GOVERNOR'S TASK FORCE ON
SUB-PRIME MORTGAGE LENDING

********** SPECIAL MEETING **********

TUESDAY, JULY 10, 2007
5:00 P.M.

LEGISLATIVE OFFICE BUILDING
ROOM 2C
HARTFORD, CONNECTICUT

FALZARANO COURT REPORTERS
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West Simsbury, Connecticut 06092
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APPEARANCES:

Co-Chairmen of the Task Force:

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By: THE HONORABLE HOWARD F. PITKIN
Commissioner

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By: GARY E. KING
President-Executive Director

TASK FORCE MEMBERS IN ATTENDANCE

Daniel Blinn, Attorney, Consumer Law Group, LLC

Kevin Chandler, President, Connecticut Credit Union Association

Alan J. Cicchetti, Deputy Commissioner, State of Connecticut, Department of Banking

Don Colburn, Director, Rural Housing, United States Department of Agriculture

Carol DeRosa, Administrator, Residential Mortgage Programs, Community & Program Development & Marketing, Connecticut Housing Finance Authority (CHFA)

(continued)

(contd.)

TASK FORCE MEMBERS IN ATTENDANCE

Thomas Egan, Connecticut Mortgage Bankers Association/Indymac Bank

John Ertle, Housing Specialist, U.S. Department of Housing and Urban Development

Julie B. Fagan, Department of Housing and Urban Development

Sharon Gowen, Fannie Mae

Mary Beth Hickson, Account Manager, Genworth Financial

Norm Krayem, President, Connecticut Association of Realtors

John V. Neves, President, Connecticut Association of Mortgage Brokers/Elite Mortgage

Bill McCue, President, McCue Mortgage Company

Keith McNamara, Director, Industry Relations, Connecticut Attorney Title Insurance Company

Ben Niles, Account Manager, Regional Lending NE, Freddie Mac

Anne Noble, Deputy Counsel, Governor's Office

Jerry Noonan, President & CEO, Connecticut Bankers Association

Dean O'Brien

Joan Saddler, Lending Integrity, LLC

(continued)

(contd.)

Also Present:

State Representative William A. Hamzy (R)
State Representative John A. Harkins (R)

. . . The following transcript is the Special Meeting of the Governor's Task Force on Sub-Prime Mortgage Lending, chaired by The Honorable Howard F. Pitkin, Commissioner, State of Connecticut, Department of Banking, and Gary E. King, President-Executive Director, Connecticut Housing Finance Authority, held at the Legislative Office Building, Room 2C, Hartford, Connecticut, on Tuesday, July 10, 2007, commencing at 5:01 p.m. . . .

I N D E X

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I N D E X

(Special Meeting commenced: 5:01 p.m.)

(Department of Banking Exhibits 1-7: Received in Evidence.)

I. OPENING REMARKS BY THE CO-CHAIRS

COMMISSIONER PITKIN: Good afternoon. We're on the record at 5:01 p.m., and I welcome all of you to this Special Meeting of the Governor's Task Force on Sub-Prime Lending in Connecticut.

As was stated in the Notification of Special Meeting dated July 2, 2007, the purpose of this meeting is to provide a forum at which the public can comment on the issue of sub-prime lending in Connecticut.

I'm Howard Pitkin, Banking Commissioner of the State of Connecticut. Seated next to me on my right is Gary King, President of the Connecticut Housing Finance Authority, and together we chair this Task Force.

II. INTRODUCTION OF TASK FORCE MEMBERS

COMMISSIONER PITKIN: At this time, I would ask the members of the Task Force who are present today to identify themselves for the record. We'll begin with you, sir, and then we'll make our way this way.

MR. BLINN: Daniel Blinn.

MR. EGAN: Tom Egan.

MR. COLBURN: Don Colburn.

MR. McCUE: Bill McCue.

MR. KRAYEM: Norm Krayem.

MR. ERTLE: John Ertle.

MS. FAGAN: Julie Fagan.

MS. GOWEN: Sharon Gowen.

MS. HICKSON: Mary Beth Hickson.

MS. SADDLER: Joan Saddler.

DEPUTY COMMISSIONER CICCHETTI: Alan Cicchetti.

MR. O'BRIEN: Dean O'Brien.

MR. CHANDLER: Kevin Chandler.

MR. McNAMARA: Keith McNamara.

MR. NEVES: John Neves.

MR. NILES: Ben Niles.

MR. NOONAN: Jerry Noonan.

MS. NOBLE: Anne Noble.

COMMISSIONER PITKIN: Thank you. I'll remind all the members of the Task Force as well as the public that any recorded data or information relating to the conduct of the public's business that is recorded, owned, used, received, or retained by the Task Force is a "public record or file" within the meaning of Connecticut's Freedom of Information Act, and every person will have the right to inspect such records promptly during regular business or office hours, or copy or receive such a copy of the records in accordance with Section 1-212 of the Connecticut General Statutes, except as otherwise provided by any federal or state statute.

At this time, I'd like to introduce records -- I would like to introduce the following documents that will be available to the public:

1. A copy of the Notification of Special Meeting, signed by Howard Pitkin, Banking Commissioner, Task Force Co-Chairman, dated July the 2nd, 2007, which was filed with the Secretary of State on July 3rd, 2007.
2. Exhibit 2 will be a copy of the Department of Banking News Bulletin #2262 for the week ending June 29, 2007, that contains a notice of this public forum.
3. A copy of the Agenda for the Governor's Task Force on Sub-Prime [Mortgage] Lending, Open Meeting, July 10, 2007.
4. A letter dated July 3, 2007, to Commissioner Howard Pitkin and Gary E. King, President-Executive Director, Connecticut Housing Finance Authority, from Erin Boggs, Esq., Project Director, Fair Housing Center, expressing gratitude that Governor Rell established the Sub-Prime Lending Task Force and bringing attention to difficulties that the Fair Housing Center is facing regarding the timing of the public hearing.

5. A copy of the Department of Banking News Release Press Advisory dated June 3rd (sic, July) announcing that an open meeting of the Governor's Task Force on Sub-Prime Lending will be held on Tuesday, July 10, 2007, to give the public an opportunity to address the Task Force.

III. PUBLIC FORUM

COMMISSIONER PITKIN: At this time, I would like to call for public testimony. Everyone who wishes to participate will get a chance to do so. We're going to assume some rough ground rules here tonight. As I look out, we certainly have enough time for everyone here to comment.

Gary King and I have made a decision to allow elected officials to proceed first in deference to their schedule and the work that they have to do.

The Task Force does not discriminate on the basis of disability in admission to or access to or operations of its programs, services, or activities, in accordance with Title II of the Americans with Disabilities Act of 1990. Individuals requiring auxiliary aids for communication or other accommodations are invited to make their needs and preferences known to either Gary King or myself.

Anyone wishing to testify must speak into the microphone and state his or her name and address for the record. Your comments should be limited to relevant matters at hand, avoiding repetitious and irrelevant comments. All lengthy comments should be submitted in writing. If there is a large group or organization, you may have a representative speak on behalf of the group or organization.

All comments should be addressed to the Task Force. Spontaneous comments from the floor are not allowed. For any exhibits you wish to have included in the record, please include the name of the person submitting the exhibit, the name of the person creating the exhibit, the date the exhibit was created, and a key to the site.

Task Force members may ask questions during the testimony. Any questions that anyone in the audience may have for the testifier must be addressed first to the Chairpersons of the Task Force.

Anyone wishing to present written statements may do so today by leaving a copy with either myself or Gary King. We will also accept written statements if they are submitted to me at the Department of Banking, 260 Constitution Plaza, Hartford, Connecticut 06103, any time prior, I believe, until the end of July.

With that, I would first like to recognize the Attorney General of the State of Connecticut, Richard Blumenthal.

TESTIMONY OF RICHARD BLUMENTHAL

THE ATTORNEY GENERAL: Thank you. Thank you, Mr. Chairman, and members of the Task Force. I appreciate the work that you are devoting to this very important cause, and I recognize that many of you have expertise and experience far exceeding mine, so I come here with more than the usual amount of humility that I enter the LOB with.

But I want to thank particularly the leadership of this Task Force for addressing these issues so promptly and thoroughly and giving me this opportunity to speak to you about issues that really daily come to my office through consumer complaints, some of them heartbreaking and gut-wrenching, about people losing their homes, livelihoods, and families, and I know that their fates will be very much on your mind as you approach these difficult problems.

I am not going to read my testimony.

I've submitted written testimony to you.

What I would do very simply is suggest that the fight against fraud in sub-prime lending should not, in effect, overreact to the problem. We can't choke off all potential borrowing by people who may have credit problems, people whose credit may be less than -- less than prime, but we do need stronger measures to protect individuals in this group who may be vulnerable.

And we've seen their vulnerability, and we have fought for their rights in various actions brought by Attorneys General around the country. AmeriQuest and Household Finance are no doubt well-known to you. They're cases involving literally hundreds of millions of dollars recovered by the State Attorneys General in multistate actions, and my office has helped to lead those efforts; but there's a great deal more that needs to be done. And what we're seeing again is the endless and enduring ingenuity of financial predators in this

area.

Of particular urgent concern to me are these foreclosure assistance scams. We've seen evidence that borrowers who are threatened with foreclosures are approached by predators offering services, either as consultants or experts, to assist them in refinancing, restructuring their loan, or somehow avoiding foreclosure.

And these scams take a variety of forms. Some of them may be familiar to you. Some of them have been reported in the press. They involve sometimes intricate and sometimes very simple, straightforward scams or ruses, and most of them result in ruin to the individual homeowner who has difficulty paying his mortgage loan.

I urge the Task Force to endorse the concept contained in House Bill 5222 of the 2007 General Assembly, to regulate foreclosure assistance contracts and provide basic consumer protections,

such as clear notice of contract terms and prohibitions on unfair contract terms. I think that new legislation by our General Assembly is necessary to address some of these areas subject to abuse.

Obviously, I'm happy that the federal government is finally reacting to the problem. Even as Washington acts, however, we need to be active and proactive, and that's why state action, I think, continues to be necessary in spite of the efforts at the federal level, to clarify and restrict the guidelines that are applied to mortgage loans.

Prepayment penalties are also an area of very serious concern. As you know, borrowers are frequently ill-informed or misinformed or outright deceived about the existence of prepayment penalties, and, again, I hope that legislation at the state level may be possible to assure that adequate and complete information is provided to consumers.

I urge the Task Force to review the provisions of House Bill 5294 of the 2006 General Assembly session which extends current limitations on prepayment fees on high cost mortgages to sub-prime and other mortgages.

And, finally, let me just say as with any legislation, any new or existing law, they are only as good as the enforcement. If enforcement is lacking or lax, the law remains a dead letter, and so I hope that you will support additional resources for the Department of Banking, if I may presume to say so, and other agencies that are involved in this effort.

The Banking Department has been a very strong and solid ally in this effort, very proactive and aggressive, to the extent the law permits it to do, but as I think a general in the military once said, Vision without resources is hallucination.

And as many of you know from your own experience in this area, what is often

required is very simply additional resources to do investigations, all of the grunt work, all of the review of documents, and interviews that are necessary to enforce the law, which is what my office does along with the Department of Banking in this area.

So, again, I thank you for your attention, your hard work, your dedication, and I look forward to continuing our work together.

And I hope that you will have additional hearings where the Connecticut Anti-Predatory Lending Task Force, which I am working with, can also be heard, perhaps a hearing sometime in December, and I would offer my assistance, services, myself, and my office in connection with anything else, any other activities of the group.

Thank you.

CO-CHAIR KING: Thank you.

COMMISSIONER PITKIN: Thank you, Attorney General Blumenthal, for taking time

from a very busy schedule to come here tonight. I certainly appreciate it, and on behalf of the group, thank you.

Are there any questions of the Attorney General? Any statements anybody wants to make? Representative -- ?

CO-CHAIR KING: Harkins.

COMMISSIONER PITKIN: Harkins.

REPRESENTATIVE HARKINS: Thank you, Mr. Chairman. I apologize, Attorney General, for coming in a little late. I unfortunately missed most of your testimony, but I caught the latter part. But this is a growing concern, as you know, nationwide, and I'm glad to see in Connecticut we're taking some steps forward to help address the situation.

Has your office been receiving a lot of complaints from borrowers regarding sub-prime lending?

THE ATTORNEY GENERAL: We -- as I

mentioned at the outset of my testimony, Representative Harkins, we have received a sizable number of complaints considering the consumers who are victims, consumers who

frequently lack knowledge about their rights and are, in fact, less inclined to bring complaints to us, but we have a very active investigation ongoing in the New London area as well as in other parts of the state. I think we're close to bringing action in the New London area based on violation of our consumer protection laws.

REPRESENTATIVE HARKINS: Thank you. If the individual is found guilty, what type of prosecution will follow, from your own mind, doing this type of predatory lending?

THE ATTORNEY GENERAL: Well, as you know, my jurisdiction is primarily civil, and we would refer to prosecutors probably in the Chief State's Attorney's Office any criminal violations; but in our sphere, violations of the Unfair Trade Practice Act could bring penalties of, well, would be $5,000 per violation or treble damages and other monetary penalties. But in cases of fraud or larceny, additional state criminal penalties could be applied.

REPRESENTATIVE HARKINS: Would you also

refer the case to federal prosecutors, as well?

THE ATTORNEY GENERAL: If the facts warrant it, we would.

REPRESENTATIVE HARKINS: Okay. Thank you, Mr. Attorney General, for coming today.

THE ATTORNEY GENERAL: Thank you.

COMMISSIONER PITKIN: Any other questions? Representative Hamzy.

REPRESENTATIVE HAMZY: Thank you, Mr. Chairman, and thank you, Mr. Attorney General, for appearing here, as well.

I just had a couple of questions additionally. What do you view as the State's role in enforcing the statutes that are applied to, you know, these types of -- this type of lending practice?

And the reason why I ask that is because, as you know, a lot of this is governed by HUD regulations and federal laws with regard to the Real Estate Settlements Practices Act. What do you envision as the State's role in these types of loans?

THE ATTORNEY GENERAL: Well, I think the states have an independent and separate and distinct responsibility to protect their citizens, especially since we've seen from the federal government a great deal of inertia and inaction in this area.

What the federal government's pattern has been here, as in other areas, is to seek to preempt state law without acting to protect consumers using federal authority, and that is a pattern that we've seen repeatedly in areas involving securities, environmental enforcement, insurance abuses, and as are familiar to many of you, our cable rates.

In this instance, we have a role to play in protecting our consumers, and that is not, by the way, a partisan view. It is a view shared by my colleagues, both

Republican and Democrat, and Attorneys General around the country. And we have a Predatory Lending Task Force involving Attorneys General from across the country which has done cases against AmeriQuest,

Household Finance, as I mentioned, perhaps before you came, and we have recovered on behalf of consumers; and we've sent a message that our investigations -- and we have a number of multistate investigations ongoing right now under that Task Force. Connecticut is a member.

We have a role to play in enforcing our state's consumer protection laws regardless of what Washington does, and that's why this Task Force is so important, that's why your work is so critical, because we can't rely or wait for the federal government to save these borrowers who may be victims of predatory lending.

REPRESENTATIVE HAMZY: The complaints that you've received -- can you categorize them in any general sense with regard to -- is it notice? Is it that they are provided with misleading -- misleading statements or documents or what have you? I don't know if there's a common theme or a common thread that is consistent with the complaints that

have been made?

THE ATTORNEY GENERAL: Well, I think that that's a good question. I'm not sure there is a common theme or a thread factually, but I think that most of these sub-prime or predatory schemes are characterized by deception, by misleading statements, by inadequate information, ranging from failure to call attention to the small print, perhaps on the most benign end of the spectrum, to outright deception or fraud on the most egregious end.

And my office has been inundated with complaints and inquiries. Often they are inquiries as much as complaints by panicked borrowers who simply are at sea. They can't comprehend what their rights are, and they can't afford a lawyer, many of them, to tell them.

So it's a combination of lack of adequate information or outright deception either in the stages before the loan is taken or afterwards. And I was describing -- again, I apologize to the

members of the Task Force -- but one of the areas that most concerns me is the so-called consultants or experts, the foreclosure consultants who simply aggravate the problem after the borrower's in trouble.

REPRESENTATIVE HAMZY: And I -- I came late, as well, so I missed part of the testimony. I don't know if you submitted written testimony that we can --

THE ATTORNEY GENERAL: I did.

REPRESENTATIVE HAMZY: -- refer, look at. And just one last question to that: As you know, there's a lot of players involved with regard to creating or offering, you know, these types of loans. There's the originators; there's the underwriters; there are the attorneys that close the loans; there are the real estate brokers and real estate agents.

And some of those people -- actually, most of those people are licensed by the State. When -- when a loan is -- when there's an application made for a loan,

as you -- as you well know, there's, you know, required documents that are -- that are given to potential borrowers.

Do you see one part of that -- or let me ask you: Do you -- do you think that there are inadequate notices that are given to potential borrowers? because here's -- here's the concern that I have. A lot of the people that receive or apply for these types of loans are people who probably never expected that they'd be able to get approved for a mortgage and to own a home otherwise, and so, you know, one of the things I hope we keep in mind is that there is a balance there.

There's a balance that we need to be aware of with regard to having or making these loans available to people who have, you know, sub par credit, with the requirement to make sure that those borrowers are cognizant of the risks involved when they, you know, embark and get approved and -- and get these loans.

So do you see one potential or one -- one part of that process that is -- is broken or one part of that system, or are you looking at more on a macro level?

THE ATTORNEY GENERAL: Well, let me -- I'm not sure I fully understand the question, but let me try to address it.

REPRESENTATIVE HAMZY: There's probably several questions in that question.

