Reinvestment by Community Credit Unions

CCUA will supply public testimony on SB 791. A copy of that testimony has been provided to the Committee Clerk.

SB 793 – AAC Money Transmissions

CCUA does not object to SB 793 which updates the Connecticut money order and travelers check statutes to take into account modern forms of money transmissions in order to safeguard the public from default in the payment of those instruments of transmissions. It has been the philosophy of CCUA to encourage reasonable consumer safeguards where appropriate in the operations of Connecticut financial institutions.

HB 6130 – AAC The Connecticut Uniform Securities Act and Notices Issued by the Department of Banking

CCUA does not object to HB 6130 which would conform the definitions of broker-dealers and investment advisors to reflect the federal securities law, requiring banks and holding companies to register as such under the Gramm Leach Bliley Financial Modernization Act of 1999. CCUA feels that the strengthening of the powers granted to the Commissioner of Banking to protect consumers in this area is reasonable and appropriate.

110 South Turnpike Road • P.O. Box 5001 • Wallingford, CT 06492 • (203) 265-5657 • FAX (203) 284-8194 • www.ctcua.org

HB 6131 - AAC Abusive Home Lending Practices

CCUA supports HB 6131 which seeks to eliminate predatory home lending practices and protect consumers from abusive fees associated with home lending. While CCUA seeks to relieve credit unions from excessive regulations, we believe that this bill is reasonable and appropriate and will help prevent other lenders from taking advantage of consumers through excessive, undisclosed fees. CCUA has always encouraged full disclosure of the costs associated with credit and is proud that there is no documented record of Connecticut credit unions engaging in predatory lending practices.

HB 6132 – AAC Financial Privacy

CCUA does not object to HB 6132 which would incorporate the privacy provisions of the Gramm Leach Bliley Financial Modernization Act of 1999 for banks, credit unions and out of state trust companies and provide the Department of Banking with enforcement powers over privacy matters. CCUA does not oppose the Department of Banking seeking reasonable and necessary enforcement powers needed to implement the privacy provisions of the Gramm Leach Bliley Financial Modernization Act of 1999. However, CCUA is concerned that current Connecticut statutory provisions governing the sharing of credit union members' financial records may be interpreted so broadly as to negate provisions found in the Gramm Leach Bliley Financial Modernization Act of 1999, which allow credit unions to share limited member information, such as mailing lists, with financial services partners under joint marketing agreements.

Sincerely,

Kevin M. Stewart
President/CEO

Senator McDermott, Representative Doyle, members of the committee, good afternoon. I am Heidi Green from Mansfield. I'm here in support of Raised Bill number 6131, **An Act Concerning Abusive Home Lending Practices**. I am a student in the Individualized Degree Program at Trinity College, I am majoring in Public Policy and spent many months studying abusive or predatory lending practices and policy responses. Abusive home lending is a serious and growing problem and this committee has before it a sound bill that will provide homeowners an assurance they will have the information they need to make good choices and legal tools at their disposal to fight those who would rob them of their credit, their homes and what is for many homeowners, their only store of wealth -- their equity.

As we speak, a number of organizations are pooling their resources to collect data on the exact scope of the problem in Connecticut. Already we know that the problem is concentrated among elderly, low-income and minority homeowners in the subprime mortgage market. Subprime loans are loans to borrowers whose credit scores are A- to D. The subprime borrower category is broad. It includes everyone from individuals who have made one payment in the year preceding their loan application that was 30 or more days late to those who've declared bankruptcy.

Not all subprime loans are abusive, but because most subprime lenders are not FDIC-insured institutions and are non-depository, they are not subject to the same federal reporting standards banks are. Loose reporting requirements encourage some lenders to engage in exploitative practices — predatory lending.

"Predatory Lending" is a colorful term used to categorize a range of lender behavior which exploits borrowers especially those who are low income, elderly or non-

white. "Predatory lending" includes the marketing of loans to consumers without fully disclosing terms to the borrowers, steering borrowers to loans at well above market rates, pressuring consumers to borrow, lending to individuals without regard to their ability to make payments and similar behaviors. Predatory loans are disproportionately marketed to people who are relatively powerless — racial minorities, women and the elderly.

Predatory lenders have created their market niche by capitalizing on minority and low-income borrowers' need for credit and the refusal of traditional banks to provide these consumers sufficient access to market rate credit. Subprime loans are three times more likely in poorer neighborhoods. In African-American neighborhoods, subprime lenders made 51 percent of the refinance loans compared with only nine percent in white areas.

Increasingly, as banks merge with one another and with other financial service providers, access to all financial services in rural areas, low-income and minority neighborhoods and among technological novices has become more and more limited. Local lenders are subsumed in international financial conglomerations — neighborhood branches are closed, automated teller machines can be found only in densely-populated-low-crime neighborhoods. Where branches remain open, tellers have been all but eliminated. Day-to-day banking services have been automated and digitized. All of these factors limit poor, non-white and elderly consumers' access to bank services.

You may hear proponents of Bill 6131 contend that higher points and fees are necessary to cover the high transaction costs of subprime loans. Rest assured this is not, by any means, an unprofitable market. In fact, its profit potential has increased in recent years. Not only have the number of loans risen but, with the use of new information

technology, lenders are able to track-computerized credit card and medical debt. From that data and other consumer credit data, they easily generate lists of names, telephone numbers, mailing and email addresses of individuals to target. In this way, lenders are able to reach economies of scale. At the same time, because of structural impediments to formal education, many of their customers lag behind in the digital revolution. The borrowers are less able to know what credit choices are available to them.

There are a number of other ways lenders profit as well. One is through the issue of asset-based securities. Lenders bundle together a number of small loans and sell them to private investors. From 1994 to 1998 alone, the issuance of asset-based securities for home-equity loans increased from about $10 billion to more than $80 billion nation wide. At the same time, subprime lenders can, after paying a fee towel Street investment houses, sell groups of loans (similar to mutual fund shares) to pension fund or large institutional investors. Borrowers monthly payments cover interest to the investors and a profit to the lender. Wall Street Banks sold more than $316.2 billion in bonds for subprime lenders in the 1990's. Most importantly, routine additional costs to borrowers in this market exceed the risk incurred by subprime lenders. Borrowers are charged 8.5 to 14 percent interest on 15-year loans and pay servicing costs that are at least 33 percent higher than their prime counterparts. But the additional risk to the lender is minimal. Ninety-four percent of subprime borrowers are current on their payments. That is only three percent less than the rate in the prime market. Twice as many subprime borrowers default on their loans but that total is only two percent of total subprime loans. Subprime losses are one thousand percent lower than losses for credit cards which carry interest rates only twenty-five percent higher.

Many borrowers of predatory loans not only have lower incomes than borrowers in the traditional credit market, they also have less accumulated wealth. Because they have less wealth, they have had fewer experiences with banks in general. Frequently they find the institutions intimidating and loan instruments confusing. This leads many borrowers to be less confident when applying for loans. Oftentimes, low income, elderly and minority borrowers under estimate their credit scores and are unrealistically pessimistic of their ability to receive a competitive loan from a traditional lender.

Predatory loans, on the other hand, are marketed by brokers who make it their priority to engage folks and make them feel comfortable. They send easy-to-read-direct mail offers including non-English-language flyers and pamphlets. They advertise on T.V. Their loans are arranged in conjunction with home improvement contracts and are introduced by congenial brokers who earn trust by meeting borrowers in their own homes. Conversely, some predatory lenders capitalize on people's intimidation and bully consumers into accepting unbeneficial loans.

In summary, we see that more non-white, low-income and elderly individuals are being targeted for loans they cannot afford. These loans create risk of serious debt burden, devaluation of credit scores and possible loss of equity and homelessness. Their increased prevalence has been facilitated by banks' unwillingness to provide sufficient market-rate credit, an imbalance in the distribution of technological skill among consumers and social and cultural conditions which lead to a maldistribution of wealth and unfamiliarity or discomfort with banking and borrowing.

Home equity is the greatest store of wealth for most Americans. According to the Housing Review, a publication of the Department of Housing and Urban Development,

home equity constitutes 72 percent of the net wealth of low-income Americans. Home mortgages also constitute the single largest debt most households incur and, unlike medical or credit card debt, which is unsecured, home mortgage debt carries substantial risk including foreclosure, loss of equity and homelessness.

The subprime loan market is essential for providing loans to individuals with poor credit ratings, low or hard to document income and those who lack wealth or loan collateral. The subprime market provides loans to individuals who are considered too high risk by mainstream lenders. Subprime borrowers are charged higher application fees, more points and/or higher interest rates to cover the perceived increased risk.

When a borrower is charged more for credit than accurately reflects the risk to the lender; however, that constitutes borrower exploitation — one clear indication of predatory lending. Other exploitative practices used by predatory lenders include:

* Reverse redlining or aggressive marketing to specific populations;
* Financing loan fees;
* Excessive interest rates;
* Loan flipping;
* Negative amortization;
* Financing the cost of credit insurance;
* Loans to borrowers who clearly cannot meet the payments;
* Balloon payments;
* Excessive points, late charges and prepayment penalties;

Because Bill 6131 addresses these practices, it is a good beginning toward protecting the credit and wealth of Connecticut's borrowers. I am concerned that in some rare cases, the limits set in this bill would be

less stringent than in existing legislation. I would encourage the committee to warrant that the highest standard remain. I also encourage you to add a provision, which would require violators to cover any legal fees associated with prosecution. I believe this will provide a tangible deterrent to abusive lenders. Thank you very much for your attention.

NEW ENGLAND FINANCIAL SERVICES ASSOCIATION

January 22, 2001

The Honorable Brian McDermott
Chairman
Committee on Banks
Connecticut Senate
Hartford, Connecticut

The Honorable Paul Doyle
Chairman
Committee on Banks
Connecticut House of Representatives
Hartford, Connecticut

Dear Senator McDermott and Representative Doyle:

The New England Financial Services Association, which is a six state regional trade association comprised of diversified lenders, including home equity lenders who do business in Connecticut, appreciate having the opportunity to comment on House Bill 6131.

The members of NEFSA are very proud of the role they play in this state. They provide capital and economic opportunity to the State's diverse citizenry so they can send their children to college, make improvements to their homes, or make purchases of all kinds. We recognize that in some states problems and abuses have occurred in the area of home equity lending but very few of those problems have taken place in Connecticut. We believe that is the case because it is a small number of lenders who make these problems and Connecticut's present laws, combined with strong regulatory oversight by the Connecticut Banking Department, has resulted in significant scrutiny and oversight for the citizens of this state and for those in the mortgage lending industry who are legitimate, law abiding lenders. The members of NEFSA believe that is how it should be and that is why we applaud the Connecticut Banking Department for the role they have played in this area.

One of the issues that often result in confusion when abusive lending practices are discussed is the distinction between sub-prime lending and predatory lending. Many of NEFSA's members lend to non-prime or sub-prime borrowers. Sub-prime borrowers generally are borrowers who do not meet standard underwriting criteria, either because of previous late payments, bankruptcy filings, or an insufficient credit history. Like prime borrowers, sub-prime borrowers have the same needs for capital. Sub-prime lenders help make that happen. The most important point I want to make is that home equity lenders in the sub-prime market are not predatory lenders. I am not saying that all lenders always act properly, but I think it is important to realize that sub-prime lending and predatory lending are two totally different items. Sub-prime lenders fulfill an important need, predatory lenders engage in illegal activity. Most lenders serving the sub-prime market are excellent companies who make credit available at affordable costs to residents of Connecticut. Therefore, as you review this legislation and this issue, it is important to keep in mind that there is a huge difference between sub-prime lending and predatory lending.

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The mortgage lending industry is one of the most heavily regulated industries in the country. Mortgage lenders are subject to a multitude of federal statutes and regulations. But in addition to the federal requirements, the State of Connecticut also regulates mortgage lending through numerous laws and regulations under the Banking Department. Home equity lenders who operate in this state must be licensed and they must go through periodic examination by the Department. Very few industries face the kind of scrutiny and oversight that home equity lenders undergo.

