Appendix J

State DOB and Task Force Letters and Correspondence

Exhibit 7

July 31, 2007

Ms. Susan Wensil
Coordinator, Default Administrator
ABN AMRO Mortgage Group, Inc.
7159 Corklan Drive
Jacksonville, FL 32258

Dear Ms. Wensil:

In recent months we've been closely following the growing number of delinquencies and foreclosures in the sub-prime mortgage market. In fact, sub-prime mortgage problems are expected to increase in the next 18 months as nearly 34,000 Connecticut sub-prime loans reset to a higher rate of interest following the introductory rate. The major concern among lenders, servicers and investors is repayment risk. Increased foreclosures as a result of non-payment will not only affect the borrowers who will lose their homes, but will negatively impact real estate values and efforts to combat neighborhood blight.

I recognize the many challenges our citizens as well as the Connecticut mortgage banking industry face in trying to resolve this economic issue. *I encourage all institutions to work with borrowers and employ suitable workout arrangements that will achieve the goal of retaining home ownership.* Unfortunately, there will be times when foreclosure, or a similar action, will be unavoidable. The key to success in dealing with this problem is to be proactive in contacting borrowers well in advance of when an interest rate reset occurs. This not only avoids "payment shock" to the borrower but enables lenders and servicers to evaluate whether borrowers can afford the higher payments.

As you may know, I have convened a Sub-prime Mortgage Taskforce, charged with completing a definitive analysis of the entire issue, including the number of families currently holding sub-prime mortgages in Connecticut, the number in foreclosure, the opportunities for refinancing and other forms of assistance or guidance that may be available to affected families. The Co-Chairmen of the Taskforce are Gary King, President of the Connecticut Housing Finance Authority, and Howard Pitkin, Commissioner of the Department of Banking. Please contact either Gary King (860-571-4240) or Howard Pitkin (860-240-8100) with any information or creative strategies that you can offer to assist in resolving this very serious issue that affects us all.

Once again, I am convinced that we can be partners in meeting this challenge and will be successful if borrowers, lenders and servicers work together.

Sincerely,

M. Jodi Rell

M. Jodi Rell
Governor

Exhibit 8

STATE OF CONNECTICUT

DEPARTMENT OF BANKING

260 CONSTITUTION PLAZA • HARTFORD, CT 06103-1800

Howard F. Pitkin
Commissioner

June 20, 2007

Maureen Frank
The Apple Valley Bank & Trust Company
286 Maple Avenue
Cheshire, CT 06410

Dear Ms. Frank:

On May 3, 2007, the Connecticut Department of Banking hosted the first meeting of the Connecticut Subprime Lending Taskforce. I am honored to serve as Co-Chair with Gary King, President of CHFA. I am encouraged by the passion, creativity and support of the taskforce participants and look forward to future productive initiatives in battling subprime lending problems facing Connecticut. As of December 31, 2006 banking institutions chartered by the State of Connecticut held $19.6 billion in total loans, including approximately $705.3 million in nontraditional mortgage products, which sum may include a portion of subprime loans. I'm sure you share the concern for these homeowners expressed by Governor Rell recently.

Within the standards of safety and soundness, financial institutions are encouraged to work with borrowers wherever possible. I am, and I remain, encouraged by the strong underwriting standards employed by Connecticut state chartered banks. Connecticut state chartered banks have a long standing practice of working with distressed borrowers and employing prudent workout arrangements that are in the bank and borrowers best interest. Please take note within the April 2007 *Statement on Working with Mortgage Borrowers* of the applicability of possible Community Reinvestment Act (CRA) consideration for programs that transition low and moderate income borrowers from higher cost loans to lower cost loans. Educational programs focused on financial literacy and your continued participation in homeownership sponsored programs are the building blocks for the future.