THE ATTORNEY GENERAL: You know, what we see is a variety of different kinds of schemes, ranging from, for example, AmeriQuest. This is a major American corporation which not only tolerated but encouraged its agents and employees to essentially misstate incomes of potential borrowers to make them eligible for loans.

Now, that struck me as not only unethical but illegal, and that's why we were successful in that case, because there was -- sometimes even without the knowledge of the individual receiving the loan -- misstating of income and assets that made that person eligible or

misstating the prepayment penalties that that person would have to pay.

We saw, again, in the area of professional, proposed professional involvement, in the Waterbury area case that we did there, where appraisers were hired by the mortgage broker, who failed to tell the borrower about structural defects in the home. The repairs of those defects required monies that made the borrower unable to pay the mortgage, and the result was foreclosure.

You know, there are -- there are endless ingenuity and cleverness on the part of someone seeking to prey on the sub-prime lender, and I said before you arrived -- and I want to say it again because I do think this bears emphasis -- that the answer is not to end sub-prime lending.

People who may have poor credit histories may also be able to borrow as part of these programs, sub-prime lending, and I think that the danger is one of

overreaction as well as a failure to do anything.

I think you used the word "balance" at some point, and I think the reaction has to be a balanced one; and the suggestions that I made in looking to proposals from past legislative sessions, I think, are to call attention to measures that sought and worked very hard to achieve that balance.

So I think the licensing and professional qualifications -- I think your question called attention to them -- may be in need of review, but the frauds, the schemes, go much deeper.

COMMISSIONER PITKIN: Thank you very much, Mr. Attorney General, and thank you for your questions.

THE ATTORNEY GENERAL: Thank you for your time, and I appreciate this opportunity. I look forward to continuing to work with you. Thank you so much.

COMMISSIONER PITKIN: Thank you very much. I'd like to now give an opportunity

to Erin Kemple from the Connecticut Fair Housing Center to testify.

TESTIMONY OF ERIN KEMPLE

MS. KEMPLE: Good afternoon. I did submit written testimony. Unfortunately, I don't think I submitted enough copies, and I will make sure Commissioner Pitkin has additional copies of my testimony for you all.

Thank you very much for giving me the opportunity to speak here this afternoon. As you heard, my name is Erin Kemple. I'm the executive director of the Connecticut

Fair Housing Agency. We're a statewide organization that addresses housing discrimination in both the home sales and the rental market.

Because Connecticut's low income residents are primarily affected by housing discrimination, that is where we concentrate our scarce resources. Unfortunately, since 2003 we've been

getting an increasing number of complaints from people who are lower income who are having difficulty with their mortgages and sometimes with predatory loans themselves.

What we have seen is illustrated by some of the maps that I have provided to you, which is that in many Connecticut cities and towns if you compare neighborhoods of color with where sub-prime lending is happening, the maps are almost identical. Where there are high incidents of sub-prime lending, there are high incidents of people of color.

When my office first started taking

complaints from homeowners in foreclosure, we believed that sub-prime or predatory lenders -- and I recognize that those are not the same; the sub-prime industry is different from the predatory lending industry -- but what we suspected is that unscrupulous lenders were targeting neighborhoods of color.

However, recent investigations of prime mortgage lenders have now led us

to believe that people of color are being forced into the sub-prime market because of discrimination.

In one instance, a white borrower was quoted a mortgage rate as low as 5.65 percent while a person of color was told that the lowest rate available was 6.125, but that that borrower would probably only qualify for a 7 percent mortgage rate. This was despite the fact that the person of color had more income, more money, and better work history, more for a down payment, and the same credit rating as the white person.

This experience may not be unique to Connecticut. In fact, Freddie Mac estimated that one out of five borrowers may have -- who are sub-prime borrowers may qualify for prime products.

Nationally, research has shown that African-Americans are 2.8 times more likely than whites to get a sub-prime mortgage. Latinos are 1.74 times more likely, and Native Americans 1.6 times

more likely.

Once in an unaffordable loan, people of color are more likely to lose their homes than whites, so that the African-American termination rate is 240 percent that of whites while the Latino termination rate is 168 percent that of whites.

The effect of forcing people into the sub-prime market is significant for all Connecticut residents. The Center for Responsible Lending has determined that Connecticut has the second highest foreclosure rate in New England, with one of eight loans originated in 1999 in foreclosure.

Moreover, while sub-prime mortgages account for only 16 percent of originations, they account for 66 percent of foreclosures. RealtyTrac, an online resource for information on foreclosures, estimated that Connecticut had the second highest rate of foreclosures in the country in April.

While not all sub-prime mortgages are predatory, as I've already said, the Center has never come across a predatory loan that was not sub-prime.

In a recent case that came into our office, a woman was told she was approved for a mortgage of $109,000. On the day of closing the paperwork stated that the loan was actually for $114,000, and when she mentioned this to the lawyer, she was told not to ask questions but simply to sign.

She was promised a fixed rate loan and now has an adjustable rate mortgage.

She was quoted an interest rate of between 6.9 and 7 percent. At the closing rate -- at the closing the interest rate had jumped to 9 percent.

Our review of her loan documents reveals inflated income, assets which the woman does not own, and an increase in the price of the house she was buying.

This woman wanted to testify here tonight, but because she only speaks Spanish and there is no one available to

translate for her, she was unable to do so.

Many of the practices considered predatory in some states are legal in Connecticut. You heard the Attorney General talking about prepayment penalties. In addition, practices that are currently outlawed in many states include prohibiting flipping, increasing the requirements for education and licensing, and the bond required of mortgage brokers, and prohibiting mandatory arbitration.

While the lending industry has argued that enacting laws which limit the number of people who can get sub-prime loans will hurt the industry and restrict access to credit, research has shown that borrowers and responsible lenders are not hurt by these protections.

In fact, without the -- a strong law, nearly four out of ten sub-prime borrowers in New Mexico would have received, ah, sub-prime loans with abusive features.

In North Carolina, borrowers with, ah, credit scores of 580 or lower saw the number of mortgages triple versus a 62 percent increase nationwide after anti-predatory lending laws were put in place. In 19 states, interest rates actually fell after passing a strong state law, while in eight states there was statistically no difference.

I urge this committee to recommend and work for the passage of significant reform in Connecticut's anti-predatory lending laws. The Connecticut Fair Housing Center would be happy to meet with the Task Force separately to review our recommendations on how to strengthen the law and more effectively protect future borrowers as well as those who have already been victimized.

While federally-chartered institutions may not be subject to new laws here in Connecticut because of the Supreme Court's recent decision, a significant number of lenders in

Connecticut will be regulated.

More of these brokers will be subject to Connecticut law reforms as well as lenders without federal charters. A recent review of, ah, foreclosures in the City of Hartford showed that 22 out of 28 foreclosing lenders were not federally-chartered.

I'd be happy to answer any questions that you may have, and I thank you for you attention.

COMMISSIONER PITKIN: Thank you very much, Erin. I appreciate your testimony and the hard work you put into it. Any questions from the panel?

(Pause.)

COMMISSIONER PITKIN: Thank you very much.

MS. KEMPLE: Thank you.

COMMISSIONER PITKIN: And now, William Gonzalez.

TESTIMONY OF WILLIAM GONZALEZ

MR. GONZALEZ: Hello.

COMMISSIONER PITKIN: Good evening.

MR. GONZALEZ: I'm not much of a speaker, but when she spoke out there, that kind of happened to me. My name is William Gonzalez. I reside in Bridgeport. I live on 80 Oakwood Street.

CO-CHAIR KING: William, could you move the microphone over, please? Do you see the

one with -- there's the one on your left.
MR. GONZALEZ: Oh.
CO-CHAIR KING: Right. That's it.
Thank you.
MR. GONZALEZ: Excuse me. I'm a little hoarse. I'm just recovering from a cold. Again, my name is William Gonzalez. I reside in Bridgeport. I live on 80 Oakwood Street.
Ah, in '05 I lost my brother, who worked for the City of New York for almost -- almost close to retirement, and he got me his pension. And he wanted me to buy a house for the kids in case if

anything ever happened to me, I'll have something that the kids have or sell financially, go to college, or whatever they wanted to do.
The case is, I'm an old bail enforcement agent out of Bridgeport, and I know a gentleman by the name of Vincent Curcio, who's a bondsman; and I kind of do business with the courthouse. And I spoke to him, and I said, Vinnie, I would like

to buy a house for my kids. He said, Sure, I can help you with that. He owns a real estate office.

So we saw some houses in Ansonia that were unsuitable and needed repairs, so I said, Why don't we look around Stratford? They were a little higher, so we came into Bridgeport. The property, he wanted 300,000 -- 324,000 for the house. He says to me, I'll give it to you for 300,000.

I says, Well, I would like to add a deck. He says, Okay, a deck'll cost you 15,000. So I turn around and says, Okay,

I'm going to separate this money for the house and the taxes and everything, so I gave him $40,000, which Thomas Battaglia, he filed it into his escrow account. This is supposed to take care of the house.

So I says to him, I'd like to get a mortgage between 12 to 16 hundred a month. I could afford. I can't afford no more than 18 hundred. He said, Okay, we'll look around.

He starts making calls. Comes back to me and says, Okay, I found something for 16. Now some time goes by, we're gone to 18. Before you know it, I wind up with $2,618 a month.

Now I turn around, and I didn't get the file 'til a year later; I got the closing papers. Wasn't never given anything at the closing. I signed everything. All the lawyer told me was, Sign here, sign there, sign here, sign there.

So when I get the file, like, in October, I start to look at everything.

You know, I see that my income was inflated, you know, what I made, my salary. Actually, there's $20,000 missing off the HUD-1, which I have here, shows 20,000. It's showing a total of $40,000 in checks that were deposited to Mr. Battaglia.

I come to find out that Mr. Battaglia is the cousin of the mortgage broker from

Main Street Mortgage, which is David Bigley. The person that appraised the property is the mortgage guy's brother, who appraised houses maybe a ten-mile radius away in order to bring up the value of the house.

And now we're losing the house. The house is gonna be sold next month on the 25th. So my brother's dream and my life has been shattered. I haven't been able to sleep thinking what am I going to do with my dog (sic) who I have for nine years. My son there, what they're gonna have for the future.

And I'm not the only victim. I'm pretty sure there's a lot of people out here, and I'm hoping that, you know, you ladies and gentlemen tonight could really start to look into these guys' file cabinets before there's other people. There's a lot of houses being lost in Bridgeport. And that's all I have to say today.

Another thing was, also, that I'm a veteran, and I produce a certificate of eligibility to this mortgage guy, trying to get a VA loan. And he told me straight out that I don't qualify for this because my credit's so bad. So I didn't qualify for this, why qualify for this (indicating)?

I never bought a house in my life. This is the first time I bought a home. We always rented. We never could afford it. Even my brother's money, and everything is just going down river. That's all I have to say.

COMMISSIONER PITKIN: Well, thank you, Mr. Gonzalez. Did someone recommend Mr. Curcio to you?

MR. GONZALEZ: Excuse me, sir?

COMMISSIONER PITKIN: Did someone recommend that you go to Mr. Curcio for the transaction?

MR. GONZALEZ: No. I went to Mr. Curcio

because I knew him. I did some bail recovery for him down in Bridgeport. He's a bondsman, and he took me over, you know, to Main Street Mortgage and told me the guy could maybe help me find a mortgage.

COMMISSIONER PITKIN: Were you given a chance to fully review the documents --

MR. GONZALEZ: No.

COMMISSIONER PITKIN: -- in relation to the closing?

MR. GONZALEZ: No. I wasn't even given a good faith estimate. I knew that that also had me review five days; I think five or four days to look at that and see if I wanted the loan. No, I was never given that neither. I didn't get this actual file until almost

a year later when everything started to happen. They told me the title wasn't ready yet to the house. That's the reason I didn't get the -- the paperwork.

I had to actually go over there myself, and when I started to get a little curious about it, I had a lawyer that I knew, Richard Zeisler, that I've driven as a customer, because I work for Premier Limousine, and he saw it.

And he says, Will, you know, there's a lot of discrepancies on your HUD-1. There's money -- there's a total maybe of $27,000 missing somewhere that somebody has.

COMMISSIONER PITKIN: Any questions from the panel?

DEPUTY COMMISSIONER CICCHETTI: Yes. Were you represented by an attorney, sir?

MR. GONZALEZ: Yes. The attorney is actually the mortgage guy's cousin. They're all in the same building. The appraiser's downstairs, the mortgage guy's upstairs, and the lawyer's right next to it. And they

never informed me, and I come to find out they're all related. I found this out afterwards through somebody that'd done real estate told me that, you know.

I wanted to use my lawyer. He says to me: Well, use our lawyer, you know. He's cheaper; he'll charge you 500. In reality, he charged me 900.

And then they attached a second mortgage for 15, 16,000, telling me that that was for my closing cost. On top of the 40 that I gave him, he gave me another second mortgage that I have no record of and no paperwork of that I signed at the closing. There was only one closing lawyer, my lawyer. There wasn't no closing lawyer for the seller.

COMMISSIONER PITKIN: Any other questions? Yes, Mr. McCue.

MR. McCUE: Mr. Gonzalez, when did you close on your loan?

MR. GONZALEZ: Um . . .

MR. McCUE: It ought to be right at the top of that HUD-1.

MR. GONZALEZ: I don't know too much about this stuff.

MR. McCUE: Right on the first page, it ought to say "settlement date"?

MR. GONZALEZ: Yeah, I'm looking for that.

MR. McCUE: Well, do you remember when

it was? In fact, what year did it happen?

MR. GONZALEZ: It was supposed to be -- February was for a contingency or something like that, and then the 21st was supposed to be the closing. Here it is. Ah . . .

MR. McCUE: Why don't you just tell us, when did you move into the house?

MR. GONZALEZ: We moved in April.

MR. McCUE: April of what year?

MR. GONZALEZ: April of last year.

MR. McCUE: April of 2006?

MR. GONZALEZ: Yeah.

MR. McCUE: So you've been living in the house for one year and three months?

MR. GONZALEZ: Yes.

MR. McCUE: And if you closed in April, probably your first payment was in June?

MR. GONZALEZ: Yes.

MR. McCUE: Did you make that payment?

MR. GONZALEZ: No, sir. I wasn't able to.

MR. McCUE: You did not?

MR. GONZALEZ: No, 'cause those

problems.
MR. McCUE: What was the -- what was the first payment that you didn't make? How much was it for, that first payment?
MR. GONZALEZ: The payment was supposed to be for two thousand and 618.
MR. McCUE: Okay. And you were -- you were advised that it was going to be less than that?
MR. GONZALEZ: I was told, yes, sir. I can't afford that.
MR. McCUE: So you have never made a mortgage payment?
MR. GONZALEZ: No.
MR. McCUE: Were you -- when were you -- who were you supposed to be making the mortgage payments to?
MR. GONZALEZ: Well, the loan was sold.

It was done through Main Street Mortgage, which is David Bigley. The loan was sold right away before the first payment was even due over to Maine Capital.
MR. McCUE: Maine Capital?
MR. GONZALEZ: Yeah. I think it was.

MR. McCUE: So that Maine Capital would have been, then, who you were to make your payments to?
MR. GONZALEZ: Maine Capital is the, ah . . . (examines document).
MR. McCUE: Well, that isn't so important. Let's move on for the benefit of those that are here. Did you ever make a partial payment?
MR. GONZALEZ: No. Because what happened was somebody was injured in my car and -- in the limousine that I was working for, Premier Limousine, and she pinched her hand, and therefore the insurance didn't want to carry me as a driver no more. So I lost work for almost a year.
MR. McCUE: So you -- so you lost that job?

MR. GONZALEZ: Yeah.
MR. McCUE: And -- and -- and one of your sources of income. Did you get any calls during the time that you weren't making the payments asking you to make the payments?

MR. GONZALEZ: Yes. I spoke with Countrywide. I explained to them the situation 'cause the loan --

MR. McCUE: So Country --

MR. GONZALEZ: -- was sold.

MR. McCUE: So you were making your payments to Countrywide Home Loans?

MR. GONZALEZ: No. The loan --

MR. McCUE: You said Countrywide.

MR. GONZALEZ: The loan was sold from Maine Capital. It was sold right away to Countrywide --

MR. McCUE: Okay.

MR. GONZALEZ: -- before the first payment was even due.

MR. McCUE: So the calls that you received were from Countrywide Home Loans?

MR. GONZALEZ: Right.

MR. McCUE: And what did Countrywide

Home Loans tell you -- when -- now, you didn't make your payment -- let's assume in June was your first payment.

MR. GONZALEZ: Uh-hum.

MR. McCUE: Did you hear from them in

June?

MR. GONZALEZ: No. I didn't hear from them 'til, like, about maybe two months after that.

MR. McCUE: So now you're -- maybe you're three -- you owe three payments, and they called you.

MR. GONZALEZ: Uh-hum.

MR. McCUE: And what did they tell you?

MR. GONZALEZ: I explained to them what happened, and I explained to 'em how I was looking for work and stuff. And I -- they told me, Okay, we'll call you back, you know. We'll call you back another time, you know, see -- see what's -- what progress you've made in trying to get employment. So for me --

MR. McCUE: Did they talk to you --

MR. GONZALEZ: -- to ---

MR. McCUE: Did they talk to you about making partial payments?

MR. GONZALEZ: No.

MR. McCUE: Okay. So that when was the

next time they called you?

MR. GONZALEZ: They called me after that like about every month and a half, I got a call from them.

MR. McCUE: And -- and when did they stop calling you?

MR. GONZALEZ: After I received the foreclosure papers.

MR. McCUE: And when was that?

MR. GONZALEZ: That was in, um -- (pause).