The regulators in this state have been extremely successful in watching for and preventing abuses. I am pleased to tell you that NEFSA and the Connecticut Banking Department enjoy a very good working relationship, we are in communication regularly on issues that impact lending in this state. We appreciated the invitation from Commissioner Burke and others at the Department to meet last month to discuss this issue. It gave both sides the opportunity to discuss several aspects of this bill. While we believe the meeting was very positive, we also believe there are modifications needed to this bill if it is to accomplish what the Department desires without adversely impacting legitimate lenders and without negatively impacting the very people the Department seeks to protect.

As you look at this issue and this bill, we think the challenge is to adopt language that will prevent abuses without hindering efforts to incorporate risk-based pricing in ways that expand the lending market and the availability of flexible loan products. As efforts are made to protect consumers, the approach must balance those actions to avoid the unintended consequences of eliminating consumers' access to the very credit or services those people need to improve their economic situation.

House Bill 6131 is a very comprehensive bill that would incorporate many new provisions into Connecticut's lending laws. It would establish new disclosures, it would set new limitations on mortgage loan fees and charges, it would place new limitations and restrictions on several aspects of mortgage lending, it would mandate new credit reporting procedures, and it would add new enforcement provisions. Many of the specific provisions make sense but some serve no useful purpose in addressing potential predatory lending problems and will actually serve to eliminate consumer options and drive up the cost of credit for the very people this bill is intended to help.

Specifically, the definition of "prepaid finance charge" in **Section 3(4)** would limit the amount of such charges by requiring single premium credit insurance costs to be included in the prepaid finance charge amount. We think this inclusion is inaccurate because single premium credit insurance costs are not prepaid finance charges; they are a premium that is paid to a third party. In addition, credit insurance is a voluntary item and some borrowers, especially those who are underinsured, elect to purchase credit life or credit disability insurance on their loans. If a lender must include this item in the "prepaid finance charges" figure, some lenders will just cease offering these products, which will be harmful to those borrowers who desire this coverage.

Section 5(7) would prohibit the use of arbitration clauses in mortgage loan contracts. We believe the use of arbitration clauses has important benefits for borrowers and lenders. First, the use of arbitration for dispute resolution is not an item that will prevent an unscrupulous lender from making a predatory loan so this provision will have no affect in that regard. Second, we are not aware that the use of such clauses has been a problem for anyone in Connecticut. Third, arbitration generally makes dispute resolutions quicker and less expensive than alternative means for all parties involved. Under the Federal Arbitration Act, any dispute arising from the contract would go before a neutral decision-maker, generally selected by a non-profit arbitration organization. The parties can generally present evidence and be represented by counsel. And any decision-maker must apply the relevant state laws in resolving the dispute. We think arbitration is a helpful tool in resolving disputes; it helps keep costs down; it results in quicker resolution of problems; and consumers and lenders benefit from arbitration.

Section 7(3) would place a cap on prepaid finance charges and it would place a two year prohibition on the assessment of prepaid finance charges when a loan is refinanced. Prepaid finance charges are a factor used when pricing loans (i.e. setting the interest rate). Because circumstances can change dramatically over a two year period, we would not be opposed to such a limitation if it were in place for the first year of the loan but beyond one year creates uncertainties that could result in higher rates to offset the ability to collect this charge.
We propose setting this limit at one year rather than two years.

We believe the same argument holds true for fees under **Section 7(4)** and that a cap during the first year makes more sense.

In closing, I simply want to say that most mortgage lenders in this state, whether they are banks, credit unions or mortgage bankers; and regardless whether they serve prime or sub-prime borrowers; all fulfill a very important need. Most conduct themselves in an honest, lawful and ethical manner. The actions of a few are concerning to all of us. And that is why we are committed to working with this Committee to address this issue in a way that does not penalize legitimate lenders and does not impede the ability for consumers in this state to access affordable credit.

Sincerely,

James M. Demers
President

Ronald J. Pugliese
Chairman

cc: Members of the Committee on Banks

Ronald J. Pugliese
Government Relations

Beneficial

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Household

Connecticut Mortgage
Bankers Association, Inc.

January 25, 2001

TO: The Joint Committee on Banks
FROM: Connecticut Mortgage Bankers Association, Inc.

RE: Statement Supporting An Act Concerning Abusive Home Loan Lending Practices
Raised Bill No. 6131 (LCO No. 2889)

The Connecticut Mortgage Bankers Association, Inc., which numbers almost two hundred member firms, is a non-profit association formed in 1984 for the principal purpose of promoting the welfare of the mortgage lending industry in Connecticut and to improve its service to the citizens of Connecticut. The Connecticut Mortgage Bankers Association, Inc. is Connecticut's only trade association dedicated exclusively to the mortgage banking industry in the State of Connecticut.

The CMBA supports Raised Bill No. 6131, An Act Concerning Abusive Home Loan Lending Practices. The CMBA shares the concerns of the Banking Commissioner as to the potential for abusive lending practices in the mortgage industry, including practices which are directed at low-income and elderly borrowers.

The CMBA on its own initiative has developed industry "Best Practices" to help address some of the same concerns as are addressed by Raised Bill No. 6131.

The CMBA has long sought to improve the service of the mortgage banking industry to the citizens of Connecticut and has always encouraged its members to engage in sound and ethical business practices in the origination and servicing of mortgage loans. The CMBA remains committed to cooperating with the Banking Commissioner to maintain the confidence of the public and integrity of the Connecticut mortgage marketplace.

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STATE OF CONNECTICUT

DEPARTMENT OF BANKING

260 CONSTITUTION PLAZA • HARTFORD, CT 06103-1800

John P. Burke
Commissioner

BANKS COMMITTEE PUBLIC HEARING, JANUARY 25, 2001

MEMORANDUM RE: An Act Concerning Abusive Home Loan Lending Practices (H.B. 6131)

STATEMENT OF PURPOSE: To establish a statutory scheme to curb abusive lending practices; and to prohibit mortgagees from charging a mortgagor or the mortgagor's attorney or agent a fee for the first payoff statement provided in a calendar year.

FROM: John P. Burke, Banking Commissioner

PRESENT LAW: There is no statutory scheme in place directed toward addressing abusive lending practices that have recently emerged in the mortgage market.

Section 36a-3 sets forth the cross-references to the definitions in Title 36a.

Section 36a-50 authorizes the Commissioner to impose a civil penalty of up to $7,500 on any person for a violation of any statute under the jurisdiction of the Commissioner, or any regulation rule or order adopted or issued under such statute.

Section 36a-53(c) authorizes the Commissioner to impose a civil penalty on a Connecticut bank, Connecticut credit union, or an officer or director of such bank or credit union for certain violations and practices in accordance with Section 36a-50, provided the maximum penalty that may be imposed under this subsection is $1,000, unless certain requirements are met. It also requires the Commissioner to take into account certain factors in determining the amount of the penalty.

Section 36a-680(a) describes the effect of inconsistencies between Connecticut's Truth-in-Lending Act and other state laws relating to the disclosure of information in connection with consumer credit transactions.

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Section 49-10a requires a mortgagee to provide a mortgagor a written payoff statement within ten business days of the mortgagor's request and sets forth the penalty for failure to do so.

EFFECT OF H.B. 6131:

Section 1. This section amends Section 36a-3 to add cross-references to the definitions of "additional proceeds", "APR", "high cost home loan", "prepaid finance charges", and "prepayment penalty".

Section 2. This section provides that the act shall be cited as the "Connecticut Abusive Home Loan Lending Practices Act".

Section 3. This section defines various terms that are used in the act, including "high cost home loan" which is defined in general as a high interest, consumer loan secured by property in Connecticut that is, or will be, the borrower's principal residence.

Section 4. This section sets forth the disclosures that must be made by a lender making a high cost home loan.

Section 5. This section prohibits the following terms in high cost home loans: (1) balloon payments in mortgages with a term of less than seven years, (2) negative amortization, (3) a payment schedule that consolidates more than two periodic payments and pays them in advance from the proceeds, (4) an increase in the interest rate after default or default charges that are more than five percent of the amount in default, (5) a refund of interest calculated by a method less favorable than a specified method, (6) a prepayment penalty after three years of consummation of the loan (with the maximum permissible penalty being three percent during the first year and reduced by one percent each year for the subsequent two years and certain other limitations), (7) a mandatory arbitration clause or waiver of participation in a class action, and (8) a call provision allowing the lender, in its sole discretion, to accelerate the indebtedness.

Section 6. This section requires a lender who makes a high cost home loan, to report, annually, both the favorable and unfavorable payment history of the borrower to a nationally recognized credit bureau.

Section 7. This section prohibits the following acts and practices by a lender in the making of a high cost home loan: (1) payment to a home improvement contractor from the proceeds of the loan except under certain conditions, (2) sale or assignment of the loan without notice to the purchaser or assignee that the loan is subject to the act, (3) imposition of prepaid finance charges that exceed the greater of five percent of the principal amount of the loan or $2,000 (when

aggregated with the prepaid finance charges on previous financings by the same lender or its affiliate in the past two years), provided a lender may, additionally, impose prepaid finance charges in connection with additional proceeds received by a borrower in a refinancing, of up to five percent of the additional proceeds, (4) charging a borrower fees to modify, renew or extend a loan (except where it is 60 or more days delinquent and is modified, renewed or extended as part of a work-out process) if the loan will continue to be a high cost home loan or the annual percentage rate will not be reduced by at least two percentage points, provided a lender may charge prepaid finance charges in connection with additional proceeds received by a borrower in connection with the modification, extension or renewal of up to five percent of the additional proceeds, (5) making the loan unless the lender reasonably believes that the borrower will be able to make the scheduled payments based on certain factors, with the borrower being presumed to be able to make the scheduled payments if the borrower's monthly debts do not exceed 50 percent of the borrower's monthly gross income, (6) advertising that refinancing pre-existing debt with the loan will reduce the monthly debt payment without also disclosing that it may increase the number of monthly debt payments and the aggregate amount paid by the borrower over the term of the loan, (7) recommending or encouraging default on an existing loan prior to the closing of the loan, (8) making a loan that refinances an existing loan unless the new loan provides a benefit to the borrower, (9) making a loan with an interest rate that is unconscionable, and (10) charging the borrower fees for services that are not actually performed or which are not bona fide and reasonable.

Section 8. This section requires the lender and any assignee of the lender to refund or credit the borrower for any default charges, prepayment penalties or prepaid finance charges collected in excess of the limits set forth in Sections 5 and 7 of the act.

Section 9. This section amends Section 36a-50(a) to authorize the Commissioner to impose a maximum civil penalty of $15,000 on any person for a violation of Sections 2 to 8, inclusive, of the act.

Section 10. This section amends Section 36a-53(c) to authorize the Commissioner to impose a maximum civil penalty of $15,000 on a Connecticut bank, Connecticut credit union, or an officer or director of such bank or credit union for violations of Sections 2 to 8, inclusive, of the act without meeting the requirements of that section for penalties over $1,000. It makes the requirement that the Commissioner take into account certain factors in determining the amount of the penalty inapplicable to such violations.

Section 11. This section amends Section 36a-680(a) to provide that Sections 2 to 8, inclusive, of this act shall not be deemed inconsistent with the provisions of the Connecticut Truth-in-Lending Act and shall control where applicable. It also amends the provision that requires the Commissioner to exempt, by regulation, creditors who comply with the Connecticut Truth-in-Lending Act from complying with inconsistent disclosure laws relating to consumer credit transactions by deleting the requirement that the exemption be by regulation and giving the Commissioner discretion to grant the exemption.