The Connecticut Department of Banking has conducted a number of surveys on nontraditional mortgage products and shared the survey results with Connecticut state chartered banks. The Department staff will continue to monitor Connecticut banks' exposure in these non-traditional lending products. We appreciate your participation in the surveys and we hope you find them helpful. Should you have any questions concerning this letter, please feel free to contact me directly at (860) 240-8100.

Sincerely,

HOWARD F. PITKIN
BANKING COMMISSIONER

TEL: (860) 240-8299
FAX: (860) 240-8178
An Affirmative Action/Equal Opportunity Employer
website: http://www.ct.gov/dob

Exhibit 9

STATE OF CONNECTICUT

DEPARTMENT OF BANKING

260 CONSTITUTION PLAZA • HARTFORD, CT 06103-1800

BANKING COMMISSIONER CONNECTICUT

Howard F. Pitkin
Commissioner

June 26, 2007

Andrew Klimkoski
Achieve Financial Credit Union
279 New Britain Road, P.O. Box 7030
Berlin, CT 06037

Dear Mr. Klimkoski:

On May 3, 2007, the Connecticut Department of Banking hosted the first meeting of the Connecticut Subprime Lending Taskforce. I am honored to serve as Co-Chair with Gary King, President of CHFA. I am encouraged by the passion, creativity and support of the taskforce participants and look forward to future productive initiatives in battling subprime lending problems facing Connecticut. I'm sure you share the concern for these homeowners expressed by Governor Rell recently.

Within the standards of safety and soundness, financial institutions are encouraged to work with borrowers wherever possible. I am, and I remain, encouraged by the strong underwriting standards employed by Connecticut state chartered credit unions. Connecticut state chartered credit unions have a long standing practice of working with distressed borrowers and employing prudent workout arrangements that are in the credit union and members best interest. Please take note within the April 2007 *Statement on Working with Mortgage Borrowers* of the applicability of possible Community Reinvestment Act (CRA) consideration for programs that transition low and moderate income borrowers from higher cost loans to lower cost loans. Educational programs focused on financial literacy and your continued participation in homeownership sponsored programs are the building blocks for the future.

The Connecticut Department of Banking is conducting a survey on nontraditional mortgage products and upon the conclusion of the survey we will share the results with Connecticut state chartered credit unions. This survey is being distributed to ascertain the amount of real estate lending growth and possible risk inherent within the residential real estate loan portfolios. As we are all well aware there has been increasing concern over real estate lending practices, rising home prices and potential impact of rising interest rates. Much of the concern is focusing on mortgage products such as adjustable rate and interest only mortgages and their appropriateness to the individual borrowers. The questionnaire will help us to better assess the areas of risk in Connecticut state chartered credit unions.

Attached please find the Residential Real Estate Lending Survey to be completed utilizing December 31, 2005 and December 31, 2006 figures. Should you have any questions regarding the survey, please contact Assistant Director Vernelle Davis at #860-240-8183. We appreciate your participation and hope you can return the completed survey as soon as possible. Should you have any questions concerning this letter, please feel free to contact me directly at (860) 240-8100.

Sincerely,

Howard F. Pitkin

HOWARD F. PITKIN
BANKING COMMISSIONER

STATE OF CONNECTICUT DEPARTMENT OF BANKING

Year End 2005 And 2006 RESIDENTIAL REAL ESTATE LENDING SURVEY

Credit Union Name: ______________________________

Contact Information should we have questions regarding submission:

Name/Title

Phone Number Email Address

		12/31/2005	12/31/2006
1.	Total Loans (As reported on Line 23 of the Call Report)	$	$
2.	Total 1-4 Family Residential Loans (For 2005 add lines 1-5 from schedule A)	$	$
2a.	Total 1-4 Family Residential Loans (For 2006 add lines 4-8 from schedule A)	$	$
3.	Total Home Equity Loans (closed end) and Lines of Credit (open end) (For 2005 add lines 6-10 from Schedule A)	$	$
3a.	Total Home Equity Loans (closed end) and Lines of Credit (open end) (For 2006 add lines 9-13 from Schedule A)	$	$