MR. McCUE: Well, was it this year?

MR. GONZALEZ: It was this -- yes, it was this year.

MR. McCUE: Okay. So it was sometime after January perhaps?

MR. GONZALEZ: Um, right.

MR. McCUE: Or after --

MR. GONZALEZ: September. It happened in September.

MR. McCUE: September, then, of 2006?

MR. GONZALEZ: The return date, yes.

MR. McCUE: The return date on the -- on the -- the summons was -- was September of

2006; your first payment was due in June of 2006; so that four months after your first payment was due, they commenced foreclosure?

MR. GONZALEZ: Yes.

MR. McCUE: Okay. Thank you.

MR. GONZALEZ: Oh, you're welcome, sir.

COMMISSIONER PITKIN: Are there any other questions for Mr. Gonzalez? Yes.

MR. COLBURN: Mr. Gonzalez, do you -- do you know if this was a stated-income loan, or is this a full-documentation loan?

MR. GONZALEZ: I kind of, like, trusted them, so I left everything in the lawyer's hands, because of the reputation Mr. Curcio told me these people had and they were okay; and we trusted them. So I left everything in their hands, you know, and I assumed. I just went along, you know. I didn't know this was going to happen.

MR. COLBURN: Did you have to show pay

stubbs and W-2's?

MR. GONZALEZ: Oh, yes, I did. He asked me for my W-2's and for all my employers, and

I told him what I -- you know, how long I was working there and everything else like that.

MR. COLBURN: And then you said that the income was changed? When?

MR. GONZALEZ: Well, they -- I didn't know that -- that income, that that was like that until I received the file and when I started to look, because I don't know anything about this.

And I started to look through it, and I started to see where the income was greater than what I made. And then that's when I started to ask questions, and that's when I contacted Connecticut Fair Housing.

I spoke to Irwin Boggs, and I spoke to a couple of attorneys that saw this file. I told them that everything that's on here numbers do not add up -- and they're all here. They do not add up.

MR. COLBURN: Thank you.

MR. GONZALEZ: You're welcome.

MR. McCUE: Mr. Gonzalez, do you know, are the taxes current on your property in

Bridgeport? Have the taxes been paid, do you know?

MR. GONZALEZ: No. I just received the, ah -- they were paid. They were paid. Everything was paid at the closing. I paid for that year and the insurance and everything. I paid for that myself.

MR. McCUE: Well, how about subsequent to that? Have they been paid? Are they current now?

MR. GONZALEZ: No, I don't know. I don't have no clue to what's going on there.

MR. McCUE: What about your insurance? Have you -- have you done anything to make sure your property's insured?

MR. GONZALEZ: Well, I haven't received anything from the insurance company, so I don't have no clue as to, ah . . .

MR. McCUE: Have you received any cancellation notices?

MR. GONZALEZ: No.

MR. McCUE: You have not?

MR. GONZALEZ: No.
MR. McCUE: Thank you.
MR. GONZALEZ: You're welcome, sir. Thank you, everybody.
COMMISSIONER PITKIN: Mr. Gonzalez, before you leave the table, I was wondering if we could get copies of your documentation.
MR. GONZALEZ: Sure.
COMMISSIONER PITKIN: If you would see Mrs. Charbonneau right there (indicating), we'll make arrangements to get them from you and give the committee an opportunity to -- to look at them. And I -- I -- I certainly thank you. I know your testimony was not easy and --
MR. GONZALEZ: No. I'm not a -- I'm not a great speaker, I told you.
COMMISSIONER PITKIN: Well, you did fine. You did fine. And thank you very much for coming tonight.
MR. GONZALEZ: Thank you very much, everybody. Have a good evening.

COMMISSIONER PITKIN: Andrew Pizor, Consumer Law Group.

TESTIMONY OF ANDREW PIZOR

MR. PIZOR: Thank you for the opportunity to testify today. My name is Andrew Pizor, and I'm an attorney in Connecticut. In the interest of full disclosure, I'm an employee of Daniel Blinn, who's a member of the Task Force, but these remarks are my own. I have prepared them on my own.

And to apologize in advance, some of my remarks are a little extemporaneous. I tried to get some of my clients to come speak today, but for various reasons they were unable to.

As a general matter, as I'm sure members of the Task Force are aware, we live in an era of easy mortgage credit, plenty of advertisements: Bankruptcy, bad credit, no problem, no income verification required. Even as the predatory -- excuse

me, the sub-prime mortgage crisis is

playing out on Wall Street and in the national papers, there's still plenty of opportunities and advertisements for easy mortgage loans. At the same time, we also live in an era of increasingly complicated mortgage products. That's what the industry calls them, the various different types of mortgages: Adjustable rates, interest-only, 2/28 ARM's.

They're calling "mortgage products," and they're -- they're extremely complicated financial documents. And it takes time for even a sophisticated, well-educated person to read through these to truly understand the nature of what a borrower is getting into, and because of that, the public is at a disadvantage.

As Ms. Kemple well explained, a lot of these sub-prime mortgage products are directed towards people of low incomes who frequently have low education levels, but the same products are offered to more sophisticated consumers, as well.

Basically, if you call a sub-prime

lender, they're going to offer you what they sell, which is a sub-prime loan, and so everyone who deals with these companies is at risk of getting one of these extremely complicated products.

The loan salesmen, either be it an in-house lender or mortgage broker, they have much more experience and knowledge about the loan products, and frequently consumers don't even have an opportunity to read all the documents. They don't even see the mortgage note, the promissory note, the deeds, the riders, until the closing.

So the only way, I think, to really level the playing field to give consumers a fair chance of understanding what they're getting into and avoiding problems is for an appropriate amount of regulation.

Now, there are all forms -- all kinds of different suggestions that can be made and that I believe are appropriate, but in the interest of brevity, I'll focus on two. I think lenders should be required to be -- required to determine whether a loan is suitable for their client. "Suitability" is a bit of a term of art. It's more common and is already in place in the stockbrokering industry.

And basically it just means, simply put, that an account executive, loan officer, whoever you're dealing with, can't recommend a loan product to a consumer unless they have a reasonable belief that the consumer can afford it, but it's not just -- it's not just affordability -- that it's suitable for this person's situation.

An example might be the consumer goes to a loan company and says: I live on a fixed income. My income is probably not going to increase anytime in the foreseeable future.

Well, maybe the most suitable loan for that person would be a fixed interest rate loan rather than an adjustable rate loan where the payments will increase out of proportion to the person's income.

I believe lenders should be required to determine whether what they're offering is suitable, and I believe the mortgage broker -- who's clearly a key part in the lending industry today; they offer -- frequently act as the sales arm for -- for many lenders -- the broker should have a fiduciary responsibility to their customers.

Basically, the way things are now, the broker's a businessman who is -- who's acting in his and his lender's own best interest. They're trying to turn a profit -- which is, you know, fair; it's the American way -- but they're advising consumers; and [what] consumers don't often understand is they have a polite but somewhat adversarial relationship with the brokers. They frequently believe the broker is looking out for their best interest, and that's not necessarily the case.

So fiduciary duty imposed upon brokers, which is certainly something that can be accomplished at the state level, would also go a long way toward addressing the problem of consumers being placed with loans that are just totally unaffordable from the beginning.

Now, one response that I think many in the mortgage industry raise when it comes to regulation or suitability requirements and so on is that that'll restrict credit to minorities, to low-income borrowers, and so on.

And I disagree with that. I suggest that's kind of a red herring. All a suitability or fiduciary duty would require is what underwriters used to do. It's a good business practice. You don't give a mortgage or a loan to somebody if you know up front that they can't pay it.

The dynamics of the mortgage industry these days allow lenders to extend loans without concern, or a substantially reduced concern, about default, because the loans -- as the previous gentleman just testified, the loans are often assigned and sold to other companies right off the bat. They're sold into very complicated financial instruments on Wall Street.

So the originating lender no longer bears the burden of a quick default. They just want to make a loan, and then they get their profit by selling it to somebody else. The way to balance that is to make lenders think a little bit more about whether the borrower can afford the loan. It's a very simple business prospect that I think works in the consumer's and the lender's favor.

Now, unfortunately, as I mentioned, my clients weren't able to come, so I'll just briefly tell you one story which I think illustrates how these situations are not necessarily the fault of independent borrowers or people who think they can get something for nothing.

I had one client who came to me. She was selling her house and about the same time moving into a new house, common -- common occurrence. She had a buyer for her old house and was getting a mortgage and started to close on the new house.

She did what I would advise any client to do -- she worked closely with the broker, asked lots of questions, followed up a lot to know the terms of the mortgage -- and she thought everything was going okay.

Then she goes to the closing. She reads the documents, and they're not what she was told she was getting. She brought a family member who was maybe a little bit more financially savvy. He read the documents and said: You can't sign this; you can't afford this.

And she did what everyone's supposed to do. She'd read the papers. She said, No, this isn't what I wanted. And she refused to sign and walked away from the transaction, and she got hurt really badly in the process. She couldn't undo the sale of her house because that transaction was completed. She lost the purchase of her new house because she no longer had a mortgage and the seller went with someone else.

So she ended up homeless. She ended up in a hotel for a month until her family was able to get together funds and help her get a mortgage with somebody else, I think with family members on the loan.

So the classic response is people who say, Well, they had a chance to read the documents at closing; they didn't have to sign it.

In reality, that's not really the case. Consumers don't really have the full -- full opportunity to protect themselves by reading at the closing or by asking questions because these are -- transactions come -- this all comes together at one point in the closing or they're very complicated, and as this example illustrates, the consumers can't necessarily fully protect their interests even if they act to the best of what everyone is hoping.

So I encourage the members of the Task Force to recommend imposing at a minimum a suitability requirement and a fiduciary duty to act in the best interest of their customer on mortgage brokers and loan officers.

And I'd be happy to answer any questions. Thank you.

CO-CHAIR KING: I have a question: What penalties would you suggest if there's such a violation?

MR. PIZOR: Well, that brings up a -- that's a good comment, because right now it's difficult to get out of these transactions. It's also what a consumer wants, as they discover too late that they've gotten into one of these bad -- bad loans and they want out.

I think penalties that should be imposed should allow the consumer to unwind the transaction. Currently, the

Truth in Lending Act, federal and state, is the primary statute for doing that. However, courts in Connecticut to date have determined that that's not an appropriate defense to a foreclosure, even if someone has -- may believe they have a right to defend the transaction, the courts have said, You just can't raise that as a defense.

So I think the appropriate -- I think the best opportunity that will remedy these situations is to prevent them from coming up, and I'm sure everyone would agree on that; but I think the penalties should include allowing -- specific state law that allows recision of the transaction, allows that to be raised as a defense in the foreclosure, because often that's the first time the consumer will seek help.

And this may be a little bit offsetting, but since you raised it, related to the bond the mortgage brokers and lenders have to post, I've had many cases where we've filed suit against lenders or the brokers for this misconduct, and -- not so much the lenders, but brokers are often small companies. They default on a loan -- excuse me, they default on a lawsuit; there's no way to collect; the consumer's left holding the bag.

And the current mortgage bond does not cover -- most judgments would only cover if there's outright theft of funds.

COMMISSIONER PITKIN: Mr. Pizor, I had the opportunity when you called this article to my attention in the New York Times, and it's largely about the role the brokers play, and there were some tragic cases there involving certain brokers that had acted improperly.

I guess I -- and your suggestion about a suitability issue is intriguing. Do you see any chance of an inherent conflict where a broker has to serve two masters, not only the company or the, let's say the institution, that referred the loan to the broker, but also now finding a suitable -- I'm sorry, the borrower plus the institution? I mean, is there any inherent conflict there?

MR. PIZOR: I don't believe so, because essentially the broker's allowed to make a profit. I'm not arguing with that. They don't have to be nonprofit institutions. But -- and I think looking at the stock broker industry is the best example of how this can work without posing an undue conflict.

It only means that the advice given essentially has to be reasonable. The broker needs to read the information that's provided and, you know, using their knowledge of the loan products that are out there make reasonable suggestions.

The example I gave of someone on a fixed income: I think it would be unreasonable to recommend a loan product that would have -- almost certainly have increasing mortgage payments over time.

There are many products that are designed to do that for various -- you know, whether it's good or bad is another question -- but are designed to have payments that start low and can be reasonably predicted to rise, sometimes substantially at a time.

So I think all these would be -- I don't think there would be a conflict because a lot of this is basically applying the lender's guidelines.

Lenders have underwriting guidelines that clearly cover what borrowers qualify for what loans. It's just a matter of applying them rather than -- well, not even. Just applying these guidelines fairly. A lot of them are overlooked in the haste to try and make a sale.

COMMISSIONER PITKIN: Thank you. Any other questions?

MR. NILES: I have one. Mr. Pizor, forgive me. I was listening intently to your testimony, and I may have missed something. You mentioned leveling the

playing field via regulation, two thoughts. The first one I got, which was suitability, but I wasn't sure what your second recommendation was.

MR. PIZOR: Suitability is a requirement that --

MR. NILES: I have that.

MR. PIZOR: Okay.

MR. NILES: What was number two?

MR. PIZOR: It's imposing a fiduciary duty upon mortgage brokers.

MR. NILES: What's the difference between suitability and fiduciary?

MR. PIZOR: Suitability would largely apply more directly to the lenders themselves, the underwriting department. It does overlap with brokers. I think they should apply equally to brokers and lenders.

It's just in my research in looking at other states, they do have a fiduciary duty requirement. Since the broker has a maybe more direct relationship working with the consumer, I think the fiduciary

duty is a little bit broader and to me would be a more suitable description, but I think it would come down to the same thing.

MR. McCUE: How would you deal with a consumer who desired a product, let's say an adjustable rate, which has a lower interest rate and therefore a lower payment than a 30-year, but it isn't suitable, and the consumer insists upon that product?

Would it under your plan be the lender's job to reject them for the loan?

MR. PIZOR: Well, I think that raises two --

MR. McCUE: Assuming that they couldn't convince them.

MR. PIZOR: Sure. I think that raises two issues. First, under, you know, reasonable underwriting guidelines, does the lender have ability to believe that this person's actually going to be able to pay the loan even though it's a bad idea for them?

If the lender reasonably thinks that the consumer can pay the loan even though

maybe it's not such a great idea?

I'm not saying brokers and lenders have to turn down paying customers and good loans, but I think 99 times out of 100 what will happen is if it looks like a loan's not suitable for a person, it's not suitable because they -- there's no reasonable expectation that they can pay it, and I don't think any lender applying traditional underwriting guidelines, oh, aside from all these new market forces that I've described, would really want to extend a loan to someone who has no reasonable expectation of being able to pay it.

It's a bad business practice, and I think thirty years ago one of the reasons we didn't have this problem is because lenders usually held their own loans and they saw the consequences of default.

So this is kind of a way to turn

back the clock a little bit and reimpose some -- just good business practices.

COMMISSIONER PITKIN: Other questions?

CO-CHAIR KING: I have one more. The case that -- the example that you gave of the person that actually did walk away from the transaction. How would the concept of suitability have played into her case to protect her?

MR. PIZOR: Well, the loan -- the loan that was actually placed on the table in front of her was totally unsuitable, it was unaffordable, and neither the lender or, I believe it involved the broker, should have offered that loan to her in any circumstances. There was some bait and switch, but aside from that, that loan never should have been put on the table because there's no way to believe she could ever afford to pay it.

CO-CHAIR KING: But within the context of the penalty of unwinding the transaction that didn't go through. So how do you -- what type of penalty do you impose for that circumstance?

MR. PIZOR: I think that could be a case where -- you know, there's not going to be a

perfect penalty for every case.

CO-CHAIR KING: Too bad.

MR. PIZOR: And in -- and in that matter, we did file a lawsuit. We did sue the lender and the broker. We reached a reasonable settlement with the lender, and the broker, who I believe was the bad actor in that case, defaulted; and we've never been able to collect any money against the bond or the broker.

CO-CHAIR KING: Thank you.

MR. PIZOR: One -- I'm sorry. One piece of disclosure that I didn't bring up, but I think an additional disclosure to the client that would have helped in her case is to mandate that the borrower receive a complete copy of all closing documents in their final form at least a day, preferably, say, three days before the closing.

Currently, I think RESPA allows the

consumer to request the documents the day before, but the borrow -- the lender is not required, required to give them, and also, you know, a good faith estimate and

things. They are allowed to change.

So I think if the loan was locked in place so the documents provided, say, three days before were exactly what would come at the closing, there would be a bit more opportunity to avoid situations like that.

COMMISSIONER PITKIN: Representative Hamzy.

REPRESENTATIVE HAMZY: I think that would be a great remedy to most of these problems, but as you may know, in the real world the situation that you described happens more often than not where, you know, these attorneys get the mortgage documents the morning of a closing, and then don't get the wire until maybe at the closing when we confirm that it was sent and received by our office.

But one of the questions that I had

for you is: If you read a standard commitment letter, usually that outlines all the terms of a mortgage. Are you saying that in the situation that you gave

us that the terms of the mortgage at the time of the closing differed than the good faith estimate and the Truth in Lending disclosure statement and the commitment that was issued when she was approved for the mortgage?

MR. PIZOR: Yes, that's what I'm saying. And I think detailed commitment letters are less common with sub-prime and predatory loans. The ones -- I don't see a lot of them, and I look at all the closing papers, and the ones I have seen are kind of vague. They may say 8.5 percent for 160,000, but that doesn't cover whether it's fixed rate, you know, interest-only, and so on.

So they leave a lot open, and lots of times what I do see is exactly as you described. Up front they say one thing, then at the closing there's something else. And the explanation if there is one is often, Oh, well, we reviewed, you know, there was another tax lien we found. They come up with various exclusives -- excuse me, excuses to change at the last minute.