Section 12. This section prohibits prepaid finance charges that exceed the greater of five percent of the amount of the loan or $2,000 (when aggregated with the prepaid finance charges in previous financings, if any, by the same lender or its affiliate in the past two years) in connection with first mortgage loans made by licensees under the first mortgage lender and broker provisions, banks, credit unions, and small loan licensees and licensees under the secondary mortgage lender and broker provisions that are exempt from licensure under the first mortgage lender and broker provisions. However, a lender may, additionally, impose prepaid finance charges in connection with additional proceeds received by a borrower in a refinancing, of up to five percent of the additional proceeds.

Section 13. This section amends Section 49a-10 to prohibit mortgagees from charging a mortgagor or the mortgagor's attorney or agent a fee for the first payoff statement provided in a calendar year.

BANKING COMMISSIONER'S POSITION: This is a Department of Banking proposal. In recent years, there has been a nationwide increase in abusive lending practices in the mortgage market. These practices are directed at low-income and elderly buyers. North Carolina has enacted a law and other states, such as New York and Massachusetts, have proposed statutes or regulations to deal with the problem. This proposal seeks to curb abusive lending practices in Connecticut.

The Department has received complaints from mortgagors that mortgagees are charging high fees to provide a payoff statement. This proposal addresses that problem by prohibiting such fees for the first payoff statement requested in a calendar year.

Legal Assistance Resource Center ❖ of Connecticut, Inc. ❖

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H.B. 6131 -- Predatory lending practices
Banks Committee Public Hearing -- January 25, 2001

Recommended Committee action: **APPROVAL OF THE BILL with amendments**

This very important bill, which comes from the Banking Commissioner, builds off of existing state and federal legislation to prevent abusive practices by a small portion of the mortgage lending industry. On behalf of low-income homeowners, I strongly support the bill.

The practices in question, described in the bill as "abusive home loan lending" and in the literature as "predatory lending," typically involve exceptionally high interest rates, combined with large numbers of points, frequent refinancings of the loan, and balloon payments at the end which assure the need to refinance. Because points are paid in full up front on the entire amount of the refinanced loan (not just on the new money advanced), debtors end up paying points well in excess of the statutory maximum for second mortgages and an effective interest rate that is extremely high. This bill deals with that issue for first and second mortgage lending by capping the number of points at the higher of 5% or $2,000 and by limiting the lender's ability to charge additional points on the portion of a loan which is used to pay itself back for a prior loan. This is a very important bill for low-income homeowners, and I urge you to enact the bill.

In moving this bill forward, I ask the committee to make three changes in the bill -- one of which makes clear that an existing protection for second mortgage borrowers is being retained, one of which applies that existing second mortgage protection to first mortgage loans, and one of which is purely technical (to assure that the bill says what its sponsors intend it to say). I have included specific wording for each of these changes.

1. Relationship between H.B. 6131 and C.G.S. 36a-521: Under existing law, second mortgage lenders cannot charge more than eight points on a second mortgage loan. Under H.B. 6131, a lender can charge the higher of five points or $2,000. In practice, this has the counterproductive effect of raising the number of allowable points on second mortgage loans of under $25,000 (which is when $2,000 no longer exceeds eight points). In order to avoid losing homeowner protections which we already have, H.B. 6131 should be coordinated with C.G.S. 36a-521 to provide that whichever limit is lower governs the maximum.

Proposed wording: At the end of the sentence in l. 297 and l. 303, add "provided such amount shall not exceed the amount which is permitted to be charged under section 36a-521 of the general statutes."

(continued on reverse side.....)

2. Equivalent change for first mortgages: Sections 3 and 12 of the bill, when read together, also limit points on first mortgages to the higher of 5% or $2,000. Because C.G.S. 36a-521 does not apply to first mortgages, however, the eight-point limit on second mortgages under $25,000 does not apply. As a result, the bill seems to allow extremely high points on smaller first mortgage loans (e.g., ten points on a $20,000 first mortgage and twenty points on a $10,000 first mortgage). Although first mortgages would not ordinarily be that small, they may fall within that range for the purchase of inner city houses and condominiums (there are many condominiums in Hartford which have sold for less than $10,000). There is no reason that the second mortgage rule should not apply equally to first mortgages. This can be corrected by amending C.G.S. 36a-521 to apply to first mortgages.

Proposed wording: At the end of the sentence in l. 459 and l. 464, add "provided such amount shall not exceed the amount which is permitted to be charged under section 36a-521 of the general statutes."

Add a new section to the bill amending C.G.S. 36a-521 so that it will read: "No person engaged in the first or secondary mortgage loan business in this state as a lender, or a broker, including any licensee under sections 36a-485 to 36a-498, inclusive, and sections 36a-510 to 36a-524, inclusive, and any person who is exempt from licensing under subdivisions (1), (5) and (6) of section 36a-487 or section 36a-512, may (1) charge...."

3. Technical rewording: I have confirmed with the Banking Commissioner that Sections 3 and 12 are intended to say that the maximum number of points allowable on the refinancing within two years of a high-cost mortgage by the original lender cannot exceed the higher of five points or $2,000, including the points paid on the original financing. In other words, if the lender received the maximum allowable number of points on the original loan, then upon refinancing the only additional points it can charge are five points on the new money. Unless the original loan was under the statutory maximum, it cannot charge additional points for paying off the old loan to itself. I do not believe, however, that is what the bill actually says. As worded, it appears to allow a double charging of points (five points or $2,000 on the combined old and new money, plus five points on the new money). A technical correction is necessary to make sure that Sections 3 and 12 say what they mean.

Proposed wording: In l. 302-303 and l. 464, change "principal amount of the loan" to "principal balance on the existing high cost home loan".

-- Prepared by Raphael L. Podolsky

Neighborhood Housing Services of Connecticut, Inc.

333 Sherman Avenue, New Haven, Connecticut 06511 (203) 562-0598 Fax (203) 772-2876

January 25, 2001

The Honorable Brian McDermott, Senate Chair
The Honorable Paul Doyle, House Chair
Members of the Joint Banking Committee
Connecticut Legislature

HB 6131

Thank you for providing the opportunity to present information on Abusive Home Lending Practices that could be ended by the State Banking Department if empowered by appropriate legislation.

I am writing on behalf of Neighborhood Housing Services of Connecticut, a non-profit 501(c)(3) organization that is a coalition of seven NeighborWorks® organizations. Our membership includes:

Neighborhood Housing Services of New Britain
Neighborhood Housing Services of New Haven
Neighborhood Housing Services of Norwalk
Neighborhood Housing Services of Waterbury
Mutual Housing Association of Greater Hartford
Mutual Housing Association of South Central Connecticut
Mutual Housing Association of South Western Connecticut

Our organizations bring together banks, businesses, and residents to address issues of housing availability, affordability, community safety, and the economic and social stability of Connecticut communities.

We are members of the lending community, working and enjoying partnerships with many banks and mortgage companies. Our activities include the following:

- Providing homebuyer education that helps assure qualified and responsible borrowers, thereby enhancing the stability of loan portfolios. In 1999, we counseled more than 780 families.
- Providing post-purchase and foreclosure prevention counseling to help borrowers, especially important to those who face life and economic changes that might impact their ability to make timely loan payments. 87 families were counseled on ways to keep their homes out of foreclosure in 1999.
- Organizing and supporting homebuyer clubs to help future homebuyers stay on track to homeownership. More than 150 families offered mutual support through this effort.
- Providing technical and financial assistance to complete home rehabilitation projects that will improve the condition of homes for their owners, preserve the collateral for loans, and ultimately ensure the stability of the neighborhood. More than 102 families have enjoyed better quality homes through these efforts.

- Offering flexible loan products such as second mortgages and downpayment assistance for first time homebuyers, helping to expand the credit available in Connecticut. In 1999, we made 64 loans from our own funds representing an investment of over $1.7 million. We serviced 278 loans, and were responsible for a cumulative loan portfolio of more than $3.7 million. Through our counseling and education programs, we initiated many more loans with our lender partners.
- Leveraging the mortgage funds available to Connecticut homeowners by attracting capital from the Neighborhood Reinvestment Corporation and by accessing the secondary market of Neighborhood Housing Services of America.
- Working with many lending partners including community loan funds, American Savings Bank, Charter One Bank, Chase Manhattan, Citibank, Citizens Bank, Fairfield County Savings Bank, First Union, Fleet Bank, Hudson United Bank, New Haven Savings Bank, Peoples Bank, Superior Savings Bank, Webster Bank and World Savings and Loan.

The leadership of our organizations brings together residents, local businesses, and government. With an average staff size of 5 to 6, our organizations bring together 137 board members and 151 volunteers. We offer CHFA homebuyer education and are certified HUD counseling agencies. In addition, we are members of the NeighborWorks® Campaign for Homeownership. This spring, in New Haven, in partnership with local, state and national lenders, we will open the first HomeOwnership Center in Connecticut offering one-stop homeownership services for first-time buyers.

NeighborWorks® Organizations in Connecticut often serve as sub-prime lenders, offering favorable lending products that serve an important niche in the marketplace. Together with private lenders, we help homebuyers and homeowners who are not served by the traditional prime market. Examples of this might include:

- first-time homebuyers who have limited credit history;
- borrowers who have less than ideal credit histories but pay rent far in excess of the costs of homeownership; and
- borrowers who need to make repairs to their properties, and can afford reasonable mortgages, but where a soft housing market might result in low appraised values.

It is important to make the distinction between responsible lenders making risk-based sub-prime loans and those often called "predatory" lenders. Predators are those who actively seek out the uninformed, hurried, pressured, homeowners. These unscrupulous lenders often cross the line into fraudulent behavior, which is already addressed by other Banking Department enforcement. The problem we face with legislation at this time is the fine line that often exists between traditional sub-prime lending and "predatory" practices. This latter category is marked by lenders who prey upon their borrowers with interest rates that far exceed what is appropriate for the risk, excessive fees, punitive prepayment penalties, and unnecessary credit life insurance. These lenders clearly exploit uninformed borrowers, while being careful to avoid outright fraud.

Over the past few years, we have experienced an increasing number of homeowners who have sought help in addressing abusive loan terms and conditions from predatory lenders. We have seen the condition of properties deteriorate as homeowners fight to keep up with excessive mortgage payments or fees. We have seen neighborhoods struggle when individual properties deteriorate.

NeighborWorks® organizations are a part of a national network of 215 organizations. Through this network, we are able to learn from the best practices and bad experiences of our peers all across the country. We have learned that Connecticut has yet to feel the full effect of predatory lenders. Apparently, these lenders have targeted other states where laws and regulations have allowed them to victimize borrowers with impunity. As other states produce new legislation, these abusive lenders will have to look elsewhere for their market. We encourage all efforts to keep these businesses out of Connecticut, and we appreciate the work that the Banking Department has completed to get out in front of the issue.

We submit the following information for your consideration in an effort to combat abusive lending practices and to keep predatory lenders from establishing themselves here in Connecticut:

Fee Trigger

The proposed legislation addresses "high cost home loans" as those that have a certain annual percentage rate. We caution those working with this legislation to make certain that the rate cap is maintained at a reasonable level and does not get raised so as to undermine the spirit of the legislation. In addition, it is noted that if the interest rates can be brought in just under the cap, limits on fees and terms will not apply. We suggest that triggers be set for all three: rates, fees and terms. This will eliminate any possible "loopholes."

Balloon Payments

I have personally witnessed a case of a sub-prime lender who wrote a mortgage with a 30-year amortization schedule and a three-year balloon payment. With a high interest rate, excessive fees, closing costs and points, the original mortgage was onerous enough. After three years, however, the borrower was backed into a corner where she faced a second round of fees in order to refinance the increasing debt. This borrower, and others like her, will never have an opportunity to realize equity in their homes. And in many cases, they will face the loss of their homes through foreclosure.

The proposed legislation provides a level of protection for borrowers, enabling them to accrue equity and, in time, refinance through a more conventional lower-rate mortgage in the prime market.