4. Total of the following **RESIDENTIAL REAL ESTATE** products, and each products $ delinquency:

		12/31/2005	12/31/2006
4a.	Negatively amortizing residential real estate loans	$	$
	Delinquency		$
4b.	Option ARM residential real estate loans (residential real estate loans which hold the potential to defer interest and negatively amortize)	$	$
	Delinquency	$	$
4c.	Loans with a maturity greater than 30 years	$	$
	Delinquency	$	$
4d.	Interest only residential real estate mortgage loans (Excluding 2-year Construction Loans and HELOCs)	$	$
	Delinquency	$	$
4e.	Residential real estate loans originated with greater than 90% LTV	$	$
	Delinquency	$	$
5.	Total of private label (not Fannie Mae, Freddie Mac, or Ginnie Mae) mortgage backed securities (MBS) or collateralized mortgage obligations (CMO)	$	$
6.	Total of MBSs and CMOs in question (5) rated below AA or Aa	$	$

* If the product is not offered by your institution, please indicate by putting N.A.

Return completed form to: Vernelle J. Davis, Financial Institutions Division Fax (860) 240-8167

Exhibit 1

The Office of Governor M. Jodi Rell

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD, CONNECTICUT 06106

M. JODI RELL
GOVERNOR

FOR IMMEDIATE RELEASE
May 21, 2007

Contact:
Chris Cooper
860-524-7313
Christopher.Cooper@ct.gov

Governor Rell Urges Homeowners Facing Mortgage Delinquency to call 2-1-1 to Connect with Housing Counseling Agencies

With more Connecticut homeowners holding adjustable rate mortgages experiencing steep increases in monthly payments, Governor M. Jodi Rell today urged homeowners to call 2-1-1 to connect to local housing counseling agencies. 2-1-1 is the toll free number for the call center operated by the United Way of Connecticut that connects people to services and programs on a 24 hours a day, 7 days a week basis.

"Families caught in a financial bind by large increases in their monthly mortgage payment need guidance on how to protect their interests," Governor Rell said. "The natural instinct to avoid contacting a lender when payments cannot be met may not be the best approach for many families. Connecticut residents have community-based housing counseling services that can help them deal with this problem. 2-1-1 can connect families to the closest housing counseling resource and help them consider other assistance programs relevant to their own circumstances."

Close to a million adjustable rate mortgages across the nation will reset each year over the next two years, according to a report by the Joint Economic Committee of the U.S. Congress. RealtyTrac Inc. reported that mortgage foreclosures increased almost 50% from March 2006 to March 2007. In Connecticut our foreclosure rate has increased, however, according to the Mortgage Bankers Association, we are below the rate for the U.S. and New England.

Governor Rell's newly convened Sub-prime Mortgage Task Force, chaired by Banking Commissioner Howard Pitkin and CHFA President Gary King, held their first meeting on May 4th. The group will address both short-term responses to help affected households and consider longer term responses to lessen the likelihood of a reoccurrence of this problem.

Over 20 organizations around the state currently provide some form of housing counseling or assistance to families facing a foreclosure. These organizations can help people understand the options open to them and advise them on steps to take to protect their family's interests. Both 2-1-1 and the community-based services will be able to maintain contact lists for families that need to learn about future national and state initiatives that may be rolled out in coming months to address this growing problem.

About United Way 2-1-1

Did you know Connecticut 2-1-1, is one of the national models for connecting individuals to the valuable community services or government programs that they need? This easy-to-use, free, and multilingual service provides anyone in Connecticut with a single access point to find assistance with housing issues, child care providers, emergency shelter, substance abuse treatment, or volunteer services whether it is provided by federal, state, local governments, the private sector or nonprofit organizations.