REPRESENTATIVE HAMZY: To your knowledge -- and I don't know this -- is the -- the drafting of the commitment letter: Is that regulated by federal law, or is that something that state law governs?

MR. PIZOR: To be honest, I don't know about that.

REPRESENTATIVE HAMZY: That might be an area that we can take a look at.

MR. PIZOR: Thank you.

REPRESENTATIVE HAMZY: Thank you very much.

MR. McCUE: One more question.

MR. PIZOR: Certainly.

MR. McCUE: Would you be in favor of a recision period on all sub-prime loans similar to the refinance?

MR. PIZOR: Yes, I would.

MR. McCUE: And how long would you think

that would have to be?

MR. PIZOR: Well, I like the Truth in Lending Act's recision period because it works two ways, and if everyone knows this, please stop me. It's a three-day unlimited

right to rescind, you know, "buyer's remorse," I don't like your hair color, any reason to rescind. Then if it's extended for up to three years if there's various material violations of the law that are enumerated.

The reason why I think just a few days after the loan is not necessarily going to work is that most people don't discover these problems until they have trouble paying the loans, and they don't -- you know, people -- generally, in my experience, most borrowers are good people.

They really try to pay. They don't want to go bankrupt. They don't want to go ask a lawyer to go sue somebody. They try to work things out, and by the time they realize it's not going to work out, the three-day recision period has often expired.

So I favor a recision period that's tied more to existing violations and, you know, not so much a "buyer's remorse" one, but one that says if there is a violation,

the borrower can void the loan.

Purchases present a bit of a problem with a recision period because you can't make the seller take the house back. I think a way around that is -- and it gets a little more complicated, but it can be a right to modify the loan. For example, let's deal with a straight situation. Someone buys a house. They discover six months down the road there's some horrible problem with the loan; there's some horrible violation of the law.

The law should allow them to force the lender to modify the loan to something affordable and fair, or maybe just refinance out of the loan with another lender if that's possible. Sometimes it's not, especially if it's been a falsified appraisal.

Another possibility that really -- which is probably very far beyond the scope of this hearing -- is if -- there's some states do have funds of loans, loan

money, to help people out of predatory loans. And that would certainly be useful, but I realize that's a very big issue.

MR. McCUE: One more question from me: If you had to estimate the percentage of people that are buying or refinancing loans that go to the closing assuming they are being represented by someone there but in fact are not, what would your percentage be?

MR. PIZOR: Well, first I have to preface that by saying no one comes to me unless they already have a problem, so I don't see the loans that are great. I don't see closings as normally part of my practice, but of all the people that come to me, I think -- and I have seen hundreds of these --

I can think of maybe only two or three people who brought their own attorney to the loan.

The -- as the gentleman explained, they're often encouraged to use the lender's attorney. Frequently there is no attorney involved. There's a notary or a settling agent who comes to the house and

says, Sign here, sign here. So.

MR. NILES: That asks two additional questions. How would you define, considering your trough of experience, a sub-prime loan?

MR. PIZOR: That's a -- that's a very broad category. It's actually an industry term. It's not one that the consumer advocates have made up. Basically, it's a term that's -- applies to people who have, I believe it's lower-than-average credit. I actually saw a number for a credit score, but I don't recall what it is.

But credit scores are generally divided up in three vague categories: Prime, which are people who have, you know, great jobs, great income, no conceivable credit risk; ALT-A; and then sub-prime. And ALT-A is kind of the fuzzy region in between the two.

It's difficult to define, and probably someone in the mortgage industry might be able to define it better than I could.

MR. NILES: Thank you. That -- that

is one of the problems today, is you gotta draw a line in the sand. You need to say, Everything below this FICO is sub-prime; all these rules apply --

MR. PIZOR: Actually, sir --

MR. NILES: -- to that category.

MR. PIZOR: Actually, sir, I don't believe that's necessary. I believe these terms can apply easily to all mortgages. The reason everyone here, I believe, is talking about sub-prime loans is because that's where the problems usually arise. They're people with poor credit who are more likely to -- to default or get into trouble with paying, and it's where a lot of the growth in the industry has been. So it's where a lot of the pushing the limits has been.

Banks who do prime lending -- and sometimes banks do both; some only do one kind or another -- they're not usually a problem because their borrowers are frequently much more sophisticated. They definitely hire their own attorneys, and they don't default on the loan. So the

issues don't come up.

So I think they could easily be subject to these regulations without having their business affected at all.

MR. NILES: One last question: I assume you've seen the federal guidelines that have been issued on sub-prime mortgages?

MR. PIZOR: Yes, sir, I have.

MR. NILES: Several days ago. How do you view the adequacy of those guidelines to addressing some of the abuses in the marketplace over the last several years versus coming out with broad standards around suitability and fiduciary responsibility?

MR. PIZOR: Well, I think I saw a draft

of those. I know the final I don't think is too different from the draft.

MR. NILES: It's the same.

MR. PIZOR: I think they offer -- I think they're good guidelines overall. I don't think they go quite far enough, and the fact that they're voluntary, I think, is the key fault in them.

Lenders who follow the guidelines voluntarily who exercise good business practices, brokers who exercise good business practices -- that's not why we're here. We're here for the people who -- who push the limits and go -- go too far. And that's my chief fault with the -- with the guidelines that came out, is that they're voluntary.

CO-CHAIR KING: One quick question: The -- you indicated that most of the people that you see don't have an attorney. Is there some general characterization, sense, of why they don't have an attorney? We, obviously, try to get a feel for that, given the fact that there's so few, and that seems to be a big missing . . .

MR. PIZOR: Well, first, it's not required in Connecticut, and, um --

CO-CHAIR KING: But why didn't -- why -- why is this group of folks --

MR. PIZOR: Why don't they do it voluntarily?

CO-CHAIR KING: Yeah. Why is that?

What is missing?

MR. PIZOR: I'm sorry. They're usually discouraged by the -- by the lender or the broker based on cost. It's, You'll have to pay -- you have to pay for our closing agent, and I use that term generally to apply to attorneys or notaries, whoever does it. You have to pay for ours because there's a closing cost. You have to pay for your own separately.

CO-CHAIR KING: What about some interven -- excuse me. What about some intervention that would prohibit that practice?

MR. PIZOR: Prohibit the practice of

discouraging?

CO-CHAIR KING: Yes.

MR. PIZOR: I think it would be one of those things that would be a good idea but difficult to enforce. They're already required to notify people of their right to have their own attorney and that the settlement agent who's acting will be acting on behalf of the lender and not necessarily

the consumer. So I think -- I don't think more disclosure on that regard would really help.

CO-CHAIR KING: Thank you.

COMMISSIONER PITKIN: Thank you very much. I will say that on the interagency statement that was issued on June 29th, the states are slightly editing that. And we had a phone call yesterday, and we spent hours trying to determine what a sub-prime borrower is; and it was, you know, the most difficult definition we're trying to arrive at in the document. So I appreciate your testimony.

MR. PIZOR: Thank you.

COMMISSIONER PITKIN: Thank you very much on behalf of the committee.
MR. PIZOR: Thank you for your time.
COMMISSIONER PITKIN: Tom -- Pinkonish (phonetic, PING-KOE-NISH). I'm sorry. Do I have your name right, Tom?
MR. PINKOWISH: Pinkowish (pronounced PINK-KOE-WISH).
COMMISSIONER PITKIN: Pinkowish (pronounced PINK-KOE-WISH). I'm sorry.

Thank you.
MR. PINKOWISH: It's not an easy one.

TESTIMONY OF THOMAS PINKOWISH

MR. PINKOWISH: Hi. Actually, I'd just like to make a statement. I'm a lending consultant. I've been in mortgage lending since 1982, and my company advises lenders. We don't lend money, but over the years we've done quality control and underwriting, program design, and everything else. Personally, I've --
COMMISSIONER PITKIN: Could we -- I'm

sorry.

MR. PINKOWISH: Sure.

COMMISSIONER PITKIN: Could we just interrupt you for a --

MR. PINKOWISH: Yes.

COMMISSIONER PITKIN: -- slight, brief break? The Court Reporter needs to change her paper.

(Pause.)

MR. PINKOWISH: I'm Tom Pinkowish. I'm president of Community Lending Associates. I've been a lending consultant and in the lending industry since 1982. Personally, I've run departments and done underwriting, done quality control, and publish, and seen a lot on the mortgage side.

First, I'd just like to thank the Task Force and its individuals for their concern and efforts in this area. I think you have a big issue to deal with, and as the gentleman before me just talked about and I think the Commissioner said, just defining the problem and what is a sub-prime loan has -- when you really look at it -- become a more difficult issue than what you think it is on the surface.

I'd just like to ask the Task Force to emphasize in their recommendations the critical role that the loan officer plays as an advisor or counselor to the consumer in this process.

Many, if not most, consumers are blinded by the vast number of programs

available to them, and, really, they're mystified by the complexity of the mortgage process today and it's become. Consumers rely on the advice of their loan officer or loan counselor or whatever they call themselves. They rely on them to guide them through this process and recommend a program that meets their needs.

Loan officers have a high level of influence on the decisions that consumers make. They see them first, they talk them through everything, they give them assurances as to what will work and what will not work with them, and any recommendations you make should recognize the power that the loan officer has over that, the consumer, and directing them into certain programs.

The consumers certainly have a significant amount of responsibility, but to come up with another disclosure statement or something like that -- I think a major problem is how well this

information is communicated to the consumer, whatever program it is, and that's where the consumers are relying on them, the loan officer, to make their decision for them.

Mortgage lending is still a trust business for all the parties involved, not just a risk business driven by efficiencies and automated systems. The secondary market is now learning this lesson the hard way, but the real cost is borne by the individuals who place their trust in a loan officer.

And that's where I was going to end my comments, but, again, based on the sub-prime discussion, the definition that you started talking about just prior to this, the interagency statement, even when it first came out, the first one that came out was related to nontraditional mortgage products.

They focus mostly on defining sub-prime as an application with substandard credit and maybe some loan

documentation, but I don't think that's a complete definition.

There are many, many more programs available which basically if it's not prime, it's sub-prime, and the -- Freddie and Fannie, when they came out with their ALT-A type products, took the first step away from what is prime, and they're seeing some issues in those programs, as well, even though you wouldn't traditionally call them sub-prime loans.

The -- I guess the other comment

I would make would be, in your efforts distinguishing between sub-prime loans where fraud is involved, whether it's by the consumer, by the loan officer, by a broker, by a lender, by the secondary market investor, distinguish those from ones where the consumer just truly didn't understand what the program was.

Unfortunately, this is all snowballed and lumped together into what the sub-prime problem is, and to find one solution for both cases or situations

I don't think is going to be adequate.

And I -- I'm not going to say it's easy, but I think that's -- that's the essential problem you're having, is distinguishing between criminal situations where fraud's involved and separating those from what you can do for a consumer that was truly either taken advantage of or just didn't understand what was going on. Thank you.

COMMISSIONER PITKIN: Thank you.

Any questions?

MR. McCUE: I have a question. The -- you raised the issue of the importance of the loan officer. Do you have recommendations on what ought to be expected or what should be required, more importantly than expected, of a loan officer?

MR. PINKOWISH: Well, there -- there are certain -- well, the consumer's the one that defines that, quite frankly, and, again, because over the last twenty years, the complexity of the whole mortgage lending process, the consumer relies on the loan

officer as the mouthpiece to explain it all.

So as it's evolved, I would say that -- certain things. They should be able to fully understand the way all the loan products work, and explain them, as well, two separate skills. One is understanding -- that's knowledge -- and then the skill to explain it to the consumer and, unfortunately, to make recommendations to the consumer; that's what the consumer is placing before the loan officer as their responsibility.

CO-CHAIR KING: How would you hold someone accountable for being able to deliver that quality of service?

MR. PINKOWISH: I don't think there's one answer to that. I would certainly love to see testing, but if you -- I mean, if you use a parallel to a driver's license, okay? Everyone here has taken a driver's test, passed it, and at some point you know what the rules were and you could demonstrate that you were able to drive a car.

I'd be the first to say that I may not drive as well today as I did when I took that test, you know.

So on each individual day, the loan officer may not consistently deliver the level of expertise and communication that they could display on a test. So if you do testing, that'd be great, but if you pass a test, that doesn't guarantee that you're going to serve everybody equally.

And, again, as the other folks who have testified before point out, there's a sharp difference between income group, race, minority. All different types of groups seem to be having different experiences in the mortgage lending process as far as their delinquency and foreclosure rates.

CO-CHAIR KING: I've got a question. Do you have a -- go ahead.

MS. NOBLE: I can wait. Go ahead.

CO-CHAIR KING: Real quick question. I just wondered about this debate about -- your perspective on this debate about

sub-prime versus -- the definition of it. Is that really -- this really comes down to predatory lending.

I thought that the sub-prime was defined as a loan that was 300 basis points over some standard and 500 basis points and -- are we -- trying to define this, are we kind of like going down the wrong path wasting our time and [should we] just try to identify the characteristics of bad types of things and behaviors versus others and get out of trying to label it with one big term that's not going to clarify the real issues?

MR. PINKOWISH: Um, just -- if you try and define sub-prime -- a sub-prime loan by interest rate only, that doesn't take into account all the characteristics, the risk characteristics, that are present in a loan.

For example, if I had a very high credit score of 800 but I borrowed 100 percent of the property value and did a stated income where I didn't document my

income, I could tell you whatever I -- any number just to qualify for the loan.

My credit score would be very high, and you might give me an interest rate that was above the best rate but not 300 basis points above the best rate. I would consider that a sub-prime loan -- I think most people would -- but it wouldn't necessarily fall into the definition based on rate alone, as you suggested.

CO-CHAIR KING: But is the intent -- is the intention here to label all bad loans as, quote, sub-prime? Is that what we're getting at?

MR. PINKOWISH: Well, if I put on my underwriter hat, there's no good loans or bad loans. There're just riskier loans and less riskier loans.

CO-CHAIR KING: Okay.

MR. PINKOWISH: So I would -- a suggested avenue would be to start talking in terms of risk: What is high risk, mediate -- moderate risk, and low risk? And when you go down the checklist of collateral, of credit,

of income, of documentation, of the transaction, if all those present high risk factors, then you certainly have a sub-prime loan.

CO-CHAIR KING: Or a problem.

MR. PINKOWISH: You know, it depends. I mean, sophisticated investors who are buying homes, it may not be a bad risk.

CO-CHAIR KING: Okay. Thank you.

MR. PINKOWISH: But for the normal consumer who's not sophisticated and is, you could say, forced into these types of programs to buy the house that they want, then that would certainly be a high risk loan.

MS. NOBLE: Thank you for taking the time to share your experiences. I have -- I have a question for you. Many, many years ago in a prior career, I originated mortgage loans, and I agree with you that the loan officer has tremendous influence over the buyer.

Many, many years ago the underwriting function served to offset that influence

and was a check and balance, if you will, against overzealous originators who were often motivated by a commission. Does that system of checks and balances still exist, and if not, why?

MR. PINKOWISH: A lot of -- I think there's a lot more influence the loan officer has now if they have an automated system, because that bypasses a person who's going to review it. And, again, if a loan officer wants to manipulate the process, they have the power to do so with a stated-income or no-income type loan program.

So, certainly, part of it is the loan officer can influence, but you also have, you know, secondary market investors who design these programs.

And, you know, again, Wall Street investors can disperse risk and supplement it with other collateral and do things so that they come out okay, but the individual consumer is still the one that can't afford to pay the loan.

So while, you know, the delinquency rate on a mortgage-backed security might rise 10 basis points or 20 basis points, you've wiped out individuals' life savings and everything through the process. So part of it's the programs; part of it's the loan officer.

MS. NOBLE: Thank you.

COMMISSIONER PITKIN: Thank you, Mr. Pinkowish. Oh, I'm sorry. I'm sorry. Go ahead.

REPRESENTATIVE HARKINS: It was just a lay question. Thank you, Mr. Chairman. Some interesting questions and comments being made. It seems as though many agree that there is a place for sub-prime mortgages depending upon an individual's circumstances and the type of product they may need.

What seems to keep coming up is the predatory lending, someone who is not working in the best interest of their customer, and I think that's a problem in any industry.

You know, we have associations that people can belong to. They try to regulate -- they try to have standards of their own. You know, the State tries to regulate the industry as much as they can, but it still comes down to: How do you stop bad people from doing bad things and hurting others? particularly in the case when people aren't as financially sophisticated when they're getting involved in sophisticated financial arrangements.

You know, it's almost like a shell game sometimes where the numbers are changing and people can't quite keep up and they're confused, and they're almost embarrassed that they admit that they don't know and they feel intimidated and they sign; and, you know, I think that's one of our major concerns here today, is, How do we protect the public?

And I know the question arose earlier, you know, What role does the mortgage broker or originator actually

play? Are they supposed to be a financial advisor, or are they there to provide a product to a customer?

And it just seems as though we have so many moving parts to this. You know, is it the underwriter's job to prevent this from happening? Is it the originator's job? Where do you see this going?

And, of course, we have Wall Street who's providing money for these programs based upon the risk and their return of investment. And it seems as though this is all going to shake itself out -- and where we end up, I don't think anyone knows right now -- but we don't like to see where we're heading.

What would you like us to do as -- not only as a Task Force, but even as an industry? What recommendations would you have?

MR. PINKOWISH: It's a tough question. It's a very difficult question, because, you know, I've taken loan applications and

I've sat there with a consumer explaining an adjustable rate loan to them. And in some cases, they say they understand, and you think they do; but what are you going to do? Are you going to give the -- right now it's set up where you give a consumer a written disclosure, and the consumer just signs it. You're not testing whether they understand the product at all.