Pre-payment Penalties

We have been able to assist some homebuyers who are behind on their mortgage payments due to economic difficulties, or who find themselves victims of abusive practices. But our hands are tied when borrowers face excessive pre-payment penalties. The proposed 3-year limitation, coupled with the step-down fee structure, will help to balance the need for responsible lenders to make a reasonable profit with the need to help borrowers liberate themselves from expensive mortgage payments and get back into the prime market.

Prepaid finance charges

A prime or conventional loan incurs fees of up to two percent. A five percent cap provides a substantial cushion that allows lenders to cover the cost of doing business in a sub-prime market.

Frequent refinancing has been an abusive practice that has driven people out of their homes. Each time, the borrower is hit with more fees, and rolled back into a mortgage that strips what little equity there might be in the home. It is important that maximum fee limitations pertaining to refinancing refer to a period longer than two years—preferably at least five years.

Incidental Insurance

The proposed legislation appears to cluster all additional costs, including credit life, accident or other insurance, under the prepaid financing charge cap. We have found that the cost of insurance can be hidden over time and we are concerned that all "loopholes" be closed so that any insurance costs, whether paid up front, paid over time, financed, or paid to a third party, be restricted. It is important that the cost of this insurance be included in the calculation of a person's debt.

In addition, borrowers have informed us that they were told that credit life insurance could be cancelled during the term of the loan, only to find out later that cancellation was either not possible, or resulted in a miniscule refund, compared to the premium that was paid. In cases where insurance is required, full and complete disclosure must be made to the buyer, in writing, to avoid any possible misunderstanding or misrepresentation.

Reporting Payment History

One way that borrowers remain tied to a given lender is if no one else will lend to them. We have worked with borrowers who have attempted to rebuild their credit histories by creating a pattern of timely payments, but who have learned that their good loan performance is not reported. Reporting of loan payments should be required. Legislation should require such reporting on a regular basis, well beyond the period covered by the fee cap. It is important that favorable payment history be reported at least once every quarter and at least as frequently as unfavorable history.

Advertising

Some lenders put so much emphasis on the monthly mortgage payment that potential borrowers are oblivious of the total cost of the loan. Payments that are entirely reasonable on a loan with a 15-year term would be exorbitant if the loan were to extend for 30 years. Although federal truth-in-lending laws require such disclosure when a loan application is processed, it is important that the number of monthly payments and total amount paid over time be disclosed clearly in advertising and promotional material as well.

Excessive Interest Rates

Risk-based pricing is an essential tool for assuring a stable capital market. At the same time, it is very important to prohibit rates that are excessive, given current market interest rates. Rates in the 18-21 percent range are either outright usury, or indicate that a given lender should have not been making the loan in the first place. If a borrower is too weak, taking on additional debt will only compromise his or her financial position further. There is a point where the risk is so high that a loan simply should not be made. Lending practices based solely on a borrower's equity position must stop at once.

Payoff statements

Payoff statements should be required on a timely basis, as provided in the proposed legislation. It is also important that the first payoff statement be issued without charge. Lenders should not be required to provide numerous statements without being able to recoup their costs. The fee for additional statements should be reasonable, and in line with the actual cost of preparing the statements.

Reverse Mortgages

Responsible reverse mortgages are an important tool in the lending marketplace, especially for elderly citizens. By their nature, they must be considered apart from conventionally amortizing loans. At the same time, borrowers seeking reverse mortgages deserve protection from abusive lending practices including excessive fees, extraneous insurance, inadequate disclosures and slow reporting. Such protections should be included in the legislation.

The Future

Legislative action is an important approach to combat abusive lending practices. NeighborWorks® programs in Connecticut stand ready to help with four complementary efforts. First, we will continue to offer high quality homebuyer education and counseling, increasing the number of borrowers able to make informed decisions. These borrowers will be able to decline the offers of predatory lenders. Second, we will continue to support homebuyer clubs. Third, we will continue to offer housing rehabilitation assistance for first-time homebuyers, blighted properties, and low- to moderate-income homeowners. Finally, we will continue to work in partnership with traditional lenders, offering products that will serve the sub-prime market, helping them to expand their markets as much as possible.

We commend the work that has been done to address the issues of abusive lending practices, while assuring the continued availability of credit for the sub-prime market. I urge the Committee to review the proposed legislation, and consider how beneficial it will be to support responsible lending practices throughout Connecticut.

Thank you very much for your time and consideration.

Sincerely,

James A. Paley, Ph.D.
President

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NeighborWorks®
PROGRAM

Analyzing Trends in Subprime Originations:
A Case Study of Connecticut

September 2000

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NeighborWorks® Campaign for Home Ownership 2002

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NEIGHBORHOOD REINVESTMENT CORPORATION,
THE NEIGHBORWORKS® NETWORK AND
THE NEIGHBORWORKS® CAMPAIGN FOR HOME OWNERSHIP 2002

Neighborhood Reinvestment Corporation was established by an act of Congress in 1978 (Public Law 95-557). A primary objective of the Corporation is to increase the capacity of local community-based organizations to revitalize their communities, particularly by expanding and improving housing opportunities.

These local organizations, known as NeighborWorks® organizations, are independent, resident-led, nonprofit partnerships that include business leaders and government officials. All together they make up the NeighborWorks® network. A list of Network organizations is in the appendix.

The NeighborWorks® Campaign for Home Ownership 2002 is the largest national initiative of its kind: a joint effort by private industry and government working with community-based NeighborWorks® organizations to bring more families into home ownership. NeighborWorks® organizations participating in the campaign use the NeighborWorks® Full-Cycle Lending℠ system. Under this system, prepurchase education, innovative loan products and early-intervention delinquency counseling are combined into a system that helps create successful homebuyers who take charge of their neighborhoods as well as their homes.

This publication, *Analyzing Trends in Subprime Originations: A Case Study of Connecticut*, was prepared by J. Michael Collins, Neighborhood Reinvestment Corporation, based on a model by Debbie Gruenstein and Christopher E. Herbert of Abt Associates.

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TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

INTRODUCTION 2

TRENDS IN SUBPRIME ORIGINATIONS 3

Overall Trends in Connecticut 3

TRENDS IN SUBPRIME LENDING BY NEIGHBORHOOD INCOME LEVEL 4

TRENDS IN SUBPRIME LENDING, BY NEIGHBORHOOD RACIAL COMPOSITION 7

TRENDS BY BORROWER INCOME 9

APPENDIX 13-19

Using HMDA Data To Track Subprime Lending 13

"Curbing Predatory Lending" - HUD-Treasury Task Force Recommendations 13

TABLE 1: 1996 & 1998 HOME MORTGAGE DISCLOSURE ACT DATA FOR CONNECTICUT 15

TABLE 2: 1996 & 1998 HOME MORTGAGE DISCLOSURE ACT DATA FOR CONNECTICUT 16

TABLE 3: 1996 & 1998 HOME MORTGAGE DISCLOSURE ACT DATA FOR CONNECTICUT 17

TABLE 4: 1996 & 1998 HOME MORTGAGE DISCLOSURE ACT DATA FOR CONNECTICUT 18

TABLE 5: AREAS ANALYZED BY COUNTY AND TOWN NAME 19

EXECUTIVE SUMMARY

This study uses available data to examine the growth of subprime lending in the state of Connecticut. Nationally, subprime lending for home mortgages has grown rapidly during the 1990s, with recent estimates indicating that this market segment accounted for about $200 billion in new loans by the end of the decade. The growth in subprime lending expands borrowing opportunities for those with impaired credit, and it may increase home-ownership opportunities for those who might otherwise not qualify for a conventional — or perhaps any — mortgage. However, subprime loans carry higher interest rates and therefore create a greater payment burden for the borrower. And the rise in subprime lending has also been associated with a growth in predatory lending practices, in which lenders use misleading or fraudulent means to lure borrowers into loans with high interest rates and high fees that rob owners of their equity and threaten their ability to maintain ownership. Subprime lending is also much more prevalent in low-income and minority communities, threatening the stability of these communities. As a result, this study not only analyzes not only subprime lending trends in Connecticut and its metropolitan areas, but also examines trends in neighborhoods of different income levels and racial composition.

Data reported under the Home Mortgage Disclosure Act (HMDA) can be used to analyze trends in home loan origination and can provide valuable information on subprime lending trends at the neighborhood level. Analysis of HMDA data for the Connecticut area for the period 1996 to 1998 reveals that:

- Loan originations by lenders specializing in subprime loans increased over 42 percent between 1996 and 1998, compared to the growth of all loan originations by only 17 percent.

- The share of all originations accounted for by subprime lenders more than doubled in several areas between 1996 and 1998. In New Haven-Meriden, for example, subprime shares increased from 6 percent and climbed to 15 percent of all loan originations.

- The growth in subprime lending was much more significant for properties in low-income and minority neighborhoods than for properties in other kinds of neighborhoods. Between 1996 and 1998, subprime lending grew by 62 percent in very-low-income neighborhoods (where the median household income is less than 50 percent of the area median) and by 46 percent in low-income areas (where median income is between 50 percent and 80 percent of the area median). In neighborhoods where more than half the residents are minority group members, subprime lending increased by over 85 percent.

- The market share of subprime lenders is also significantly higher in low-income and largely minority communities. By 1998, subprime lenders accounted for 15 percent of all originations in very-low-income neighborhoods — 2.5 times the subprime market share in Connecticut overall. In largely minority areas, subprime lenders accounted for 25 percent of all originations in 1998 — more than four times their share for the entire state.

- Lending by subprime specialists is even more intense among the lowest-income borrowers — those least able to afford the high costs of subprime loans. Yet, between $63 and $220 million in subprime loans might qualify for lower-cost, traditional prime loans.

INTRODUCTION

One of the most striking features of home finance in the late 1990s was the rapid growth of subprime lending. The term "subprime" generally refers to loans made to borrowers who have low credit ratings, but it also includes loans with very high loan-to-value ratios. Prior to the 1990s, there were few borrowing options for homeowners with impaired credit. Fannie Mae and Freddie Mac (the government-sponsored, secondary-market enterprises, or GSEs) would not purchase loans that did not meet their underwriting standards, and portfolio lenders were generally reluctant to take on the greater risks of such loans. But with the advent of securitization of all types of financial assets, mortgage bankers were able to tap the broader financial markets for funds to make loans that did not meet the conventional underwriting criteria of the GSEs or depositories. Meanwhile, technology has expanded lenders capacity to assess risk and credit, as well as to find and target households outside mainstream financial institutions. Estimates by the Mortgage Bankers Association indicate that subprime lending grew from $80 billion in 1993 to $210 billion in 1998, an increase of 162 percent in just five years.

One of the characteristics of subprime loans is that they bear higher rates of interest than prime (or conventional) loans. The higher rate of interest is due both to the greater credit risk of these loans and the fact that most conventional loans benefit from favorable interest rates available through the GSEs. At the same time that subprime lending has been growing, the mortgage industry has also been developing more-sophisticated methods for assessing the degree of credit risk associated with different loan and borrower characteristics. Subprime lending is thus also related to the development of risk-based pricing, in which borrowers theoretically will be charged the interest rate that is appropriate to the level of risk associated with their loan.

There are both positive and negative aspects to the development of the subprime mortgage market and of risk-based pricing generally. On the one hand, these developments have increased options for borrowers who do not qualify for conventional loans. Many industry observers have touted the advent of risk-based pricing as a way of expanding home-ownership opportunities for borrowers who otherwise would be excluded from the market. On the other hand, the ability to charge borrowers much higher interest rates introduces greater possibilities for unscrupulous lenders to take advantage of borrowers. The term predatory lending has been coined to describe the abusive practices used by some lenders to lure borrowers into loans that charge excessive interest rates and fees, and leave borrowers with such unmanageable financial burdens that they are likely to end up losing their homes.[1]

While not all subprime lending is predatory, subprime and predatory loans share the distinction of charging borrowers interest rates that are higher than conventional rates. Furthermore, even subprime loans that are not marked by excessive costs or deceptive practices will expose borrowers to higher risks than conventional loans due to the higher financial burden they entail. Thus, paradoxically, the higher interest rates that are imposed on the supposedly higher-risk recipients of subprime loans actually increase the risk that these borrowers will be unable to repay their loans.