2-1-1 is a program of the United Way of Connecticut and is a funded partnership of the Connecticut United Ways and the State of Connecticut. 2-1-1 provides toll-free information, referral, and crisis hotline support 24 hours a day, 365 days a year. In 2006 we provided information and referrals to over 400,000 callers and to over 800,000 inquiries on www.211ct.org .

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Exhibit 5

The Office of Governor M. Jodi Rell

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD, CONNECTICUT 06106

M. JODI RELL
GOVERNOR

FOR IMMEDIATE RELEASE
May 21, 2007

Contact:
Chris Cooper
860-524-7313
Christopher.Cooper@ct.gov

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Exhibit 6

The Office of Governor M. Jodi Rell

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD, CONNECTICUT 06106

M. JODI RELL
GOVERNOR

FOR IMMEDIATE RELEASE
August 23, 2007

Contact:
Adam Liegeot
860-524-7313
Adam.Liegeot@ct.gov

Governor Rell Announces Mortgage Foreclosure Assistance Hotline

Listen Here

Governor M. Jodi Rell and Department of Banking Commissioner Howard Pitkin today announced the establishment of a Mortgage Foreclosure Assistance Hotline. Connecticut's residents who are facing foreclosure on their homes may call (877) 472-8313 toll-free and receive advice and guidance regarding their mortgage problems.

"We are committed to helping our citizens who are facing foreclosure in finding a proper solution to their problem," Governor Rell said. "We want to do all we can to help people avoid foreclosure, and the hotline will provide people with information, materials, and contact information to help resolve their mortgage difficulties.

The free hotline will be open Monday-Friday, 8:00 a.m. to 5:00 p.m. Those who call after hours may leave a message and their call will be returned within one business day.

Foreclosures in the U.S. rose 9 percent in July compared with June and were up 93 percent from a year ago. Connecticut's foreclosure filings declined between June and July, but the number is still up for the year so far and is approximately 100 percent higher than the July 2006 filings.

"While we are steadily creating more and more jobs in every sector and in every section of the state, mounting mortgage delinquencies and defaults pose a serious threat to the economy," Governor Rell said. "We want homeowners to know that this free information and assistance is available to them."

Foreclosure not only presents problems for the homeowner, but also for communities in general as foreclosures negatively affect home values. Lenders have been encouraged to work with borrowers who fall behind in their payments to try to come up with an acceptable payment plan which would allow the borrower to keep their home.

In April, Governor Rell announced the formation of a task force of banking and mortgage experts to examine and make recommendations regarding sub-prime lending in Connecticut. The Governor charged the group with completing a definitive analysis of the entire issue, including the number of families currently holding sub-prime mortgages, the number in foreclosure, the opportunities for re-financing, and what kind of assistance or guidance may be available to affected families. The task force is expected to complete its work soon.

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CT FAIR HOUSING CENTER

Hartford Office:
221 Main Street
Hartford, CT 06106
(860)247-4400
(860)247-4236 (fax)

1-888-247-4401

New Haven Office
171 Orange Street
New Haven, CT 06510
(203)772-3247
(203)562-7107 (fax)

August 8, 2007

Alan Cicchetti, Chair
Department of Banking
260 Constitution Plaza
Hartford CT 06103-1800

Dear Mr. Cicchetti:

I am writing to submit the comments of the Connecticut Fair Housing Center ("Center") on the draft of possible recommendations prepared by the Subcommittee on Policy Regulation and Consumer Education of the Governor's Task Force on Subprime Mortgage Lending. I provide below the Center's input on behalf of our low-income and minority clients.