That's the essential problem, and it's -- and not everybody is going to understand the problem, or understand the way the product works. But that's the first step for the consumer to make a good decision, for the disclosure laws to accomplish what they were set out to do, which is provide the consumer with enough information to shop loans and compare and make the best choice.

So, you know, you said it. If someone wants to do something bad, they're going to do something bad as far as commit fraud, or if you're getting income based on commission from certain lenders and

different products, you may be influenced in that regard.

So I don't think this committee can change that scenario. That's the way it's -- the industry has evolved into a secondary market and the sale of loans.

If you could just -- again, that's why I said try to distinguish between the fraud occurrences, whether it's fraud in some part, and the people who are just really mystified and the consumers who were just mystified did not understand their loan programs.

And I don't know what type of financial system or counselling system or workout assistance you can give them, but that's, hopefully, what large, secondary market investors are trying to come up with, is workout programs, so that people can refinance out of these.

REPRESENTATIVE HARKINS: Thank you. I know it wasn't an easy question, and I know that's some of the things we're going to be trying to sort out here. But I think it

makes everyone sick to hear some of the stories that are occurring to those who are taking some of these products that they should never have to begin with.

And, you know, some may say: Well,

it's their decision; they signed the paperwork; they did this on their own. But, again, it's those unsophisticated borrowers who can't afford the home all the time that -- that are getting involved in some of these types of loans that I think most of us here today are concerned about, but I appreciate your comments; and I thank you today for coming.

MR. PINKOWISH: Thank you. I mean, you could say, Great, test the loan officers, make them pass a test. Then you have to test the consumers to make sure they understood what the loan officer said on every single loan. And I don't know if that's a workable solution, but if you wanted 100 percent compliance and 100 percent understanding, that's what it would take. It's just not

very workable.

REPRESENTATIVE HARKINS: Thank you.

MR. PINKOWISH: Thank you.

COMMISSIONER PITKIN: Thank you, Mr. Pinkowish. Frank Sykes.

TESTIMONY OF FRANK SYKES

MR. SYKES: Hello and good evening. My name is Frank Sykes. I'm with the African-American Affairs Commission. I'm the legislative analyst, and I'd like to first thank you for hosting this forum. I think it's very important in view of the large amount of foreclosures that are happening in the State and the nation.

I'm just going to read my testimony and, you know, speak. The Commission is not a member of the Task Force but is involved in discussions and meetings with the subcommittees, and the Commission is also a member of the Anti-Predatory Lending Task Force set up to address abusive lending practices in the State

and has testified numerous occasions on issues pertaining to predatory lending, et cetera.

We are all aware of the surge in

the number of foreclosures nationwide. Connecticut had the 17th highest foreclosure rate in the nation in 2006. While we are unaware at this time of the exact number of minorities facing foreclosure, we know that the vast majority of sub-prime lending occurs in communities of color, and it's in the sub-prime market that predatory lending occurs.

ACORN, a community organization, in their report titled "The Great Divide," highlighted some of these disparities. That report demonstrated that even for wealthier blacks with higher incomes, rejection rates for conventional mortgage loans were still much higher than their nonblack counterparts.

It is our understanding that the Task Force is examining and analyzing

the extent of foreclosures and its impact on diverse populations in the State. There's also in its mission to provide an understanding of what programs and options are available to homeowners facing foreclosure. These efforts are commendable; however, we urge the Task Force to examine all programs, current and former, that have a proven track record and are truly effective in protecting homeowners from foreclosure.

More importantly, we urge the Task Force to pay special attention to preventing foreclosures before homeowners endure the painful process of forbearance and loss mitigation. Much too often, the emphasis in avoiding foreclosures occurs after the homeowner's credit has been ruined and they are at risk of losing their home.

However, to avoid foreclosures altogether, the burden of responsibility must fall equally on the lending institution. While we acknowledge and

respect the principles of "buyer beware," for the sake of fairness, the time has come for the mortgage industry to be accountable for its own actions. To this end, the Commission would like to see this Task Force examine proposals to enforce stronger disclosure laws and measures that would encourage the basic principles of honesty and integrity.

Regulating the mortgage industry to instill ethical and moral responsibility is desperately needed. It is our understanding that efforts are underway at the federal level to institute such measures; however, the State should examine what can be done on its end to address this abuse.

In completion, the Commission recognizes that sub-prime lending may be the only vehicle through which some members in underserved communities can access credit. We also recognize that it is essential that homeowners -- homeownership rates for minorities and

low-income families continue to increase. However, lending to these communities must be conducted in a responsible and fair manner. Dreams of homeownership should not turn into financial nightmares.

In addition, underserved communities must have similar access to conventional loans as all other communities do, and the Commission looks forward to supporting the work of the Task Force; and it's available to offer its expertise and perspective on the issue.

I'd just like to say that our office has also received, you know, a number of calls, not a high volume, but certainly, you know, some calls in, you know, regard to predatory lending, and so this is an issue which we are really, you know, concerned about.

I mean, I actually heard other speakers over here, you know, commented it's a problem which is -- it's very pervasive. I mean, I know that consumers really don't have enough -- even the ones

who are considered -- who are -- you can call them "educated consumers," don't have enough sophistication to understand all the financial, you know, the financial terminology.

I work in the banking industry myself, and, trust me, it is -- it can be challenging just understanding all the, you know, financial, you know, lingo that, you know, comes with these, you know, documents.

And so, you know, I think as much as we can empower the, you know, the consumer, unless we take some action on, you know, the business end of things, I really don't think we are going to seriously address this issue of foreclosure.

So I'd like to thank you for your time, and if you have any questions.

COMMISSIONER PITKIN: Well, we would certainly like to thank you for your testimony, and I'll ask if there are any questions for you? Yes, Mr. Blinn.

MR. BLINN: Thank you so much for coming today. Have you noticed whether the -- the loans that you described, the predatory, that -- that you're getting calls on from members of the minority communities: Are they purchase mortgages or refinance mortgages or a mixture?

MR. SYKES: I think it's pretty much a variety of, you know, different, you know, types of loans. You know, a lot of these people don't really want to come forward, too, because they are, you know, sort of like intimidated, you know, and I think they also feel -- feel ashamed that they have actually, you know, signed up onto, you know, onto loans which, you know, sort of like, you know, make them feel, Okay, well, you really didn't know what you were doing, so.

And -- and they really don't know their rights. They -- they really don't, you know, know their rights enough to even know whether they should, you known, come forward or not, you know.

So I think, you know, we can empower

them, where -- I mean, there are some initiatives like the Borrow Wise initiative which was, I believe, started by the Treasurer's Office. It's, you know, it's difficult to measure how successful this program really is. It's a good program, no doubt, but, I mean, there needs to be something done more on the, you know, lending -- on the lending side.

I mean, the -- the -- the other speaker, the speaker before me, had mentioned that, you know, the mortgage industry was essentially -- I mean, you can't sort of -- I don't mean to say some sort of regulated in a way, but, I mean, you have insurance industries regulated.

They -- they -- they have a strong ethical component within the industry, and so they -- I mean, there's always going to be fraud, but, I mean, the whole issue really is to, you know, find -- to try to limit, you know, the fraud, and I think

this is what really we -- we -- we should be aiming -- aiming for.

MR. BLINN: Now, if some of these -- the reason I ask whether some of these were refinances, I'm wondering if you've noticed whether an increase in foreclosures is starting to have an impact on minority neighborhoods in terms of the balance of people, you know, of the percentage of homes on the street that are -- that are owner-occupied as opposed to rentals and what types of effect that has on a community --

MR. SYKES: Right.

MR. BLINN: -- and whether the foreclosure increase is starting to -- to impact that.

MR. SYKES: I can't say that, but, I mean, I'll suspect that. That's probably what it's going to lead to. I mean, obviously, I mean, you know, if your property is foreclosed on, I mean, it -- it, you know, effects the values of the neighboring properties, and that can eventually lead to, you know, a blighted community.

So that -- that is something which can, you know, happen in the long-term, but I can't definitively say that that's what is happening right now.

MR. BLINN: Well, thank you again for coming.

MR. SYKES: Thank you.

COMMISSIONER PITKIN: Thank you, Mr. Sykes. Thank you very much.

MR. SYKES: Thank you.

COMMISSIONER PITKIN: Donna Pearce.

TESTIMONY OF DONNA PEARCE

MS. PEARCE: Good evening.

COMMISSIONER PITKIN: Good evening.

MS. PEARCE: First, I must say I'm very nervous. I've never done anything like this before. You're a very intimidating group of people.

(Laughter.)

MR. KRAYEM: You should be sitting on this side.

MS. PEARCE: But I thank you for your time. My name is Donna Pearce. I live at 10 Nob Hill Circle in Bridgeport. I am a member, a new member, of ACORN, the Association of Community Organizations for Reform Now. Excuse me. I'd like to thank the Governor and the Task Force for holding hearings on this very important issue.

Last year there were 1.2 million foreclosure filings in this country. That's more than two foreclosures every single minute. Here in Connecticut last year, one out of every 118 homeowners in the State experienced foreclosure proceedings at some level.

I know firsthand the dangers of the predatory lending practices that lead to foreclosures because I am currently in jeopardy of losing my home due to foreclosure. More than three-quarters of all sub-prime loans are adjustable rate mortgages in which after two years the interest rate begins to increase and the loan becomes unaffordable.

Like many borrowers, I was steered into this adjustable rate without being given a choice, and I was lied to by my broker about how it worked and what I could do.

Even though I had good credit, I was given two separate loans, one with an 8.5 interest rate and another with a 13.5 interest rate. When I asked my broker about it, she told me not to worry because I could refinance in six months. So six months later when I tried to refinance, I was told I had a prepayment penalty and that I could not refinance anyway because I did not have enough equity in my home.

If my broker had been required to tell me the truth, I would have -- I would have a lower interest rate than I do today and I would not be in jeopardy of losing my home.

I'm here today not just for myself, but to represent thousands of ACORN members and Connecticut residents who are currently dealing with adjustable rates, balloon mortgages, prepayment penalties, and other problems that have been forced upon us by predatory lenders and the anti-consumer laws that permit such practices.

Foreclosures not only harm individual families but also entire neighborhoods due to the increase in vacant homes and the decrease in property value.

One of the gentlemen asked about that. I would invite any of you ladies or gentlemen to take a ride through Bridgeport, and you would see how many homes are up for sale; and they're trying to sell their homes so as not to lose their homes. The lawns aren't cut anymore because they don't care. (Pause.) Excuse me.

That is why I have joined ACORN's Save our Homes Campaign (pause) here in

Connecticut. Our mission is to save as many homes as possible in our neighborhoods, and a key part of doing that must be for the State of Connecticut to take a leadership role in curbing predatory lending and passing legislation that will protect homeowners like myself from foreclosures.

Our policy recommendations are as follows:

(1) The State should pass legislation requiring lenders to provide homeowners with -- I'm sorry -- with information about nonprofit housing counselling agencies, including names, phone numbers, and addresses, in every piece of correspondence regarding their loan, particularly with any late payment notices of foreclosure filings;

(2) Any homeowner facing foreclosure who begins to work with a housing counselling agency should receive an automatic one-month extension for any deadlines given by the lender;

(3) Lenders must be required to work with housing counselling agencies to find a way to keep the homeowner in his or her home. If the counselling agency finds that the borrower should be qualified for a lower interest rate loan than they are currently in, lenders should be required to work out a deal that enables the homeowner to make affordable payments and save his or her home;

(4) The State of Connecticut should pass strong guidelines regulating the behavior of lenders in Connecticut, similar to the legislation recently supported by ACORN and passed in the Minnesota legislature.

I want to thank the Committee for the opportunity to speak today. I am also submitting written testimony, as well.

I am not sure that -- how it is -- if it's easy for you guys to understand what it's like to receive paperwork or a call from an agency telling you that they're going to take your home.

I was -- when I closed on my home, I was the happiest person in the United States at that moment. I called my children, I called my mom, I called my friends. I almost called my ex-husband --

(Laughter.)

MS. PEARCE: -- I was so happy, and now I am the saddest person because of the situation that I'm in.

It's embarrassing. I didn't even want to come here today. A reporter from the New York Times spoke with me -- it hasn't been printed yet, but -- about the situation. I didn't even want to talk to her because everybody in my community is now going to know that a year after I was so happy, I am -- if I'm not helped by ACORN, then I lose my home. It's embarrassing.

And my credit rating that so good is now -- I don't even want to check because I know it has been damaged because of this situation that I'm in. I'm asking you guys, the ones with the power, to be able to help us so that no one else will experience the pain that I'm feeling. Please. Thank you.

COMMISSIONER PITKIN: Thank you very much, Ms. Pearce. Thank you. Are there any questions or comments from -- yes.

MR. CHANDLER: Hi. It's truly difficult to hear your story, and we really appreciate you having the courage to give it to us; and I might ask you a couple of embarrassing questions. If you don't want to ask -- answer them, you just say so. Did you provide the mortgage company with your pay stubs?

MS. PEARCE: No. They didn't ask for it.

MR. CHANDLER: They didn't? Can I ask, what was your monthly income at that time?

MS. PEARCE: I was making $500 a week at that time, yes.

MR. CHANDLER: Okay. And at what time did you find out that this was two -- two

loans, or what they call "piggyback" loans?
MS. PEARCE: At the closing.
MR. CHANDLER: At the closing? Okay. And what was your monthly payment on those two combined loans?
MS. PEARCE: Thirteen hundred.
MR. CHANDLER: Thir -- thir -- what?
MS. PEARCE: One thousand three hundred. The payments?
MR. CHANDLER: Yes.
MS. PEARCE: Yes.
MR. CHANDLER: Thank you.
MR. NILES: Does that include taxes?
MS. PEARCE: Yes.
MR. McCUE: Ms. Pearce, before you bought the house, where did you live?
MS. PEARCE: I -- I was renting.
MR. McCUE: And who was your landlord?
MS. PEARCE: Um, Sonia Joseph.
MR. McCUE: And what were you paying in rent?
MS. PEARCE: 800.
MR. McCUE: $800?
MS. PEARCE: (Nodding.)

MR. McCUE: Okay. And at the same time, you were earning $500 a month (sic)?
MS. PEARCE: Uh-hum.
MR. McCUE: Okay. When did you close on your home? The happiest day. When was that happiest day?
MS. PEARCE: A year ago June.
MR. McCUE: A year ago June. So your first payment was probably in August?
MS. PEARCE: Uh-hum.
MR. McCUE: And did you make that payment?
MS. PEARCE: Yes.
MR. McCUE: And how many payments did you make since then? So you made -- August of 2006, you made your payment, and when did you stop making the payments?
MS. PEARCE: Three months ago.
MR. McCUE: Three months ago. And was the -- has the interest rate changed since it started?
MS. PEARCE: It has not changed yet. The payment increased slightly, but interest

rate has not changed yet.

MR. McCUE: Has not changed yet. On either of the loans?

MS. PEARCE: On either, yes.

MR. McCUE: And who are you making your payments to?

MS. PEARCE: Litton Loan Servicing and HOMEQ, H-O-M-E-Q.

MR. McCUE: And have they called you and talked to you about helping you work this out?

MS. PEARCE: They called and told me, Get a roommate, and -- and the woman on the phone also said --

MR. McCUE: That may be your next happiest day of your life.

MS. PEARCE: And she also said that -- Are you aware that in about a year your interest -- your -- it's going to change so much that it could go up every six months? I said no. She said, Yes, it's going to go up every six months in about a year from now.

MR. McCUE: And you've received a -- a summons on a foreclosure?

MS. PEARCE: By the 20th of this month,

they said, is when I will receive it.

MR. McCUE: You will receive it. Okay. And have they continued to contact you and talk about making the payments?

MS. PEARCE: I don't answer my phone anymore when I see it's them because I know what they're going to say.

MR. McCUE: Well, thank you for coming, and you certainly shouldn't be ashamed of anything. You're a courageous person, and -- and I'm sure things will be good for you in the future.

MS. PEARCE: Thank you very much.

COMMISSIONER PITKIN: Representative Hamzy.

REPRESENTATIVE HAMZY: Thank you, Mr. Chairman. Just a couple questions. Following up on the questions that were asked, when you applied for the mortgage, did you use a mortgage broker?

MS. PEARCE: Yes.

REPRESENTATIVE HAMZY: And did you

submit any evidence of your income to the
broker?

MS. PEARCE: No.
REPRESENTATIVE HAMZY: Any tax returns?
MS. PEARCE: No.
REPRESENTATIVE HAMZY: So it was a stated-income loan that was applied for?
MS. PEARCE: Uh-hum.
REPRESENTATIVE HAMZY: And were you given a good faith estimate and a Truth in Lending disclosure statement at the time you made your application? Do you remember?
MS. PEARCE: I really -- I'm sorry. I don't remember. I don't think so, but I don't remember. I don't want to say that I didn't get it, because I really don't remember if I did.
REPRESENTATIVE HAMZY: Did you use a broker who was recommended to you or someone that you knew?
MS. PEARCE: Someone recommended.
REPRESENTATIVE HAMZY: Who recommended?
MS. PEARCE: The person that got me the home.

REPRESENTATIVE HAMZY: The real estate agent?

MS. PEARCE: The real estate agent, yes.

REPRESENTATIVE HAMZY: Okay. And when you went through the process, did you think that you were applying for one mortgage as opposed to two?

MS. PEARCE: Oh, yes.

REPRESENTATIVE HAMZY: One?

MS. PEARCE: Yes.

REPRESENTATIVE HAMZY: And were you issued a commitment letter, a letter from the lender advising you that you'd been approved for a mortgage?

MS. PEARCE: I think so. I think --

REPRESENTATIVE HAMZY: You did?