[1] For a thorough discussion of lender actions that may be defined as predatory see Deborah Goldstein, "Understanding Predatory Lending: Moving Toward a Common Definition and Workable Solutions," Neighborhood Reinvestment Corporation and the Joint Center for Housing Studies of Harvard University, October 1999. See also Unequal Burden: Income and Racial Disparities in Subprime Lending in America, U.S. Department of Housing and Urban Development, April 2000.

The Office of Thrift Supervision (OTS), one of the agencies charged with regulating financial institutions recently wrote in the June 2000 issue of Mortgage Market Trends (Vol. 4, Issue 1) "OTS is questioning whether some subprime borrowers have access to the same information and options as borrowers in the traditional prime market, and as a result, may not be in a position to negotiate effectively for themselves."

Housing and community advocates have become increasingly alarmed as they have seen more and more borrowers lose their homes as a result of predatory lending practices. In many cases, the lenders appear to have targeted low-income and minority areas.[2] As a result, the foreclosures are not just wreaking havoc on the lives of individual borrowers, they may also be destabilizing low-income and minority communities.

The study relies on Home Mortgage Disclosure Act (HMDA) data on loan originations to provide empirical information on the following questions:

- What has been the trend in the volume of subprime home loan originations in Connecticut?
- How concentrated has subprime home loan lending been in low-income and minority neighborhoods?

It is important to note that, while the concern about subprime lending is largely focused on predatory lending practices, it is not possible with the data available to distinguish between prudently employed risk-based pricing and predatory lending. However, based on a characterization of lenders' principal lending activities, we can — to some degree — identify subprime loans. As a result, while this study is motivated by concerns about predatory lending, it focuses more generally on subprime lending.

TRENDS IN SUBPRIME ORIGINATIONS

Overall Trends in Connecticut

Finding: *An analysis for the state of Connecticut shows that loans by lenders specializing in subprime loans grew by more than 42 percent from 1996 to 1998, accounting for more than six percent of all loan originations.*

Between 1996 and 1998, HMDA-reported loan originations in Connecticut increased by 17 percent (Exhibit 1), from around 85,000 to almost 99,000. At the same time, subprime originations increased from 4,327 to 6,155, an increase of 42 percent. These disparate growth rates resulted in a rise of the subprime share of all originations, from 5.1 percent in 1996 to 6.2 percent in 1998. Connecticut is not isolated in these trends. In fact, nationally subprime lending accounts for approximately 9 percent of all mortgage lending, and grew nearly 300 percent from 1996 to 1998.[3]

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2 For a discussion of the concentration of subprime lending in low-income and minority communities see Daniel Immergluck and Marti Wiles, "Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development." Woodstock Institute, Chicago, IL, November 1999.

3 Joint Center for Housing Studies, Harvard University, State of the Nation's Housing 2000

Exhibit 1

Subprime Lenders' Share of HMDA Loans, 1996-1998			
Year	Total HMDA Lending	Subprime Lending	Subprime Share
1996	84,799	4,327	5.1%
1998	98,970	6,155	6.2%
% Change	17%	42%	22%

Source: Tabulations of HMDA data.

TRENDS IN SUBPRIME LENDING BY NEIGHBORHOOD INCOME LEVEL

Finding: *Analysis at the neighborhood level shows that growth in subprime lending is strongest in low- and very-low income neighborhoods. In addition, subprime lenders' share of all lending is highest and growing fastest in low-income areas.*

One of the concerns about the subprime market is that lenders have targeted their marketing efforts to low-income neighborhoods. In order to determine lending activity within various types of communities, we combined HMDA data, which identifies the Census tract for each loan, with Census data on median income by tract. Loans were then divided into four categories based on median income:[4]

- **High-income** tracts are those with a median income greater than 120 percent of the median income of the metropolitan area[5];
- **Moderate-income** tracts have median incomes between 80 and 120 percent of the area median income;
- **Low-income** tracts have median incomes between 50 and 80 percent of the area median; and
- **Very low-income** tracts have incomes less than 50 percent of area median income.

4 A small share (less than one percent) of HMDA loans could not be matched with income information, either due to missing tract information in HMDA or because the tract numbers that were listed in HMDA were not recognized by the Census database.

5 Based on a MSA median incomes from the 1990 Decennial Census. State medians are used in non-metro areas.

One interesting feature of subprime lending trends was that growth in subprime loans was much higher in lower income neighborhoods (Exhibit 2). Between 1996 and 1998, the volume of subprime lending in moderate-income neighborhoods increased by 31 percent. But subprime originations in low-income neighborhoods grew even faster, with lending activity up by 46 percent in low-income tracts and 62 percent in very-low income tracts. Meanwhile subprime lending in high-income neighborhoods actually declined.

Exhibit 2

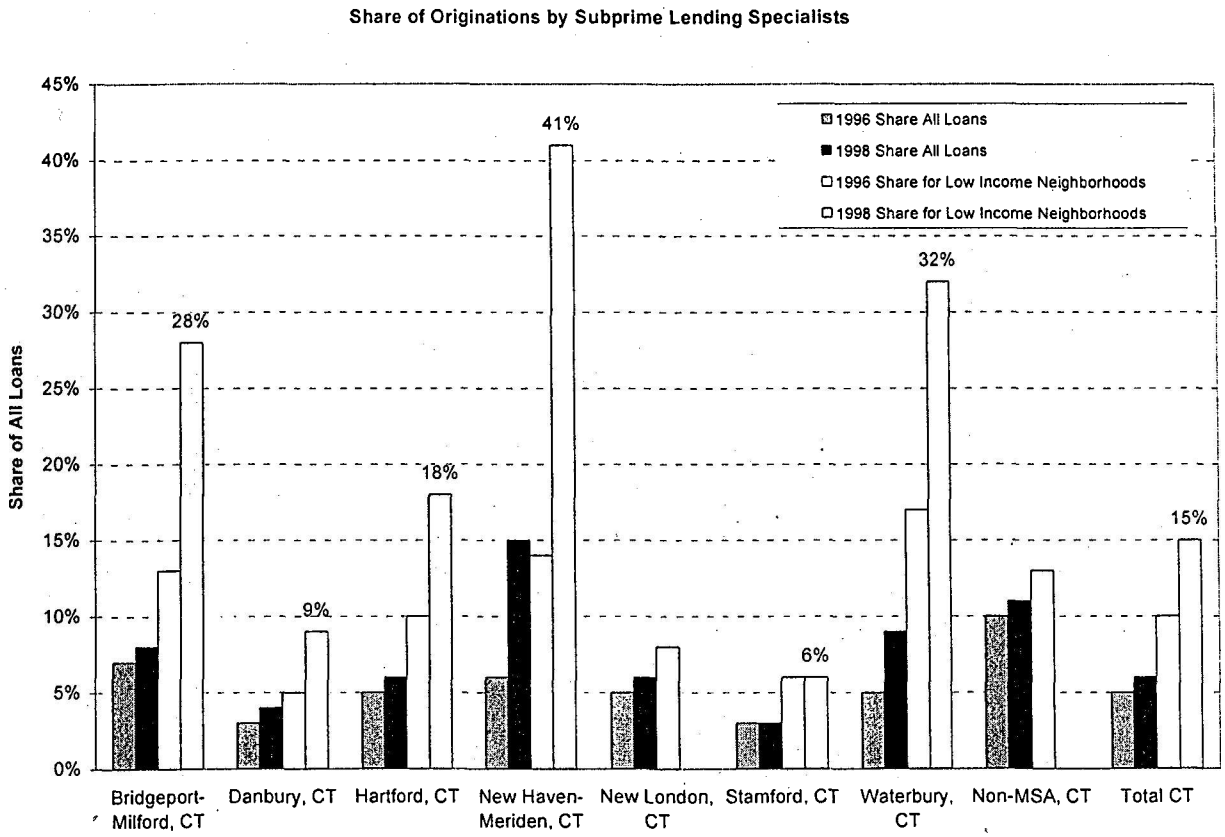
Subprime HMDA Loans, 1996-1998										
	Neighborhood Income Level									
	Very Low Income		Low Income		Moderate Income		High Income		All	
	1996	*1998*	*1996*	*1998*	*1996*	*1998*	*1996*	*1998*	*1996*	*1998*
All Loans	7,667	8,252	47,393	52,170	28,833	38,167	906	381	84,799	98,970
Subprime Specialist	758	1,229	2,407	3,503	949	1,242	213	181	4,327	6,155
% Growth of All		8%		10%		32%		-58%		17%
% Growth of Subprime		62%		46%		31%		-15%		42%

Source: Tabulations of HMDA data.

The concentration of subprime loans in low-income communities is especially striking in many cities. In very-low-income neighborhoods, the share of all loans originated by subprime lenders grew dramatically in Connecticut overall, and particularly in areas such as Bridgeport, Hartford, New Haven-Meriden and Waterbury.[6]

Exhibit 3

Subprime HMDA Loans, 1996–1998 by Neighborhood Income Level



Source: tabulations of HMDA data.
Note: See Appendix for loan volumes.

6 See Appendix 1 for volumes of total and subprime refinance activity in metropolitan areas in Connecticut.

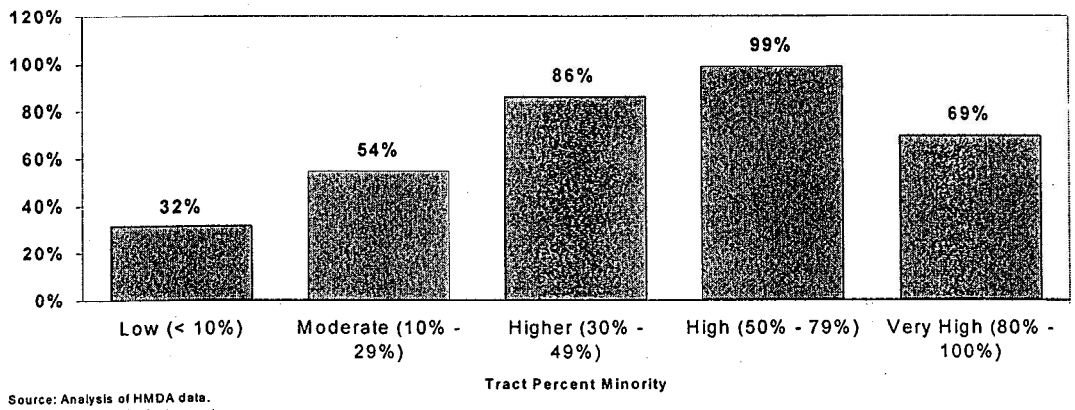
TRENDS IN SUBPRIME LENDING, BY NEIGHBORHOOD RACIAL COMPOSITION

Finding: *As with income, both the growth rate of subprime originations and the subprime market share of all lending are highest in neighborhoods with high concentrations of minorities.*

The same methodology used to categorize loans into income groups can allow for classification of areas by racial composition.[7] Based on Census tract information on population by race, categories of racial composition by neighborhood have been created.[8] Considering the high degree of correlation between income and race, it is not surprising that subprime lending growth rates and market shares appear to be highest in high-minority neighborhoods.

Exhibit 4

Growth in Subprime Originations 1996-98 by Neighborhood Racial Composition



Source: Analysis of HMDA data.
Note: See Appendix for loan volumes.