Task Force Composition

The Center is concerned that the final recommendations of the Subcommittee and the Task Force as a whole will be less comprehensive than necessary due to the overwhelmingly industry-oriented composition of the non-governmental representatives on the Task Force. On a Task Force comprised of 44 people, only two non-governmental members represent consumers, Dan Blinn of the Consumer Law Group and Jim Paley of Neighborhood Housing Services of New Haven. Of the remaining 16 non-governmental Task Force members, all are industry representatives or have strong ties to the mortgage lending industry. There are no Task Force members representing communities of color, which arguably stand to suffer the most from the foreclosure fallout of the subprime crisis. We know there are many members of the Task Force with industry and State agency affiliations who are genuinely concerned about how the collapse of the subprime market will affect homeowners, but we are nonetheless disappointed that more representatives of groups assisting consumers and people of color were not included on the Task Force. For this reason we hope that the Task Force will give special consideration to the comments and recommendations set forth in this letter.

Public Forum Timing

As I stated in my letter of July 3, 2007 to Task Force Co-Chairs Howard Pitkin and Gary King, the delayed announcement and holiday week timing of the July 10, 2007 Public Hearing of the Task Force made it unlikely that consumers and groups that assist them would be able to prepare and present testimony. I believe this prediction was borne out since very few consumers participated in the forum. My office received several letters and telephone calls from injured borrowers who were unable to attend the hearing because of the late notice they received. It is unfortunate that the Task Force did not receive the benefit of more varied testimony since the consumers' perspective would help ensure that proposed solutions reflect not only the concerns of the lending industry but also the needs of our community. I reiterate my recommendation that the Task Force hold a supplemental public forum in late September that is announced well in advance in locations other than just the Banking Department's website.

Barriers to Entry

The Center is very much in support of the licensing and background check recommendations of the Task Force. Though many mortgage brokers are honest and reputable, virtually every single predatory and inappropriate loan that we have reviewed at the Fair Housing Center has involved a mortgage broker. More stringent licensing and background check requirements for the brokers are good first steps towards removing unscrupulous players from the marketplace. Background checks for lenders, originators, and officers would also be a welcome change.

Bond Requirement

It is imperative that the bonding requirement be increased. Consumer attorneys do not even bother to pursue legal actions against mortgage brokers because they have recognized that less scrupulous mortgage brokers are often "fly-by-night" operations who are essentially judgment proof. The explicit protections of Connecticut General Statute §36a-492, which permit a borrower damaged by the licensee's "failure to perform any written agreements or commitments" or by "the wrongful conversion of funds paid by a borrower or prospective borrower" may recover damages against the bond, are made meaningless unless the bond is sufficient to cover the victimized borrower's losses and costs of recovery.

Rather than setting a particular bond amount by statute that will quickly be outpaced by inflation, we recommend instead that the bond amount be set to an index. One option might be to set the bond amount by statute at 30% of the conforming loan size limit for a single-family dwelling as established by Fannie Mae (currently $417,000). This would put the bond requirement at $125,100, approximately the level of the original 1985 bond requirement had it been increased for inflation using the Consumer Price Index.[1] To allow the industry to adjust to this change, the requirement could be phased in over a period of years. We would strongly recommend against grandfathering in those currently subject to the bonding requirement because this would defeat the purpose of giving consumers the opportunity to pursue meaningful legal action against unscrupulous actors currently in the mortgage marketplace.

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[1] For more information on the Consumer Price Index, go to the Bureau of Labor Statistics data webpage at http://data.bls.gov/PDQ/outside.jsp?survey=cu.

The Center also endorses the concept of a Guaranty Fund, similar to the Home Improvement Guaranty Fund under C.G.S. §20-432, which would provide a recovery mechanism in the event that the bond is insufficient. With a relatively minor charge as part of each license, this fund would provide compensation to borrowers with claims against lenders or brokers that exceed the bond amount.

Underwriting Criteria

It is essential that underwriting criteria for subprime loans be strengthened. We recommend that the ability to repay be assessed using the fully indexed rate and the fully amortizing payment schedule, at a minimum, and that the borrower's income and financial resources be verified. We further recommend that a mechanism be put in place to limit permitted debt to income ratios to a set percentage in subprime loans.