MS. PEARCE: -- I did. I think so.

REPRESENTATIVE HAMZY: And that commitment letter was for one mortgage?

MS. PEARCE: (Sighing.)

REPRESENTATIVE HAMZY: Let me ask you something. Do you still have all your paperwork --

MS. PEARCE: Yes.

REPRESENTATIVE HAMZY: -- from your -- you do?

MS. PEARCE: I don't have it with me, but.

REPRESENTATIVE HAMZY: No, I understand that. Would you be kind enough to share --

MS. PEARCE: Most definitely.

REPRESENTATIVE HAMZY: -- those with us? I mean, I'd be interested in seeing --

MS. PEARCE: Most definitely. yes.

REPRESENTATIVE HAMZY: Okay. Thank you.

MS. PEARCE: You're welcome.

CO-CHAIR KING: In the spirit of your courageousness, just one question: Is there a particular change in your employment circumstances or something that led you to stop making the payments? Why did you stop making the payments?

MS. PEARCE: Um, it's been high. My payments have always been high because it's a condominium that I have, so there's also condo charges. And my family has been helping me all along, but I've exhausted all of that. So that's why.

I was not concerned about it at first because she said, Six months, refinance.

So I thought, Okay, it'll be fine 'til then.

CO-CHAIR KING: I see. Thank you very much.

MS. PEARCE: You're welcome.

MR. EGAN: Could I ask, How much down payment did you put down for this mortgage?

MS. PEARCE: 3,000. 3000.

MR. EGAN: $3,000. So that's about 5 percent, 10 percent. What was the house?

MS. PEARCE: It was one -- 135.

MR. EGAN: 135. Thank you.

MS. PEARCE: You're welcome.

COMMISSIONER PITKIN: Mrs. Pearce, I just want to add my admiration of your courage for coming here tonight.

MS. PEARCE: Thank you.

COMMISSIONER PITKIN: I just have a question: Were you given copies of all the paperwork at the closing, or was that mailed

to you sometime later? Or do you recall?
MS. PEARCE: I think it was -- I think it was mailed to me. I remember getting some stuff in the mail. I think it was mailed

to me.
COMMISSIONER PITKIN: All right. Did you -- I guess just a simple answer: Did you understand the paperwork?
MS. PEARCE: (Indicating.)
COMMISSIONER PITKIN: And it's -- I will tell you I did not at my closing.
MS. PEARCE: No, I honestly don't.
COMMISSIONER PITKIN: Okay. I was encouraged to buy the house but never to read the paperwork, and I can certainly identify with not understanding the terms of the loan. Any other questions of Mrs. Pearce?

(Pause.)

COMMISSIONER PITKIN: Thank you very much for coming here.
MS. PEARCE: You're welcome. Thank you.
COMMISSIONER PITKIN: The next person,

I'm going to have a little trouble reading his name. His first name is Nicholas. I think the last name is Grace?

MR. GRAVERGRACE: GraverGrace.

COMMISSIONER PITKIN: GraverGrace. Thank you. I'm very sorry to have . . .

TESTIMONY OF NICHOLAS GRAVERGRACE

MR. GRAVERGRACE: I'm for the most part going to waive my right to speak. I can't say things as strongly as Donna did, but.

COMMISSIONER PITKIN: Would you sit down, sir?

MR. GRAVERGRACE: (Complies.) My name is Nicholas Gravergrace. I'm the statewide head organizer for ACORN, the organization that Donna is a part of. And I just wanted to submit -- these are some of our policy recommendations to folks here. I support everything that Donna said as far as those policy recommendations. I'm happy to answer any questions, but I don't have a prepared statement.

COMMISSIONER PITKIN: Well, thank you very much, and thank you for bringing Donna Pearce with you. Maria Diaz.

MS. KEMPLE: Ms. Diaz had to leave.

COMMISSIONER PITKIN: I'm very sorry. very sorry. Mr. Podolsky from Legal Assistance Resource Center.

(Mr. Podolsky is seated.)

COMMISSIONER PITKIN: Mr. Podolsky, are you going to read your testimony or just summarize it?

MR. PODOLSKY: No. I'd like to summarize it.

COMMISSIONER PITKIN: That's fine.

REPRESENTATIVE HAMZY: Rafie's a pro.

REPRESENTATIVE HARKINS: Let's take a vote on that.

(Laughter.)

TESTIMONY OF RAPHAEL L. PODOLSKY

MR. PODOLSKY: My name is Raphael Podolsky. I'm a lawyer with the Legal Assistance Resource Center of Connecticut, which is part of the legal aid programs

in Connecticut. By and large, most of what we do in the housing area is we represent renters rather than homeowners, but particularly our senior unit has been involved in representing homeowners who face payment problems and foreclosure-related issues, and we're very interested in what this Task Force is doing.

I want to say right up front that I'm very, very pleased that the Task Force was created, and I'm also pleased in particular that -- from having observed one of the committee -- subcommittee meetings, that you're taking a look at foreclosure law, because I think there's sometimes a tendency for those who are dealing with sub-prime lending issues to focus entirely on the front end of the process; that's to say, the many abusive practices that brokers may engage in that may be inherent to the loan documents themselves.

And it's obviously important to try and keep people out of the foreclosure

process and to intervene in any way that can be done to try and prevent a foreclosure and loss of the home, but maybe it's in part because I'm an interested lawyer that we see the foreclosure process itself as being very important; and my written testimony just kind of pushed things in that direction as to what I wanted to call to your attention.

I also want to say one thing about -- there were some questions about, What is sub-prime lending? I agree with Mr. -- I agree with Mr. Pizor, I believe his name is, who said earlier that he didn't think it was necessary to spend a lot of time trying to distinguish sub-prime from any other category of loan, and that's because the kind of regulation that I hope you will be recommending, in the end it shouldn't matter.

You should not have to write regulation targeted solely to sub-prime lenders or sub-prime brokers or people

who handle sub-prime loans. If the legislation, the recommendations, are general, it will not have any impact on the parts of the market that don't deal in these practices, and the compliance with them is not difficult for those that are already engaged in proper business practices.

In the -- in regard to foreclosure law, I want to highlight a couple things from my testimony, the written testimony.

First of all, I think I would encourage you to take a look at figuring out ways to expand the availability of pro bono legal assistance for people in the foreclosure process.

The legal aid programs are going to

touch only a tiny piece of that. There are Bar Association programs out there. I think figuring out ways to expand that would be very, very helpful to people facing foreclosure.

Second of all -- and I want to frame this in a broad way -- I think that

there's a need to take a look at interim kinds of financial assistance on a selective basis for people who if -- if they can have the time to get themselves in a position to protect their homes will be able to do so.

This is not something that works for everybody. There are people who are in way over their heads and nothing is going to save their home for them. But one of the interesting things is that we used to talk about people who lost their jobs and because they lost their job, they couldn't pay, and maybe they're going to get another job and maybe they're not, so the variable becomes the income level of the borrower and whether they can resume their old income level.

A lot of what's happening now is that because a number of these mortgages have -- have teaser rates, that they're going to jump up. They're variable rate mortgages; they're going to jump up after a while.

The income of the borrower may be quite steady. Their income isn't changing. Maybe it's even increasing a little bit over time, but what's happening is the cost of the mortgage is far outstripping any increase in their income. So we need to be able to look at that also, and there the remedy may be to get them into another mortgage, so that you need an active foreclosure -- an active refinancing program.

I mention in my -- the written testimony the Emergency Mortgage Assistance Program that we have not funded for over a decade and that I continue to believe -- I know there are others who disagree with me -- but I continue to believe it's an extremely important tool.

It was based on a Pennsylvania program that they love in Pennsylvania. Just recently they brought someone out from Pennsylvania to a -- to a forum who -- who essentially reaffirmed the importance of that program there.

It helps now almost 3,000 people a year avoid losing their homes, and it essentially involves the Housing Finance Agency paying an arrear -- paying off the arrearage and helping people stay current on their mortgage for a fixed amount of time while trying to put the financial situation in order.

Again, it's geared towards people who have lost their job or gotten divorced or become sick, and I think we need to look at re-establishing that kind of a program, but also in the context of people who have -- who have a mortgage that needs to be refinanced if they're going to be able to pay it. But all -- but any kind of a program of that sort needs to work -- is inherently selective, because it only will work with certain people.

Related to that, I do encourage the Task Force to take a look at the availability of refinancing programs so that people who are in a mortgage and who now have bad credit because they are --

because they have not been paying their mortgage will be able to find a way into a refinancing program that will allow them to get their monthly payments down.

And the third thing that I think I mentioned specifically in my written testimony is, I think -- I encourage you to look at foreclosure law itself.

It's very interesting, as a lawyer whose primary defense area is in eviction, is that we have come to recognize that it's very important in an eviction court that the Court be able to look at all the circumstances, equitable as well as legal, in deciding what is to be done in that case.

Foreclosures are equitable actions -- that's a well-established rule -- yet the availability of defenses in a foreclosure action is extremely, extremely narrow; so that for a person who might be in a situation where they would qualify for a mortgage assistance program, it may not help them in the foreclosure action.

It may or may not.

And so I would really encourage taking a look at our foreclosure laws themselves from the perspective of ways in which it's more possible for people to maintain a defense that will in the end allow them to keep -- to work something out that keeps their home.

There obviously are many programs that try to do workouts both before and during a foreclosure, and we very much support anything that strengthens those programs; but there are a lot of people for whom those programs are not successful.

And one of the interesting things that was brought out at the forum that I was at was the declining role of FHA in the mortgage lending market, where once the overwhelming majority of homeowner loans out there were FHA-insured, which then put you into sort of a regulated process when -- if you're having trouble paying the mortgage.

They were estimating that now FHA is down possibly below 40 percent of the market, and a much larger percentage of loans are not FHA-insured and are not necessarily channelled into loss mitigation programs as a matter of routine. And I think you need to -- I don't claim to have a -- a full knowledge on this, but I would encourage you to -- to take a look at that.

And, finally, -- and this is really in the nature of a footnote to my testimony, because it's a little bit off the rest of the testimony -- I was at a meeting of the Policy, Regulation Subcommittee where people talked about what to focus on, looking -- looking at the early stages, criminal -- special criminal law to deal with -- with people who do not -- who misrepresent -- subscribe to deceptive information, and there was talk about it being reciprocal so you can arrest either the lender or you can arrest the consumer.

And I would just urge you not to go in the direction of having consumers arrested. There's certainly fraud law on the books already.

It should be looked at as a business regulation type of issue in which you may want to put criminal sanctions on lenders who do not behave appropriately, but much lack of information or even misinformation that comes into the process with consumers is often with the knowledge, quiet consent, active consent, understanding of -- of the lender; and it's, in fact, a very real part of the problem itself.

And the threat of using criminal law to get somebody to pay when they don't have money, the I'll-have-you-arrested problem, it opens a -- opens a huge area of -- of potential abuse, and I would encourage you to stay away from that.

I thank you again, both for all the work that you're doing and also for the opportunity to testify today, and I'd be happy to answer any questions that I can.

COMMISSIONER PITKIN: Well, thank you very much for coming here tonight, Mr. Podolsky. I guess I just have one question: Could you just tell me where you got that information on FHA? Is that foot-noted in your testimony?

MR. PODOLSKY: No, it's not. There was a --

MS. FAGAN: It was actually a summit that we presented, and I put forward that information; so I've got [it] available.

COMMISSIONER PITKIN: Thank you.

MR. PODOLSKY: Thank you. Yeah.

That's the answer.

COMMISSIONER PITKIN: Thank you.

CO-CHAIR KING: I have one quick [question] just for the record. You mentioned that the program in Pennsylvania is administered by the HFA, but it's done with state funding; correct?

MR. PODOLSKY: You're talking about the Pennsylvania --

CO-CHAIR KING: Yes.

MR. PODOLSKY: -- program? My

understanding is -- my understanding is the Pennsylvania program is now almost a $30-million-a-year program. It was started with state funds, and then it -- as funds are paid back, it gets to keep those funds so that there's an incremental additional state funding over the years.

So it's grown from a small program to a large program. And then it also gets to keep whatever comes back, so that becomes part of the funding in the program. I believe the last year they added something like $8 million to get it up to around the 28 or $29 million level.

CO-CHAIR KING: Thank you.

COMMISSIONER PITKIN: Yes.

MR. NILES: I have a question for you, Mr. Podolsky. We discussed in one of the subcommittees the area that is one of your recommendations -- that's the pro bono legal assistance -- and one of the attorneys on the subcommittee mentioned that most of the attorneys practicing have lenders, banks, realty firms, as clients. They're in the

real estate and/or mortgage finance business through their clients. So the ability to bring them into the pro bono area of legal practice is extremely difficult due to conflicts of interest they have.

Do you have any specific recommendations on how the supply of pro bono legal assistance in the State of Connecticut can be effectively, materially increased?

MR. PODOLSKY: Well, I guess I -- I guess I don't know that I have an answer to that. I'd suggest a couple of things. Often for programs of this sort there's an effort to tap into new lawyers. New lawyers may see this as a step -- especially if they don't have an extensive practice, they may see this as a step towards in the long run expanding the practice.

I don't know what the rules on the lender side are as applied to -- as applied to foreclosure law if the specific lender is not directly involved. So, for example, I know there are plenty of people

who do landlord/tenant work who represent both landlords and tenants.

Now, they may not represent a tenant against a landlord who they represent, but there -- but especially when you're leaving the area of banking directly and moving into sort of the mortgage foreclosure lending, the mortgage lending area, where you have lots, a lot of -- of -- of nonbank lenders, I think you may discover that there are not always that many conflicts, and I would -- I would think that it should be possible with aggressive recruitment to get lawyers pro bono.

I don't disagree with you that there are potential conflicts, and those are real problems that have to be addressed. So I don't have a magic bullet for you on it.

MR. NILES: One other question. You mentioned refinancing assistance, and if it follows the EMAP program, that -- if I understand, that was bonded by the state.

MR. PODOLSKY: That's right.

MR. NILES: So in the State of Connecticut, we have somewhere between 10 and 12 billion of sub-prime loans existing on the books today, I believe. Most industry analysts say that a majority -- so let's say for simplicity, half -- a majority of the sub-prime loans won't survive a reset, and 80 percent of the sub-prime loans are 2/28's, which will reset.

So you take 80 percent of, you know,

say, 10 billion, and 5 billion of that will not survive the reset. So my question is this: What do you think is an appropriate level of state funding to be put towards it that the state also can withstand relative to their overall bond ratings?

MR. PODOLSKY: Let me just tell you what -- what I know about it from a comparative level. I know that the program was started with $4 million of state bonds, which was -- and that was -- that was the original dollar amount. They -- they did

not recycle that. So say they went back into the general fund when they were repaid. They were not all repaid. There's -- there's a loss factor involved to the state.

Pennsylvania, which is a bigger state, is at approximately $28 million level now, which is several decades after they started their program. I -- without knowing for certain, I'm assuming that Pennsylvania feels that that is a level for them of debt that they can -- that can be handled within the parameters of the program.

We've suggested for the past couple of years that the State put $5 million into restarting the program and making it recycle, which one would hope would then at least -- somewhere in the ball park of two-thirds to three-quarters of that would in due course come back.

And so I don't know -- I'm not able to do a debt analysis for you, but it seems to me it's a tiny -- it would be a tiny, tiny portion of any debt load that

was incurred, whether it was incurred by CHFA or incurred by the State through bonding, and that it would not be a total loss in any event because structured as loans, structured with a screening system designed to focus on those most likely to succeed, there should not be a huge loss factor.

In Pennsylvania, they actually reject about three-quarters of the applicants for loans under their program. So they're certainly fairly selective, and yet rejecting three-quarters, they're still serving between 25 and 3,000 households, which is a lot. That's a lot of foreclosures to -- to put on hold or -- or ultimately get rid of.

And if those two -- if a refinancing program could be tied into an EMAP program or an program similar to that so that -- so that part of what the time buys you is the time to refinance into a lower rate mortgage, I think you can really -- I think there's the capacity to have some

impact on the problem, not -- obviously, not the entire problem. You're talking about --

MR. NILES: Sure.

MR. PODOLSKY: -- millions of dollars, but a significant piece of the problem.

MR. NILES: Thank you.

CO-CHAIR KING: Just for full disclosure reasons, I was around CHFA when the program was administered. The 4 -- out of the

$4 million, it required $600,000 in administrative fees to administer that to help 132 borrowers, and one of the issues also is in the context of the -- whether the program is voluntary or involuntary for the participating lenders and how the market has changed.

I think you -- your comments, Rafie, I think, are on point about what can be done to help with the refinancing end of that in a general sense, but I would hope that we would look at it in the biggest context that I thought that your remarks were suggesting as opposed to what is

a very intensive and expensive small program.

MR. PODOLSKY: If I could just say something about that?

CO-CHAIR KING: Yes.

MR. PODOLSKY: My understanding, I believe the CHFA testimony was 400,000 rather than 600,000 in administrative expense, but --

CO-CHAIR KING: Inflation.

MR. PODOLSKY: Well, but the other piece was that the testimony was most of that was first-year, and although I don't know for sure, I think that a lot of the administrative expense was related to start-up, because there is -- because there is a need -- there is some labor intensity to the program, since there are -- um, but I would -- I would encourage the Task Force to take another good look at it and to take a look at the Pennsylvania program and see how those compare.

Ours -- ours ran for about two years. There are still people whose houses are

under that program because the people are still in the home, and typically the State doesn't get repaid until the home is sold.

But my -- my belief is that it is a -- it is a well-respected program in Pennsylvania, and we might learn something by taking a good look at it.

COMMISSIONER PITKIN: Thank you very

much. We appreciate your testimony. And any further questions?