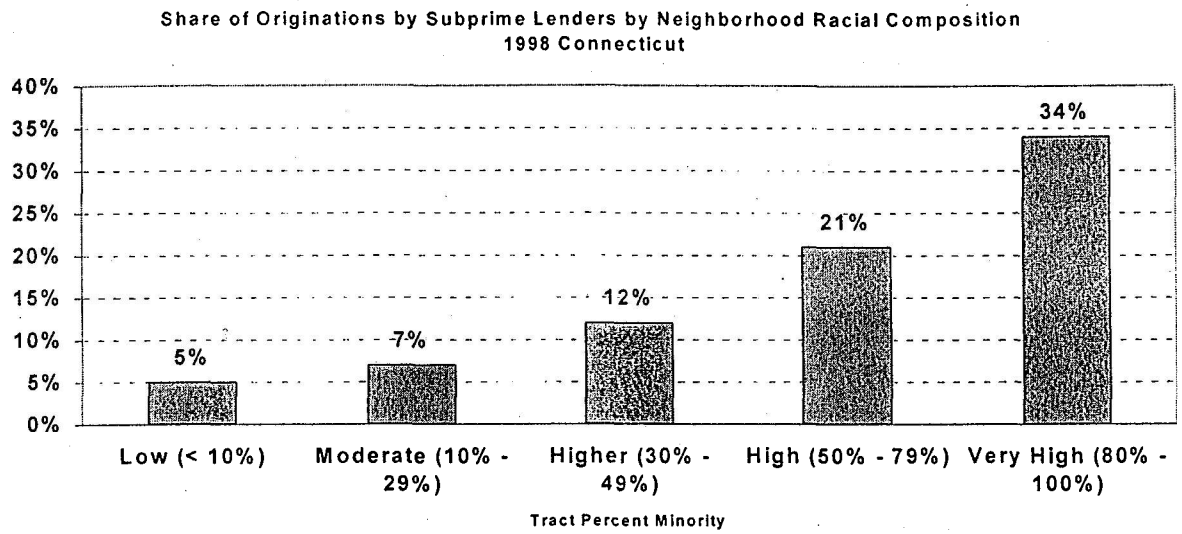
While the level of subprime originations grew very strongly in each racial composition category, subprime lending activity grew by 86 to almost 100 percent in the high-minority tracts (Exhibit 4).

In addition, the market share of total loan originations comprised by subprime lenders was highest in neighborhoods with high proportions of minority residents (Exhibit 5). While subprime lending remained between 5 percent and 7 percent of all lending in low- and moderately low-minority communities in 1998, more than one out of every three loans made in high-minority neighborhoods was made by subprime lenders.

7 A small share (less than one percent) of HMDA loans could not be matched with information on racial composition, due to missing tract information in HMDA.

8 Minorities are defined here as any non-whites, including whites of Hispanic origin.

Exhibit 5



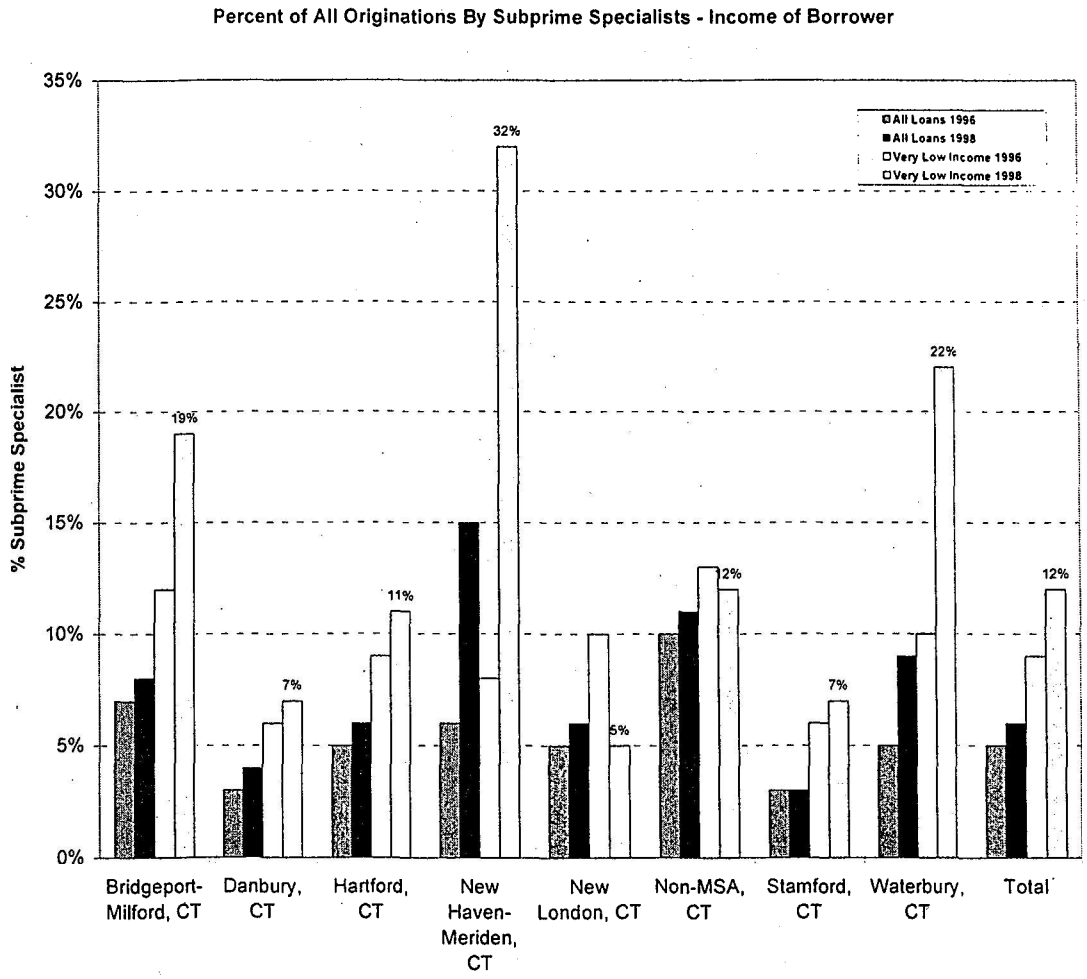
Source: Analysis of HMDA data.
Note: See Appendix for loan volumes.

TRENDS BY BORROWER INCOME

Finding: *As with neighborhood characteristics, both the growth rate of subprime originations and the subprime market share of all lending are highest in among mortgage borrowers with lower incomes.*

HMDA data not only disclose lending activity by neighborhood, but also by income of the loan applicant. While 6 percent of borrowers turn to subprime lenders statewide, very-low-income borrowers turned to these lenders at twice the rate in 1998 (Exhibit 6). In a few cities, very-low-income borrowers used subprime lenders at much higher rates, such as in Bridgeport-Milford (19 percent of very low-income borrowers used subprime lending specialists), Waterbury (22 percent of very low-income borrowers used subprime specialists), and New Haven-Meriden (32 percent of very-low-income borrowers used subprime specialists).

Exhibit 6



Finding: *Borrowers with lower incomes are struggling to obtain mortgage loans, despite the expansion of credit provided by subprime lending.*

HMDA data also allow an analysis of how each loan application was handled by financial institutions. The share of applications in each income group can be broken out into those loans that were either submitted in an incomplete form, withdrawn by the applicant or denied by the lender.

These data explain two issues. First, it demonstrates that many low-income applicants are ill-prepared for the mortgage loan application process. These are consumers who might benefit from counseling and education before submitting an application. Second, if subprime lending has created a new outlet for borrowers considered either more risky or unconventional by lenders, the share of these applicants denied or withdrawn would likely drop as subprime lending increased access to capital to this population. Yet, rates of denial are almost unchanged among lower-income groups, and withdrawn/incomplete rates have actually increased.

Exhibit 7

HMDA Loan Applications 1996, 1998				
	Percentage of Loan Applications			
	Withdrawn or Incomplete		Denied	
Income Group	1996	1998	1996	1998
< 50% MSA Median	11%	18%	29%	28%
50% - 79% MSA Median	10%	14%	19%	19%
80% - 119% MSA Median	9%	12%	15%	15%
120% & > MSA Median	9%	10%	11%	10%

Source: Tabulations of HMDA data.

CONCLUSION

This study reveals that subprime lending activity in Connecticut has grown rapidly in recent years, both in terms of volume and market share. Alarmingly, the growth in lending by subprime specialists has been strongest and the market share of subprime lenders highest in low-income neighborhoods, in neighborhoods with high concentrations of minority residents and among lower-income borrowers. Furthermore, since HMDA does not contain information for all loan originations, this analysis probably underestimates the true level of subprime lending activity (see Appendix).

However, there are limitations to the conclusions that can be drawn from these findings. First, loan originations by subprime lenders are only a proxy for predatory lending activity. Without information on interest rates, fees, or other underwriting criteria, it is impossible to identify potentially predatory loans. More importantly, without information on the consequences of the increase in subprime originations, such as the growth in subprime foreclosures, the threat of increased subprime lending to the stability of Connecticut communities is unknown. Therefore, an evaluation of trends in foreclosures in the entire metropolitan area, as well as foreclosure trends in low-income and minority neighborhoods, is a necessary next step in an analysis of predatory lending in Connecticut. Every study of local foreclosure rates and subprime lending completed to date, however, shows that foreclosure rates of subprime loans are significantly higher, particularly in low-income and minority areas.[9]

Even if these loans are prudently underwritten, devoid of any predatory characteristics, borrowers using subprime specialists often pay a premium. While a conventional, A-quality loan might require an 8 percent annual interest rate, a subprime, "B/C" quality loan might charge 11 or 12 percent.[10] This will result in a $2,245 larger annual housing payment for a $70,000 loan for a typical family.

Exhibit 8

Cost of High-Interest Rate Subprime Loans	
Buyer with $70,000 Mortgage	
	Annual Mortgage Payment
8% Interest Rate	$ 6,001
11.5% Interest Rate	$ 8,246
Difference	$ 2,245

[9] See the HUD-Treasury Predatory Lending Task Force report "Curbing Predatory Home Mortgage Lending" [http://www.hud.gov/pressrel/treasrpt.pdf]

[10] Mortgage Information Corporation, Market Pulse, 3rd Quarter 1999 Issue, estimates 17 percent of subprime borrowers pay more than 4 percentage points above prime rates.

In fact, studies show some borrowers using subprime lenders may have qualified for a more conventional, lower cost mortgage. Research by Freddie Mac in 1996 found, however, that anywhere between 10 and 35 percent of subprime borrowers could have qualified for prime loans.[11] Another study shows that while most white borrowers are able to assess their credit worthiness accurately, only 49 percent of African-Americans with good credit thought their credit was good. While 76 percent of prime borrowers strongly agreed that they were in control of their finances, only 57 percent of subprime borrowers felt the same. More than 28 percent of subprime borrowers said they did not shop for mortgage rates at all, compared to 13 percent of prime borrowers.[12] Meanwhile industry analysts have shown that up to three-quarters of subprime borrowers are so-called "A-" credit quality - borrowers who may be able to easily improve their credit over a few months of counseling.[13]

Using the estimate that 10 to 35 percent of subprime borrowers may qualify for lower-cost loans, Exhibit 9 shows, between $63 million and $220 million in mortgage loans made by subprime lenders could have been made by lower-cost, more traditional lenders in 1998.

As many as 2,150 families could be paying lower monthly payments for their mortgage loan in Connecticut, saving them thousands of dollars annually.

Exhibit 9

1998 Loans by Subprime Specialist Reported in HMDA by Purpose							
Purpose	Loans	Average Value	Total Value	Estimated Value of Loans Qualifying for Conventional Terms			
				Low Estimate: 10%		*High Estimate: 35%*	
Type of Loan				Total $	Loans	Total $	Loans
Purchase	1,632	$102,667	$167,553,034	$16,755,303	163	$58,643,562	571
Home Improvement	462	$32,329	$14,935,998	$1,493,600	46	$5,227,599	162
Refinancing	4,050	$110,332	$446,845,005	$44,684,501	405	$156,395,752	1,418
Total	6,144	$245,328	$629,334,037	$62,933,404	614	$220,266,913	2,150

These findings underscore the importance of pre- and post-purchase homebuyer counseling and financial literacy programs, as well as affordable lending programs, in low-income and minority communities. Institutions and individuals concerned with access to credit, as well as the economic development of low-income families and neighborhoods, need to keep a careful watch on this market, while supporting appropriate policy and programmatic interventions.