(Pause.)

COMMISSIONER PITKIN: Thank you very much, Mr. Podolsky.

MR. PODOLSKY: Thank you.

COMMISSIONER PITKIN: Michael Lecamele (pronounced LACK-KA-MELL)?

MR. LECAMELE: Lecamele (pronounced LECK-KA-MELL-LEE).

COMMISSIONER PITKIN: Lecamele (pronounced LECK-KA-MELL-LEE). I'm sorry. That's three strikes. And then we'll have

Tom Milligan.

TESTIMONY OF MICHAEL LECAMELE

MR. LECAMELE: I -- my name's Michael Lecamele. I'm with Residential Finance Network, which is a mortgage brokerage in Fairfield, Connecticut, that I've owned since 1988.

First, thank you very much for the opportunity to -- to contribute to this discussion on the crisis that not only we face but pretty much the entire nation faces currently.

The -- during the time period of just about twenty years in the industry, I've had the opportunity to work with borrowers at all income levels, pretty much from small condominiums to multimillion-dollar McMansions and overlap between, and I've also had experience from the last real estate collapse in the early 1990's and the foreclosures that faced -- that we faced then.

And as in previous testimony, it is definitely true that the collapse back then was primarily related to people losing their jobs, not having enough income at some later point, whereas today it's primarily a situation of having pretty much the same income situation and the same -- same borrower situation but a change in loan program.

You know, the good news, I think, is that we made it through that time period and I'm confident that we can make it through this time period. And I just would like to make three points and then two suggestions today.

First, I -- I really believe that -- I strongly believe that a major focus should be both on -- should be primarily on finding solutions to assist the borrowers who are in trouble right now, first of all, and, secondly, trying to do everything possible to prevent a repeat of events which, you know, may eventually simmer down and we may see some -- the

same situation in some different format several years down the line.

And, you know, the reality of the blame for the current mess -- and when I say it's a "mess," you know, we see in the New York Times and in other -- other papers we see, Oh, investors losing money left and right, but the real mess is -- is the situation faced by the -- by individual owners and homeowners who are facing these -- these nasty situations.

And I -- I definitely, um, I definitely sympathize with Ms. Pearce and her situation because that's exactly the situation that the majority of borrowers in these 2/28-type adjustables are facing right now.

But, you know, the blame for the current mess is all around. It's investment bankers, hedge funds, eager to reap -- reap the profits of -- you know, in the past lending was about risk and reward, but in the previous two years it was all about taking the reward and then

waiting for the risk later.

And that's -- and that's basically where we're at now. They're taking it on the chin right now. And one of the things that -- that run -- they run into is that a lot of the -- one of the situations that they're facing is that a lot of the companies that are primarily responsible for the situation are actually gone.

So -- so that's, you know, that's one of the things that -- the ones remaining are the ones that were kind of doing the things they should have been doing right from -- from the first time.

My second point is that the current system of disclosures -- and this is from having done this with hundreds of borrowers over the years -- is -- is -- is -- is just absolutely antiquated and inadequate.

I -- I can tell you the real situation is that when someone comes in all excited that they want to buy a home, and then they're told -- they're told,

Gee, you know, just get me a house. What do I do?

And he prints up a set of disclosures, and this goes for whether they're getting a regular 30-year fixed loan with no prepayment penalty or one of the -- one of the high-cost loans and everything in between. They just start the paperwork.

And federal and state disclosure levels have gotten to about 15, 20 pages altogether, and they just say, Fine, where do I sign? Just give me my loan, and that's it. One out of 100 people actually read those documents. Some people look at the good faith estimate, but they only have two questions: (1) How much money do I need to buy this house today? and (2) What's my monthly payment gonna be?

The problem is that they never ask that third question, which if no one brings it up to their attention -- that third question is: What could my payments be, and what will my payments be in two

years, three years, four years, and five years? And that's kind of in the order.

And I've heard testimony where people say, Oh, you can refinance in a couple of years or six months, and -- and that used to be the case; but that's not the case as much now, now that property values have decreased and made it much more difficult to refinance.

My third point is that there actually are provisions with a lot of lenders to work out loans. I know that there was mention of FHA having loss mitigation procedures, but I -- I do know that, you know, most lenders do have specific workout-type programs.

The problem is, they make it really, really hard for you to find out about them as a borrower because I -- I'm assuming these -- they're just afraid that you're going to find out, that they're going to find out, everyone's going to find out and want to do it, you know, just thinking that people are just going to call up

at the first opportunity they can.

You have to go through an extensive process to -- to find any information as a borrower about how to get any type of workout loan whatsoever.

So I -- I have two recommendations. One is that -- is that I really believe it would be helpful for the states to put some type of program on -- on their web site, maybe on the Banking Commission web site, and maybe do -- instead of taking those adjustable rate mortgage disclosures that are very concrete and are one-time examples, to actually take those disclosures and make them live on an Internet site where, for example, someone would be required to put in the exact details of the loan that they're being given, and then in really, really gigantic text and font, you know, have an output screen which would simply show, you know: "This is the loan you're getting; your payment is this today, but your payment in 25 months or whatever number of months

will -- will be this; if rates stay the same, you'll be paying this; rates could be as bad as this really high payment." And they really need to know.

And then in giant letters, you know,

"Is there a prepayment penalty, and if so, how long?" because those are the two big issues that -- that -- that pop up. And I think if there were some type of program that would just require borrowers to go to that web site, print it out, and -- and -- and -- and have that in a file, every file, that requires that they've actually seen that and done this so that they know.

That would sort of take away the question of whether or not did a mortgage broker tell them the right information or not, or did, you know, and that would allow for the multitude of programs to be out there, but then to apply the specific information of how it applied -- it would apply to them.

My second recommendation is that I strongly believe it's up to the mortgage

industry itself, both at the broker level and at the lender level, to -- especially someone who's a loan officer -- to really, to, you know, extend voluntary counselling services at this point in time to homebuyers who -- homeowners primarily who are in distress.

And, you know, we've, you know, let's say we had a 9-1-1, you know, page on a web site that says, you know, if you've got some kind of emergency, you know, go to -- give us a call, and -- and provides some type of assistance.

In the 1990's, I was trained as a foreclosure prevention counselling assistant, and we had done some nonprofit work where we provided this type of assistance.

I have been trained on the different workout programs that, you know, people have mentioned, and -- and I really would think that, you know, it would really be beneficial to really -- in the same way that they're looking for pro -- more

pro bono assistance from the legal T&D (phonetic), on the foreclosure side, I think that the lending community and the loan app community could be helpful in loan officers helping borrowers in working out their existing -- their existing loans when -- just at the beginning is when -- where they get into trouble, and hopefully not when it's already down the line.

But at least working with those lenders and really saying to them, Gee, you know, you know, you've gotta work this out, you know, and -- and do that.

And the only thing that would be helpful from our perspective is that usually lenders only want to talk to the borrowers, and they -- they absolutely, even with an authorization, they don't talk to any representative or -- or third party.

And if there was some type of way of just mandating that they require that they be allowed to talk to third parties, we'd be able to jump in and provide assistance

there.

So those are my two points. And -- and I also want to just lastly say that in listening to the other testimony, I found it all pretty much on point and -- and very specific; and I -- I appreciate the fact that there's an extremely detailed level of knowledge all around here that I think will help get to some -- some optimal solutions. Thank you.

COMMISSIONER PITKIN: Thank you.

MR. McCUE: Could you -- what percentage of your business is sub-prime?

MR. LECAMELE: I -- I would say over the past couple years, it was probably about 20 to 30 percent.

MR. McCUE: And in the -- you -- you make your loans in Fairfield County?

MR. LECAMELE: We're primarily -- primarily Fairfield County, but we are statewide.

MR. McCUE: Okay. And lower Fairfield County or all of Fairfield County?

MR. LECAMELE: All of it. All of it.

MR. McCUE: What percentage of that 20 percent of -- the sub-prime loans. What percentage of the sub-prime loans did you make in Bridgeport?

MR. LECAMELE: I -- I would say there wasn't necessarily a higher, you know, Bridgeport, Stamford, Norwalk, New Haven, you know, urban areas versus suburban areas. I would say it's probably more primarily concentrated in a specific economic group.

You know, primarily the loans have been -- the most common loan sizes were probably in the 100 to 350,000 range, I would say, so whether it was in -- in suburbs or -- or urban areas, but it was -- it was less -- it was more just in that specific loan amount range.

MR. McCUE: And -- and what -- if you had to assess what percentage of those sub-prime loans you made to minorities, what would -- what would you guess those are?

MR. LECAMELE: I -- I would say --

MR. McCUE: What's your estimate?

MR. LECAMELE: I don't think there was necessarily, in our case, in that economic --

in that loan amount level, I don't think there was a significant difference in, you know, between minority and nonminority.

MR. McCUE: Were you making sub-prime loans in Westport and Darien and New Canaan?

MR. LECAMELE: Occasionally, we were.

MR. McCUE: Okay. And those would have -- would they have equity?

MR. LECAMELE: Situations vary considerably, and -- and, you know, sometimes, you know, we say a sub-prime loan -- I know there's been talk about defining a sub-prime loan. If you define a sub-prime loan as a 100 percent financing loan, we are doing 100 percent financing loans all over the place at much higher income levels, both on a stated basis and on a -- on a -- on a -- on a full-income basis, you know, because that was the trend over the last years, was put nothing down.

MR. McCUE: What percentage of your sub-prime loans were refinances?

MR. LECAMELE: I would say in the last year, it's about half and half.

MR. NILES: One question. You mentioned voluntary counselor services. Who were you targeting that to and when in the process?

MR. LECAMELE: I -- I would say the -- the first step would be, you know, for the existing homeowner base, that -- that 10 billion range of people who -- who may or may not be aware that they're about to, you know, go from, say, for example, a 7 percent adjustable, a 7 percent rate, to maybe a 10 or 10 -- 11 percent rate.

MR. NILES: Who's offering it? The servicer?

MR. LECAMELE: I would say that it should be the loan officer community in general that's not affiliated with the actual lender that's -- that's -- potentially might need to be doing the workout.

In other words, I, you know, I -- I -- what we're trying to do is say, you know, we're available so that if either our clients or other clients who

come in and they -- they just have some

situation on their hands, we'd -- we'd be more than happy to sit down with them and do -- because essentially you've pretty much -- if you are going to do a workout, you have to do what is essentially a new mortgage application and give it to the existing lender.

So, like, you know, the borrower could have help in presenting that information correctly so that then they can give it to the lender, and then the lender can make a decision on how to -- what kind of workout to do.

Yes. Basically, to give somebody on the borrowing side somebody on their side to -- to help, because I know that there's been mention of, in previous testimony, of people who are -- who are, you know, justifiably not, you know, just, you know, unable to talk to the servicer or you just don't want to or just feel like they don't know what to do. That's the primary purpose.

MR. McCUE: Are you familiar with the

term "churning" a portfolio?

MR. LECAMELE: Absolutely.

MR. McCUE: Okay. Would you explain to everybody what that is? And then in the context of talking to people that are operating within the confines of a -- of a two-year prepayment penalty, what limitations you would have as a result of any nonchurning agreements that you have?

MR. LECAMELE: Well, I -- I think it's -- it's in -- it's in two areas. There's -- there's churning at the lender level and at the -- at the loan officer/originator level.

I -- I think that some servicers actually take their entire portfolio and give it to their retail or their internal sales staff and say, Go see what you can drum up as new -- as new loans, and for whatever reason it makes financial sense for them to do that. When that happens in the context of having a prepayment penalty, that gets extremely expensive.

And, you know, the other type of churning is when outside of the prepayment penalty where -- where even though they've come to the end of that two-year period -- and, you know, just to give you an example, I mean, if someone starts out with a $200,000 loan in year one and then two years go by, and then they don't want that rate to go from, say, 6 and a half or 7 to 10, they -- they get refinanced again.

But, you know, often a lot of these institutions that are now in business are charging two, three, and four points to get that done, so then suddenly the loan is 210 or 215 or 220; and then you do that, you know, two, four, six years in a row, suddenly, you know, you're going backwards, not forwards in terms of -- in terms of getting -- in terms of, you know, building equity in your home and -- and cutting your debt.

MR. McCUE: Do you have agreements with your lenders not to churn their loans?

MR. LECAMELE: We have -- the agreements we have with the lenders are very specific in terms of not refinancing or soliciting a refinance of that borrower within -- within either a four-, six-, or 12-month period, not for the benefit of the borrower but for the benefit of them selling to their investors, because they get penalized if the loan gets paid off within four, six, or 12 months. It's not -- it's definitely not a borrower, you know, provision to protect borrowers.

CO-CHAIR KING: I had a couple quick questions. What percentage of your loans would you estimate were made to investor-type properties?

MR. LECAMELE: 15 percent, 10 to 15 percent.

CO-CHAIR KING: And home equity types of loans, to cash out?

MR. LECAMELE: In terms of units or -- or volume?

CO-CHAIR KING: By everything.

MR. LECAMELE: Do you mean first mortgage, cash-out-refinance-type loans or?

CO-CHAIR KING: No. Just -- well, loans where the objective was to take cash out of the deal, have equity.

MR. LECAMELE: Oh, a lot of the refinancing in the last few years was cash-out refinancing.

CO-CHAIR KING: And the third thing is your -- your point about not understanding what workouts are out there for borrowers. Is -- how does the effort [occur] to not make that well-known? Is that because of relationships with the investors where the lenders or the servicers can't disclose that workouts could be done because they have agreements with the investors?

MR. LECAMELE: I -- I expect -- it may be. I don't -- I don't know, but I do know I did see a statistic somewhere that -- that -- that, you know, some, you know, investor agreements with their servicers, some of them allow a certain percentage of workouts in their portfolios whereas -- and some allow none. And so a lot of times the servicers are stuck with whatever the investors say is their -- is their, you know, what they're allowed to do.

CO-CHAIR KING: Have you seen any agreements that said that they can't proactively go out and inform the borrowers that are in trouble?

MR. LECAMELE: I'm -- it's out -- sometimes we do see borrowers reporting that they are getting information from -- from the lenders that, you know, if you're having trouble making a payment, give us a call, but I think what ends up happening is most of the time that ends up being diverted not to a workout but to an actual -- to an actual refinance section, so, to put them in yet another loan.

CO-CHAIR KING: Okay. Thank you.

COMMISSIONER PITKIN: Yes.

MS. FAGAN: I assume you're familiar with housing counselling agencies and the services that they provide?

MR. LECAMELE: Yes.

MS. FAGAN: Okay. Could you just clarify for me, then, what would be the advantage over a housing counselling service versus using your voluntary loan officers?

MR. LECAMELE: Actually, I think that the housing counselling agencies would be an ideal, you know, conduit if there's already that, you know, with those already in place, but what I find is that -- is that a lot of consumers don't seem to have a connection there or aren't aware of it or -- or -- or unable to connect as easily as they -- as they might.

I -- I don't -- I don't know why that is, but, you know, especially, you know, down in like, for instance, in Fairfield County, I don't think there's either the publicity or the -- or the, you know, activity that would -- that would make it known to people if that's the case.

I mean, if -- if there -- I would suggest that, you know, perhaps the, you know, in terms of providing assistance from the loan officer community, you know, maybe the best thing is to provide their, you know, volunteer time to those agencies, you know, and then -- and then also be encouraging.

I guess -- I guess what part of it is, is it's because we come in contact with all the people who do have these issues on a regular -- because usually the first call is, Hi, I need to refinance my loan. And then we say, You can't because of problem A, B, or C.

But, then, not every loan officer has the instant, complete, you know, contact person: "There's a local person," it says right here. "Call this person, and they can help you out." And follow up there.

MS. FAGAN: Earlier it was mentioned that -- a recommendation of actually having lenders, loan officers, make referrals or let individuals [become] aware of those, that information. Could that be done as part of the process also?

MR. LECAMELE: Sure. I mean, you know, it's obviously, you know, not, I mean, I -- however this would be done, you know, in terms of contacting the loan officer community. Sure, absolutely. I think it would be great to have like a, you know, an up-to-date set of listings of who's providing what types of counselling.

I think there's also a couple of different kinds. Like sometimes there's first-time homebuyer counselling; sometimes there's multifamily counselling; and -- and then there's also, you know, then there would be foreclosure and workout counselling.

MS. FAGAN: So you wouldn't assume that would be burdensome for you to do that?

MR. LECAMELE: It, you know, it would and it wouldn't because I, you know, there's definitely, you know, obviously, there's going to be a lot of volume in the next couple, you know, year or two.

And -- but I consider it like a responsibility in our industry in the same way attorneys, you know, are supposed to be doing their pro bono type work, that's all.

MS. FAGAN: Okay. Thank you.

COMMISSIONER PITKIN: Thank you very much for your testimony this evening.

MR. LECAMELE: Thank you.

COMMISSIONER PITKIN: We have one more person.

(Off-the-record discussion.)

TESTIMONY OF TOM MILLIGAN IV

MR. MILLIGAN: My name's Tom Milligan. I'm just representing myself. I'm a loan officer with a company in Fairfield County, as well. Thank you.

I wanted to start off with the more common question that a loan officer will hear. I don't know where he went to, but all we're gonna hear is, What is your rate? So, I just want to give you a little bit of enlightenment into why people ended up in 2/28's, if you know what that means. I'm believe you're familiar with the mortgage terms.

COMMISSIONER PITKIN: I think we all know.

MR. MILLIGAN: Okay.

COMMISSIONER PITKIN: Painfully.

MR. MILLIGAN: 2/28, 3/27, some six-month adjustables --

COMMISSIONER PITKIN: Right.

MR. MILLIGAN: -- and one-month adjustables.

COMMISSIONER PITKIN: Right.

MR. MILLIGAN: I don't know exactly which programs you use, you've seen the most of, but, so that's the most common question. 2/28 will have a lower rate than a 3/27 typically, and a 2/28 and a 3/27 will be lower than a 5/25. It all has to do with how long the interest rate is fixed, and since they're in the sub-prime category already, then, you know, that's always the lowest rate, to have the shortest time period.

I would like to offer first my definition of sub-prime lending, or a sub-prime loan. See if you like it, use it if you like. I wrote it out here for you: A sub-prime loan is a loan with a greater risk of default for one reason or another causing the loan to be sold on a secondary market at a higher -- as a higher yielding bond than you might get on loans with someone who has less risk associated with their file.

So it all really stems with the risk. It was kind of alluded to by one of the previous people. Everything in lending has to do with risk. If you wanted to lend me money and I was a deadbeat, you would want a higher rate of interest or you wouldn't bother with me at all, and if I was true to my word and you could count on whether or not I was going to repay you, you'd feel less risk involved with that transaction and you'd scrutinize me less. So, take that definition.

Next, I'd like to give you a scenario. This is actually a true story, a person that I met about a year and a half after he had purchased a home.

I met with him through a translator.

He lived -- [was] from Brazil. He didn't speak any English, and I don't speak any Portuguese; so a little bit of a language barrier.

When I went to meet with him, he had delusions of grandeur, really. He was looking to purchase another property for investment. He had purchased a 700 square-foot bungalow in Bethel -- Bethel, Connecticut. He had purchased the home for $265,000, and he put $15,000 down, a sizable down payment for an immigrant to the country who doesn't speak English. Very hardworking person. I admired his work ethic.

Unfortunately, the person he went to to do his original loan was a little bit unscrupulous, I would say. Happened to be one of his own countrymen who spoke Portuguese and put him into a 30-year loan. 30-year loan. Sounds okay, right? So, and the rate is fixed. Sure it is. Okay.

Well, it was a 30-year amortizing loan, or, actually, it was interest-only to start, but the loan had a term of 30 years, although it was a 2/28. 30-year loan is correct. A 30-year fixed rate loan would be different. So he had a 2/28. Okay. So that's bad enough.

Well, start rate, which was all he was really interested [in], was 5 and an eighth. That's not a bad rate for about three and a half years ago. You can confirm that. It's pretty good. At least he thought so. And he thought it was a 30-year fixed, and that seemed very good.

So he had a 2/28 at five and an eighth. Well, his margin -- have you all looked at the margins, what that means on an adjustable rate mortgage? That gets added to the index to come up with the fully-indexed rate. The loan was based on a six-month LIBOR.

When I was meeting with him, I think

the six-month LIBOR was somewhere around 5 percent, so -- and we could look that

figure up -- but, regardless, when you look at a margin being 7 percent, an outrageous margin compared to an A-paper loan typically somewhere around two and a quarter, two and a half maybe. 83 (sic) percent, somebody gets a loan, which is a little on the high side from some of the ones I've done, but the margin he's getting added to a six-month LIBOR at the time around five? I mean, his fully-indexed rate is 12? With caps of 3, slash, 1.556.

So I don't know -- without having a white book to explain all this, I'm just going to assume that you know what I'm talking about. Defining to you what that means through a quick review of terminology, this first number refers to the maximum increase, so his maximum change in his first change period.

So his loan could adjust up or down a maximum of 3 percent, first change, but

I believe it had a stipulation it couldn't go down. So it was going to go up. When

you look at the fully-indexed rate being 12 and the start rate being 5 and an eighth, you compare the fully-indexed rate with the maximum change, which would be 3 percent above the start rate of 5.125.

[To the Court Reporter] Are you able to catch all this?

So, his rate, no matter what he did, was going to be 8 and an eighth. This person came to me. He was looking to actually cash out, refinance, purchase another property, and, you know, flip this property. And he never asked any questions with regard to this loan.

So, needless to say, he didn't really trust me, which was kind of crazy, because I didn't speak his language, and the translator -- I don't know if he was doing a good job. But he didn't believe me. He thought he still had a 30-year fixed.

So I met with him another time, and

I actually highlighted his entire mortgage
package and all the pertinent information.
I didn't end up doing the loan for him.

I think he went back to the same person
that beat him up the first time.

But the loan was about $250,000.
I want to just give you an idea. And
we heard from somebody with firsthand
experience what she's going through;
she hadn't even had her rate adjust.

Okay. The situation was this: 2/28.
I met with him in month roughly 18, so
his mortgage payment -- for a simplified
calculation so I can just do it quickly,
let's just say with interest only.
I think it was.

So his taxes and insurance aside,
his interest-only payment for the first
24 months would be $1,067 on a $250,000
loan at 5 and an eighth, so that would
be for the months one through 24. His
prepayment penalty -- oh, we didn't get
to that, right?

Prepay. 2/28, so that means his

rate's gonna adjust after two years.
Can I ask, Mr. McCue, what would be the worst prepay you might be able to have

on a 2/28? Well, something that would last longer than the initial fixed rate period, right, might be pretty bad. So he had actually a three-year hard prepayment penalty. If you know what the difference between a hard and soft is, that would help, so I'll explain it.

A hard prepayment penalty is one in which you cannot get out of, basically, whether or not you're resigning or sell the property, you are going to pay that prepayment penalty. A soft prepayment penalty is one in which you can sell the property and get out of it, but if you refinance, you cannot. This guy had a three-year hard prepayment penalty, so there was nothing he could do to avoid his prepayment penalty in the first three years.

So he was definitely going to have

a rate increase or he was going to pay a difference based on -- based on his prepayment penalty.

Now, from the standpoint of structuring this loan from an investor perspective, it's fantastic. You're going to make some money no matter what. And if I was designing it to make maximum revenues, I might design it exactly the same way, but surely without full disclosure and without the person understanding and it not being written in English -- or it not being written in his native language, which was a serious problem, he definitely didn't know what he was getting into.

So his payment was 1,067 to start. His prepayment was 6,200. I'm trying to rush because I think we're getting ready to . . .

COMMISSIONER PITKIN: Her fingers are very tired, so just slow down.

MR. MILLIGAN: I don't expect that

you'll catch everything. If you would like to speak with me another day, I would be happy to come and talk to you. Absolutely. Is any of this interesting?

COMMISSIONER PITKIN: Let me just give the transcriptionist a minute.

(Off-the-record discussion.)

MR. MILLIGAN: I don't know if I have another 20 minutes in me, but, okay. So 1,067, to review, is the payment at the start. It seems great. He was very happy. He didn't realize he had a prepayment of $6,200 at that time.

As soon as his first change period occurred, which was six months after I met with him -- I actually recommended that he refinance within that first 24 months for various reasons, but that was my actual recommendation.

As soon as he hit month 25, his payment was going to go from 1,067 to

1,693 plus taxes and insurance, a change of 626 bucks. Think of your car payment. How'd you like to buy another car, or two? This guy's car payment was, like, 250, and so that represents more than two

additional cars in his family or, you know, with his level of income, it certainly wasn't going to be affordable.

So all of a sudden his payment goes up to 1,693. Now, he didn't realize he had a prepay. When's he going to look to refi? Any guess? Well, probably when his payment jumps up, right? Okay. So his payment jumps up $626. Ah, but there's a catch: The prepayment penalty is for three years, and it's hard, meaning that he can't get out of it no matter what.

So in addition to the first part of what I said about it being three years, it also is based on the interest rate at the time of the refinance. Now, isn't that wonderful. So it went from 5.125 to 8.125.

All of a sudden, he decides he wants

to refi because his payment just jumped, but all of a sudden, his prepay went up as well. Instead of being 6,200 -- now, I'm quoting you some numbers, and I can quick, run down them real quick. I can get the

exact figures. Some prepayment penalties are based on 80 percent of the principal balance at the time of the refi, some are based on 90.

It all depends on the lender and the structure of the loan, but for simplification, let's just say his prepay was going to go up significantly based on the interest rate jumping. So based on these numbers, if his prepay was 6,200, at the end of the first 24 months, it was going to jump up to a little over $10,000.

This is a 700-square-foot bungalow. You could fit about three of them in this room, maybe more. Okay. So -- let me just finish up the numbers. So after the 30th month, it's going to jump up again, and the payment's going to be $2,005 per month, plus taxes and insurance.

Now, his initial was 1,067. Now he's up to 2,005. This is after 30 months, two and a half years. So his payment's jumped another $312, so another car payment or another week's pay for some people in

this income category.

So that's a total of nine hundred -- almost $940 above his initial payment, or almost double. I would say about a 90 percent increase over his initial payment. Pretty substantial. Oh, and also his prepayment's jumped up again, so now it's around $12,000 if someone wants to refi.

So if a person wants to refi because it costs to stick it out after 24 months -- you know, maybe I can last, you know, find a way to make it work; I'll get a roommate, as suggested by one of the people at the bank to one of the people testifying this evening. So he gets a roommate hypothetically.

You know, he's able to make it for

a while, and all of a sudden his payment jumps again. He finally can't bear it, so he refinances. But now with the real estate market the way it is, the housing prices have kind of gone flat; there's no equity there to even refi. So he decides

to sell.

So he still owes 250 because it's interest-only, and it paid 265. So maybe -- maybe he can get 280. That'll give him a $15,000 jump, right? That'd be great. So now he's gonna pay the real estate agent. It's gonna be what? Should we agree on 5 percent? Kind of a mid-range for a real estate commission, of one percent conveyance taxes, so 6 percent of the total sale? 6 percent of 280,000, you're looking at what -- 12, plus another 48, so 16,800?

He had a $250,000 loan; he has to pay the $10,000 prepay. You're up to, okay, 260. 276/8, if my math is right. Okay. So he sells it for 280, and 276/8 --

great. So you made yourself a quick 3,200 bucks, if my math is right, if that, but he put $15,000 down.

Needless to say, he probably starts missing payments instead and starts going into foreclosure, so the option of easily refinancing goes out the window because

all of a sudden his credit's shot. So there's no helping him, because he's gonna just be back in sub-prime.

You know, I hear people talk about, Oh, you can refinance into a lower rate loan. Are you out of your mind? Who's going to buy that -- who's going to buy that security? If I have any takers, I got plenty of people that would refinance into it.

COMMISSIONER PITKIN: Can I ask a question at this point?

MR. MILLIGAN: Absolutely. Go for it.

COMMISSIONER PITKIN: I guess, you know, we certainly all understand how these transactions get structured and -- and the pitfalls within them for certain borrowers that are overburdened, I guess, but what would you recommend we do?

MR. MILLIGAN: I'm glad you asked. That was my next point, so. I wanted to give you a scenario first because I think it's a little shocking, but some recommendations? First, I want to ask you: Think about your

own investment portfolio. Everyone's going to be a little different. Some of us have a little more money than others.

I've only been out of school since 2000 -- so I haven't been out that long -- but think of your investment portfolio; and then think of the amount of your mortgage. It's a personal question. Which number's higher? How much money you have in assets -- in the bank, in savings, investments -- or in your mortgage?

How much licensing, testing, background checks, anything, is required of anybody becoming a loan officer? $150? Sign on with a broker. Some companies don't even sign them on.

I just read that someone's penalties from the Department of Banking last night on the web site were what? They forego actually saying that they're being punished, and they donate some money, 1,000 bucks per occurrence or something. And one company had, without naming them, had 45 loan officers that they never

registered; so they paid $45,000, and it went away.

I mean, these people -- you got a whole bunch of people that don't know what they're doing out in the marketplace handling the largest transaction of people's lives, dealing with the largest financial instrument in their portfolio, which is their mortgage. It happens to be that they owe the money instead of actually have the money.

Then you got financial investment companies that have significant amounts of education requirements, licensing requirements, and continuing education, as well as -- I mean, you can go to a real estate agent.

I mean, anyone can pretty much become a real estate agent. I have a real estate license as well. It's a piece of cake to get the license. Find yourself with the requirements. Great.

COMMISSIONER PITKIN: So you think ease of entry into the industry --

MR. MILLIGAN: It's ridiculous.

COMMISSIONER PITKIN: -- is an issue?

MR. MILLIGAN: I've met more loan officers -- why don't you just give a quiz? Call any mortgage company. Give 'em -- just any one of them. Give 'em a vocabulary quiz.

COMMISSIONER PITKIN: How do you feel the bond issue is, the bonding issue?

MR. MILLIGAN: I don't -- look, I don't own a company. I'm not the owner of the company. I think it's $40,000 for a bond issue, but I personally don't care and I really don't want to get involved with people that are in foreclosure. I -- I -- call me heartless or whatever. I will help them;

I'll give them advice. I'm all about the education up front.

Once it's that far along, I'm not an expert at how to fix it. I do people's education up front. Someone's credit's shot? I'll recommend they -- it might be in their best interest to hold off, and I will educate them.

I've had instances where I've raised people's credit. I am not a credit counselor -- I want to point that out -- and I do not do things that remove credit -- or blemishes that should be there. I focus on the 30 percent of credit which is based -- there's five parts to a credit check. The most important part is 30 percent is credit utilization ratio.

Oftentimes, people apply for a loan, and it could coincide with right after they went on vacation or something along those lines. And so that 30 percent may significantly impact their credit score in the short term, but credit is -- it's a snapshot, and you can, through education, inform them as to how they can look at their overall credit and understand how they might be able to impact it in a positive way, not necessarily removing "lates" that should be there or all that other stuff.

I'm in the -- in full disclosure, I am in the process of writing a book on credit -- and it should be out by the end of the year -- but it's all about my experiences with how I've helped people and how that's impacted people. In terms of scenarios, I helped one person raise their credit 124 points in three and a half months simply based on credit utilization.

It happened to be an attorney, a very prominent member in his town. He just didn't understand credit. He had plenty of assets; he had plenty of debt. His credit utilization ratio must have been in the toilet. 124 points? Three and a half months? That was -- and it probably was quicker. That's after I gave him the list of things that he ought to do. Another one, I had a 127-point increase.

CO-CHAIR KING: I have a question.

MR. MILLIGAN: Sure.

CO-CHAIR KING: In the interest of the hour, if you could just summarize the points

that you want to make? because a lot of us do know a lot of the details, but we're really here to hear what the suggestions are.

MR. MILLIGAN: Sure. I just want to summarize three things. So, education --

CO-CHAIR KING: We understand why you're suggesting --

MR. MILLIGAN: Education, licensing, some sort of accountability. The real estate agents? If you go on the Connecticut web site -- I forget it, which one it is --

CO-CHAIR KING: I know all this.

MR. MILLIGAN: -- you can see all of

the penalties, and if a person has been reprimanded by the State, it will actually show up based on your name; and the consumer could actually search that.

Look me up. You can't find me anywhere. I don't exist on a State web site. I'm a loan officer.

CO-CHAIR KING: Okay. I got --

MR. MILLIGAN: If a broker. So there's no accountability whatsoever. So there's no

one there to say, This person's a shyster, and he's gonna steal your money.

CO-CHAIR KING: So those three things. Anything else?

MR. MILLIGAN: Well, it was mentioned a little bit earlier in a high-tech way of having full disclosure in big letters on a screen. I would suggest that [be on] one sheet of paper and we have attached to that a Truth in Lending statement.

Most of it's gotten a little complicated, and I don't think anyone really understands someone that -- when

I actually show it to 'em. If you have a one-page statement that says: Your rate is adjustable, and show you the maximum that it could go up. I've seen --

CO-CHAIR KING: Okay. Simplicity.

MR. MILLIGAN: Simplicity and a summary: Your rate will adjust after this long. I know I'm long-winded, a little long-winded. I think I hit . . . I've got three or four pages' worth of notes.

COMMISSIONER PITKIN: Well, you're

welcome to submit testimony in writing by the end of the month.

MR. MILLIGAN: I hate to write. I actually paid someone to write my book.

COMMISSIONER PITKIN: Well, listen --

MR. MILLIGAN: I dictated it, and she put it together.

COMMISSIONER PITKIN: You certainly have that opportunity, but in the interest of the hour, I think we have to --

MR. MILLIGAN: Okay.

COMMISSIONER PITKIN: -- move along, Mr. Milligan.

MR. MILLIGAN: No problem.
COMMISSIONER PITKIN: Are there any questions from the panel?

(Pause.)

COMMISSIONER PITKIN: Thank you. I want to thank you very much.
MR. MILLIGAN: Okay. Oh, the other thing. People chose sub-prime loans and loan officers did because they paid more.

COMMISSIONER PITKIN: Thank you very much.
CO-CHAIR KING: Thank you.

IV. CONCLUDING REMARKS BY COMMISSIONER PITKIN

COMMISSIONER PITKIN: I want to thank -- I think we've reached the end of our testimony list, and I want to thank everyone who has testified tonight. I know many people had to leave. And I especially want to thank the panel members who came from far and wide to be here tonight and sat patiently.

And I, on behalf of the panel, think we received an awful lot of information to consider, and I want to thank you. So the meeting will stand adjourned.

(Special Meeting concluded: 7:56 p.m.)

CERTIFICATE

I hereby certify that the foregoing 202 pages are a complete and accurate computer-aided transcription of my original Stenotype notes taken of the Special Meeting of the Governor's Task Force on Sub-Prime Mortgage Lending, which was held before the public at the State of Connecticut Legislative Office Building, Room 2C, Hartford, Connecticut, on Tuesday, July 10, 2007, commencing at 5:01 p.m.

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Barbara-Anne V. Scott, LSR # 252
Official Court Reporter

____
Date

Department of Banking Exhibits *
(Received in Evidence)

* Reporter's Note:

All original exhibits were retained by the Office of the Commissioner of the Department of Banking.