11 Peter Mahoney and Peter Zorn 1996 Mortgage Market Trends Promise of Automatic Underwriting SMM Vol. 14 #2 July 1997.
12 Freddie Mac. 1997. "Consumer Knowledge and Confidence." Unpublished survey, Gallop Organization.
13 "Correspondents Reign Supreme in 1999", Inside B&C Lending, March 10, 2000.

APPENDIX

Using HMDA Data To Track Subprime Lending

This analysis of loan originations in Connecticut relies on data collected under the 1974 Home Mortgage Disclosure Act (HMDA). HMDA mandates that lenders disclose certain information on their home mortgage applications, including the race, Census tract, and income of borrowers and the action taken on the application. However, not all financial institutions are required to report this information. HMDA compliance is mandatory only for lenders that meet certain annual loan-volume and asset-size requirements and originate loans in metropolitan areas.[14] In addition, HMDA reporting is not mandated for all types of loans. While lenders must disclose information for first mortgages, refinancing of first mortgages, and home improvement loans, second mortgages and home equity loans[15] are not subject to HMDA reporting requirements. Subprime loans may be first mortgages used either to purchase a home or to refinance an existing first mortgage (and possibly consolidate other consumer debts into the new first mortgage). But many subprime loans are second mortgages used to tap home equity for purposes other than home improvements. As a result, it is likely that many subprime loans are not reported in HMDA. So, while HMDA is the best-available information source on lending activity at a local level, it provides conservative estimates of subprime activity.

Identifying subprime loans from HMDA data is not a straightforward task. One simple definition of a subprime loan is whether it meets the underwriting criteria used by the GSEs.[16] Another method of identifying a subprime loan would be based on the interest rate or fees charged. Unfortunately, HMDA does not contain the information needed to assess either of these factors. As a result, loans as reported under HMDA can be categorized as subprime based only on lender, rather than loan, characteristics. Using information from a variety of sources, the Department of Housing and Urban Development (HUD) has identified the lenders reporting under HMDA that specialize in subprime lending. This study uses this HUD list of subprime lenders reporting in HMDA to identify subprime loans.[17] This method appears to capture a significant portion of subprime loans reported in HMDA, but it certainly does not identify all subprime loans. Many primarily conventional lenders have entered the subprime market. The method used to identify subprime loans for this study will not encompass these subprime loans made by conventional lenders.

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14 For a thorough discussion of HMDA reporting requirements see "A Guide to HMDA Reporting: Getting It Right!," Federal Financial Institutions Examination Council, 1998.

15 HMDA reporting of second mortgages and home equity loans is required if they are used for purchase or home improvement and are carried on lender's books as such. However, if the lender does not classify these loans as home improvement or purchase, they are not subject to HMDA reporting requirements.

16 A loan may not meet the GSEs' underwriting criteria because it exceeds the GSE limit on the size of loans they can purchase. Of course, loans which exceed the GSE loan limits ("jumbo" loans) may in all other respects be considered prime loans and so would not be counted as subprime.

17 For a thorough discussion of the methodology used by HUD to identify subprime lenders see Randall M. Scheessele, *1998 HMDA Highlights*, Appendix D, U.S. Department of Housing and Development, Office of Policy Development and Research, Housing Finance Working Paper Series HF-009, 1999. In short, Scheessele developed annual lists first by using trade magazines and industry sources to identify subprime lenders. Next, he created a set of lender characteristics (such as high-denial rates, high refinance rates, large amounts of missing data, low percentage of FHA originations or GSE sales, etc.) to screen HMDA data for possible subprime lenders. Finally, Scheessele attempted to speak with each of these potential subprime lenders to verify the characterization of their lending activity. Scheessele classified institutions as subprime if 50 percent or more of originations were subprime.

"Curbing Predatory Home Mortgage Lending," from HUD-Treasury Task Force on Predatory Lending Report[18]

Based on information gathered at five field forums by the joint HUD-Treasury Task Force on Predatory Lending, the report, "Curbing Predatory Home Mortgage Lending," proposes a four-point plan to address predatory lending practices:

- Improve Consumer Literacy and Disclosures. Creditors should be required to recommend that high-cost loan applicants avail themselves of home mortgage counseling, disclose credit scores to all borrowers upon request and give borrowers more timely and more accurate information as to loan costs and terms.

- Prohibit Harmful Sales Practices in the Mortgage Market. Practices such as loan "flipping" and lending to borrowers without regard to their ability to repay the loan should be banned. New requirements should be imposed on mortgage brokers to document the appropriateness of a loan for high-cost loan applicants, and lenders who report to credit bureaus should be required to provide "full-file" payment history for their mortgage customers.

- Restrict Abusive Terms and Conditions on High-Cost Loans. We recommend that Congress increase the number of borrowers in the subprime market covered by legislative protections; further restrict balloon payments on high-cost loans; restrict prepayment penalties and the financing of points and fees; prohibit mandatory arbitration agreements on high-cost loans; and ban lump-sum credit life insurance and similar products.

- Improve Market Structure. Award Community Reinvestment Act (CRA) credit to banks and thrifts that promote borrowers from the subprime to prime mortgage market, and to deny CRA credit to banks and thrifts for the origination or purchase of loans that violate applicable lending laws.

[18] See the HUD-Treasury Predatory Lending Task Force report "Curbing Predatory Home Mortgage Lending" [http://www.hud.gov/pressrel/treasrpt.pdf]

APPENDIX TABLE 1: 1996 & 1998 HOME MORTGAGE DISCLOSURE ACT DATA FOR CONNECTICUT

Type of Mortgage Loan		Home purchase (1-4 Unit)		Home improvement (1-4 Unit)		Refinancing (1-4 Unit)		Multi-family dwelling (4+ Unit)		Total	
		1996	1998	1996	1998	1996	1998	1996	1998	1996	1998
Bridgeport-Milford, CT	*All Loans*	5,860	5,758	1,568	1,015	4,297	8,540	10	13	11,735	15,326
	Subprime Specialist	325	339	57	114	443	836	0	1	825	1,290
	% Subprime	6%	6%	4%	11%	10%	10%	0%	8%	7%	8%
Danbury, CT	*All Loans*	3,615	4,875	755	546	2,625	7,231	7	11	7,002	12,663
	Subprime Specialist	59	130	13	40	145	365	1	0	218	535
	% Subprime	2%	3%	2%	7%	6%	5%	14%	0%	3%	4%
Hartford, CT	*All Loans*	13,970	15,030	3,857	3,041	9,837	20,061	37	60	27,701	38,192
	Subprime Specialist	379	650	150	210	749	1,478	2	7	1,280	2,345
	% Subprime	3%	4%	4%	7%	8%	7%	5%	12%	5%	6%
New Haven-Meriden, CT	*All Loans*	6,113	1,326	1,653	408	4,003	2,312	27	6	11,796	4,052
	Subprime Specialist	222	151	51	12	447	448	1	0	721	611
	% Subprime	4%	11%	3%	3%	11%	19%	4%	0%	6%	15%
New London, CT	*All Loans*	3,249	208	1,206	55	2,522	349	5		6,982	612
	Subprime Specialist	104	13	44	2	211	23	1		360	38
	% Subprime	3%	6%	4%	4%	8%	7%	20%		5%	6%
Non-MSA, CT	*All Loans*	1,523	1,547	556	262	1,356	2,376	7	6	3,442	4,191
	Subprime Specialist	135	157	50	23	156	263	0	1	341	444
	% Subprime	9%	10%	9%	9%	12%	11%	0%	17%	10%	11%
Stamford, CT	*All Loans*	5,320	7,158	992	961	4,977	12,958	19	53	11,308	21,130
	Subprime Specialist	111	117	15	49	221	461	0	2	347	629
	% Subprime	2%	2%	2%	5%	4%	4%	0%	4%	3%	3%
Waterbury, CT	*All Loans*	2,590	1,086	578	215	1,660	1,499	5	4	4,833	2,804
	Subprime Specialist	43	75	49	12	143	176	0	0	235	263
	% Subprime	2%	7%	8%	6%	9%	12%	0%	0%	5%	9%
	All Loans	42,240	36,988	11,165	6,503	31,277	55,326	117	153	84,799	98,970
	Subprime Specialist	1,378	1,632	429	462	2,515	4,050	5	11	4,327	6,155
	% Subprime	3%	4%	4%	7%	8%	7%	4%	7%	5%	6.2%

Subprime specialists are identified by HUD based on industry sources, denial rates, refinance share, and/or lender name. Excludes subprime loans for manufactured housing. For more information on subprime specialist definition see:

- *Canner and Passmore, "The Role of Specialized Lenders in Extending Mortgages to Lower-Income and Minority Homebuyers," Federal Reserve Bulletin, Nov. 1999, Appendix B.*
- *Randall M. Scheessele, 1998 HMDA Highlights, Appendix D, U.S. Department of Housing and Development, Office of Policy Development and Research, Housing Finance Working Paper Series HF-009, 1999.*

APPENDIX TABLE 2: 1996 & 1998 HOME MORTGAGE DISCLOSURE ACT DATA FOR CONNECTICUT

Loans by Neighborhood Racial Composition		< 10%		10% - 29%		30% - 49%		50% - 79%		80% - 100%		Not applicable		Total	
		1996	1998	1996	1998	1996	1998	1996	1998	1996	1998	1996	1998	1996	1998
Bridgeport-Milford, CT	*All Loans*	9,406	11,884	1,081	1,472	512	775	537	783	199	412			11,735	15,326
	Subprime Specialist	593	605	83	194	37	155	73	198	39	138			825	1,290
	% Subprime	**6%**	**5%**	**8%**	**13%**	**7%**	**20%**	**14%**	**25%**	**20%**	**33%**			**7%**	**8%**
Danbury, CT	*All Loans*	6,291	11,494	462	729	246	436	3	4					7,002	12,663
	Subprime Specialist	184	443	24	51	10	41	0	0					218	535
	% Subprime	**3%**	**4%**	**5%**	**7%**	**4%**	**9%**	**0%**	**0%**					**3%**	**4%**
Hartford, CT	*All Loans*	22,688	30,885	2,519	3,793	1,629	2,391	486	652	379	471			27,701	38,192
	Subprime Specialist	873	1471	127	286	119	298	51	140	110	150			1280	2,345
	% Subprime	**4%**	**5%**	**5%**	**8%**	**7%**	**12%**	**10%**	**21%**	**29%**	**32%**			**5%**	**6%**
New Haven-Meriden, CT	*All Loans*	9,243	3,381	1,093	268	961	250	345	98	154	55			11,796	4,052
	Subprime Specialist	449	395	59	44	115	90	56	42	42	40			721	611
	% Subprime	**5%**	**12%**	**5%**	**16%**	**12%**	**36%**	**16%**	**43%**	**27%**	**73%**			**6%**	**15%**
New London, CT	*All Loans*	5367	612	1336		214		65						6982	612
	Subprime Specialist	252	38	87		17		4						360	38
	% Subprime	**5%**	**6%**	**7%**		**8%**		**6%**						**5%**	**6%**
Non-MSA, CT	*All Loans*	2569	3826									873	365	3,442	4,191
	Subprime Specialist	131	265									210	179	341	444
	% Subprime	**5%**	**7%**									**24%**	**49%**	**10%**	**11%**
Stamford, CT	*All Loans*	7,565	13,916	2,256	4,236	1,133	2,314	315	585	39	79			11,308	21,130
	Subprime Specialist	181	280	81	155	52	120	26	62	7	12			347	629
	% Subprime	**2%**	**2%**	**4%**	**4%**	**5%**	**5%**	**8%**	**11%**	**18%**	**15%**			**3%**	**3%**
Waterbury, CT	*All Loans*	4,071	2,612	278	64	389	95	74	27	21	6			4,833	2,804
	Subprime Specialist	151	212	18	10	43	26	18	11	5	4			235	263
	% Subprime	**4%**	**8%**	**6%**	**16%**	**11%**	**27%**	**24%**	**41%**	**24%**	**67%**			**5%**	**9%**
Total	*All Loans*	67,200	78,610	9,025	10,562	5,084	6,261	1,825	2,149	792	1,023	873	365	84,799	98,970
	Subprime Specialist	2,814	3,709	479	740	393	730	228	453	203	344	210	179	4,327	6,155
	% Subprime	**4%**	**5%**	**5%**	**7%**	**8%**	**12%**	**12%**	**21%**	**26%**	**34%**	**24%**	**49%**	**5.1%**	**6.2%**

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APPENDIX TABLE 3: 1996 & 1998 HOME MORTGAGE DISCLOSURE ACT DATA FOR CONNECTICUT

		Tract Income as a Percent of MSA Median Income									
Loans by Neighborhood Income Level		< 50%		50-79%		80% - 119%		120%+		Total	
		1996	1998	1996	1998	1996	1998	1996	1998	1996	1998
Bridgeport-Milford, CT	*All Loans*	810	1,064	6,410	6,691	4,514	7,570	1	1	11,735	15,326
	Subprime Specialist	107	298	477	725	240	267	1	10	825	1290
	% Subprime	**13%**	**28%**	**7%**	**11%**	**5%**	**4%**	**100%**	**0%**	**7%**	**8%**
Danbury, CT	*All Loans*	687	1,104	4,377	8,199	1,938	3,360			7,002	12,663
	Subprime Specialist	34	100	138	355	46	80			218	535
	% Subprime	**5%**	**9%**	**3%**	**4%**	**2%**	**2%**			**3%**	**4%**
Hartford, CT	*All Loans*	1,965	2,396	17,430	22,917	8,276	12,864	30	15	27,701	38,192
	Subprime Specialist	203	435	847	1452	228	456	2	2	1280	2345
	% Subprime	**10%**	**18%**	**5%**	**6%**	**3%**	**4%**	**7%**	**13%**	**5%**	**6%**
New Haven-Meriden, CT	*All Loans*	1,408	417	6,087	2,177	4,301	1,458			11,796	4,052
	Subprime Specialist	200	171	365	299	156	141			721	611
	% Subprime	**14%**	**41%**	**6%**	**14%**	**4%**	**10%**			**6%**	**15%**
New London, CT	*All Loans*	793		3933		2254	612	2	1	6982	612
	Subprime Specialist	62		182		116	38	0		360	38
	% Subprime	**8%**		**5%**		**5%**	**6%**	**0%**		**5%**	**6%**
Non-MSA, CT	*All Loans*	89		2131	3057	349	769	873	365	3442	4191
	Subprime Specialist	12		113	227	6	38	210	179	341	444
	% Subprime	**13%**		**5%**	**7%**	**2%**	**5%**	**24%**	**49%**	**10%**	**11%**
Stamford, CT	*All Loans*	1,614	3,193	3,950	7,537	5,744	10,400			11,308	21,130
	Subprime Specialist	90	200	135	266	122	163			347	629
	% Subprime	**6%**	**6%**	**3%**	**4%**	**2%**	**2%**			**3%**	**3%**
Waterbury, CT	*All Loans*	301	78	3,075	1,592	1,457	1,134			4,833	2,804
	Subprime Specialist	50	25	150	179	35	59			235	263
	% Subprime	**17%**	**32%**	**5%**	**11%**	**2%**	**5%**			**5%**	**9%**
Total	*All Loans*	7,667	8,252	47,393	52,170	28,833	38,167	906	381	84,799	98,970
	Subprime Specialist	758	1,229	2,407	3,503	949	1,242	213	181	4,327	6,155
	% Subprime	**10%**	**15%**	**5%**	**7%**	**3%**	**3%**	**24%**	**48%**	**5%**	**6%**

APPENDIX TABLE 4:
1996 & 1998 HOME MORTGAGE DISCLOSURE ACT DATA FOR CONNECTICUT

Income of Borrower		Borrower Income as a Percent of MSA Median Income											
		< 50%		50-79%		80% - 119%		120%+		available		Total	
		1996	1998	1996	1998	1996	1998	1996	1998	1996	1998	1996	1998
Bridgeport-Milford, CT	*All Loans*	797	899	2,281	2,578	3,235	3,547	5,006	7,087	416	1,215	11,735	15,326
	Subprime Specialist	95	175	150	332	248	334	248	349	84	100	825	1290
	% Subprime	12%	19%	7%	13%	8%	9%	5%	5%	20%	8%	7%	8%
Danbury, CT	*All Loans*	533	921	1,532	2,565	1,976	3,336	2,773	5,077	188	764	7,002	12,663
	Subprime Specialist	31	67	56	153	51	166	46	119	34	30	218	535
	% Subprime	6%	7%	4%	6%	3%	5%	2%	2%	18%	4%	3%	4%
Hartford, CT	*All Loans*	1,834	2,435	6,415	8,097	8,446	10,216	9,993	14,638	1,013	2,806	27,701	38,192
	Subprime Specialist	168	276	350	674	395	667	312	558	55	170	1280	2345
	% Subprime	9%	11%	5%	8%	5%	7%	3%	4%	5%	6%	5%	6%
New Haven-Meriden, CT	*All Loans*	744	234	2514	721	3,580	1,056	4,580	1,682	378	359	11,796	4,052
	Subprime Specialst	61	74	162	177	222	182	235	167	41	11	721	611
	% Subprime	8%	32%	6%	25%	6%	17%	5%	10%	11%	3%	6%	15%
New London, CT	*All Loans*	379	21	1325	76	2185	158	2843	310	250	47	6982	612
	Subprime Specialst	38	1	74	7	122	7	116	18	10	5	360	38
	% Subprime	10%	5%	6%	9%	6%	4%	4%	6%	4%	11%	5%	6%
Non-MSA, CT	*All Loans*	118	173	462	623	812	967	1,051	1,835	999	593	3,442	4,191
	Subprime Specialst	15	20	30	52	48	77	33	96	215	199	341	444
	% Subprime	13%	12%	6%	8%	6%	8%	3%	5%	22%	34%	10%	11%
Stamford, CT	*All Loans*	719	1,345	1,671	3,088	2,239	4,113	6,214	11,347	465	1,237	11,308	21,130
	Subprime Specialst	46	98	58	159	60	137	61	188	122	47	347	629
	% Subprime	6%	7%	3%	5%	3%	3%	1%	2%	26%	4%	3%	3%
Waterbury, CT	*All Loans*	303	143	1089	464	1545	818	1,679	1,174	217	205	4,833	2,804
	Subprime Specialst	31	32	62	53	78	100	54	69	10	9	235	263
	% Subprime	10%	22%	6%	11%	5%	12%	3%	6%	5%	4%	5%	9%
Total	*All Loans*	5,427	6,171	17,289	18,212	24,018	24,211	34,139	43,150	3,926	7,226	84,799	98,970
	Subprime Specialst	485	743	942	1,607	1,224	1,670	1,105	1,564	571	571	4,327	6,155
	% Subprime	9%	12%	5%	9%	5%	7%	3%	4%	15%	8%	5%	6%

APPENDIX TABLE 5: AREAS ANALYZED BY COUNTY AND TOWN NAME[19]

Bridgeport, CT PMSA
Fairfield County (pt.)
Bridgeport city
Easton town
Fairfield town
Monroe town
Shelton city
Stratford town
Trumbull town
New Haven County (pt.)
Ansonia city
Beacon Falls town
Derby city
Milford city
Oxford town
Seymour town

Danbury, CT PMSA
Fairfield County (pt.)
Bethel town
Brookfield town
Danbury city
New Fairfield town
Newtown town
Redding town
Ridgefield town
Sherman town
Litchfield County (pt.)
Bridgewater town
New Milford town
Roxbury town
Washington town

New Haven-Meriden, CT PMSA
Middlesex County (pt.)
Clinton town
Killingworth town
New Haven County (pt.)
Bethany town
Branford town
Cheshire town
East Haven town
Guilford town
Hamden town
Madison town
Meriden city
New Haven city
North Branford town
North Haven town
Orange town
Wallingford town
West Haven city
Woodbridge town

Stamford-Norwalk, CT PMSA
Fairfield County (pt.)
Darien town
Greenwich town
New Canaan town
Norwalk city
Stamford city
Weston town
Westport town
Wilton town

Waterbury, CT PMSA
Litchfield County (pt.)
Bethlehem town
Thomaston town
Watertown town
Woodbury town
New Haven County (pt.)
Middlebury town
Naugatuck borough
Prospect town
Southbury town
Waterbury city
Wolcott town

New London-Norwich, CT-RI MSA (RI Excluded)
Middlesex County, CT (pt.)
Old Saybrook town
New London County, CT (pt.)
Bozrah town
East Lyme town
Franklin town
Griswold town
Groton town
Ledyard town
Lisbon town
Montville town
New London city
North Stonington town
Norwich city
Old Lyme town
Preston town
Salem town
Sprague town
Stonington town
Waterford town
Windham County, CT (pt.)
Canterbury town
Plainfield town
Washington County, RI (pt.)
Hopkinton town
Westerly town

Hartford, CT MSA
Hartford County (pt.)
Avon town
Berlin town
Bloomfield town
Bristol city
Burlington town
Canton town
East Granby town
East Hartford town
East Windsor town
Enfield town
Farmington town
Glastonbury town
Granby town
Hartford city
Manchester town
Marlborough town
New Britain city
Newington town
Plainville town
Rocky Hill town
Simsbury town
Southington town
South Windsor town
Suffield town
West Hartford town
Wethersfield town
Windsor town
Windsor Locks town
Litchfield County (pt.)
Barkhamsted town
Harwinton town
New Hartford town
Plymouth town
Winchester town
Middlesex County (pt.)
Cromwell town
Durham town
East Haddam town
East Hampton town
Haddam town
Middlefield town
Middletown city
Portland town
New London County (pt.)
Colchester town
Lebanon town
Tolland County (pt.)
Andover town
Bolton town
Columbia town
Coventry town
Ellington town
Hebron town
Mansfield town
Somers town
Stafford town
Tolland town
Vernon town
Willington town
Windham County (pt.)
Ashford town
Chaplin town
Windham town

[19] Metropolitan areas as defined by the Office of Management and Budget

The NeighborWorks® Network At Work in Connecticut

Who
NeighborWorks® organizations are locally controlled partnerships of residents, business and the public sector working together to revitalize their communities. Each organization is an independent 501(c)(3) with its own board of directors and staff.

What
The programs of each organization are developed by the board and staff to address the unique needs and opportunities of the communities that it serves. Typical programs include housing rehabilitation, homeownership classes, pre-purchase counseling, downpayment assistance, mutual housing development and management, community economic development and community organizing.

Why
NeighborWorks® organizations develop their own mission and vision for revitalization to address the unique strengths and needs of their community. These often include:

- Building livable communities
- Creating neighborhoods of choice
- Stimulating revitalization
- Establishing sustainable neighborhoods
- Enhancing quality of life

Where
Chartered Connecticut NeighborWorks® organizations include

Bridgeport Neighborhood Housing and Commercial Services
Mutual Housing Association of Greater Hartford
Mutual Housing Association of South Central Connecticut
Mutual Housing Association of Southwestern Connecticut
Neighborhood Housing Services of New Britain
Neighborhood Housing Services of New Haven
Neighborhood Housing Services of Norwalk
Neighborhood Housing Services of Waterbury

For more information, please visit our the NeighborWorks® web site at www.nw.org.

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