While we support the general notion of simplified disclosures, we believe this is a theoretical solution that has already failed. Forty-one percent of Connecticut's adult population fall into the two lowest of five literacy levels.[2] This percentage increases significantly in core urban areas. For example, in Hartford 73% of adults read at the two lowest literacy levels.[3] For this significant group, focusing on improved disclosures will not solve the issue before us.

A better solution is to simply strengthen the laws that apply to mortgage loans with a particular focus on subprime mortgages. Over the next several months the Center will unveil a series of policy proposals to regulate prime and subprime mortgages that will include strengthened mortgage broker duties, affordability criteria, mandatory escrow requirements, a ban on some prepayment penalties, enhanced assignee liability, and strengthened enforcement powers for both government agencies and consumers. We look forward to discussing these legislative proposals with members of the Subprime Lending Task Force.

Mortgage Fraud

Many of the provisions that we will include in our legislative proposal will address mortgage fraud and essentially extend some of the protections found in the Connecticut Abusive Home Loan Lending Practices Act to a wider variety of subprime loans.

We strongly urge the Task Force to approach with great caution a Mortgage Fraud Statute that permits criminal sanctions against consumers. We work with many clients who have had false information inserted into their mortgage applications by the lender or the mortgage broker. These clients are hesitant to go forward with their predatory lending

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[2] See the Greater Hartford Literacy Council's webpage entitled "Measures and Levels of Literacy" at http://www.greaterhartfordreads.org/facts/measures.php4.

[3] See id.

cases for fear of prosecution, even though they have done nothing wrong. Instead of punishing innocent but unsophisticated borrowers, legislation should rightly place the onus on the industry to verify the information used to make lending decisions, as is traditionally the case in prime mortgage loans. If underwriting and verification standards had been sufficient to begin with, the subprime lending industry would not be enduring the current market correction.

Consumer Education

The role of consumer financial education and housing counselors is important, but it should not be over-estimated. We work with housing counselors across the state who have told us time and time again that if a client who wants to buy a particular home or needs a home refinance does not get the answer they want from the housing counselor, the borrower can still walk out the door into the arms of an unscrupulous lender who is an expert in taking advantage of financial ignorance or financial desperation. This, combined with the woeful literacy rates cited above, point to improved laws as the best means of ensuring that predatory lenders do not take advantage of borrowers. In addition, there is an unmet need for first-time homebuyer financing and reasonable refinancing options. We encourage the Task Force to consider ways to expand, enhance, and streamline the Connecticut Housing Finance Authority's First-Time Homebuyer program to meet this need. We will discuss solutions for refinancing options in the Foreclosure/Loss Mitigation sections below.

Foreclosure/Loss Mitigation

We have identified four major problems with foreclosure/loss mitigation solutions as they currently exist in Connecticut. First, borrowers do not seek help dealing with a foreclosure until too late in the process. Second, lenders frequently refuse to even talk to housing counselors, and sometimes lawyers, representing borrowers in danger of foreclosure. Third, there are few refinancing options available to borrowers once they have fallen into default. Fourth, the foreclosure laws of Connecticut are not consumer friendly.

Stopping the Foreclosure Before It Begins

We have two recommendations to help consumers stop foreclosure before it begins. First, we agree that a major publicity campaign is an important step to making borrowers aware of their rights and the resources available to them. The Center received $50,000 from Freddie Mac to run its "Don't Borrow Trouble" program, which consisted of a media outreach campaign alerting borrowers to the dangers of predatory lending and directing them to the 211 Infoline resource. Some lessons from this experience include:

- Do not under-fund such a campaign. The $50,000 provided by Freddie Mac for the "Don't Borrow Trouble" campaign was just seed money. A successful statewide multimedia campaign will cost at least $400,000 on an annual basis.

- Consider designing the program to send those in danger of foreclosure directly to HUD-approved housing counselors through HUD's toll free number. This will help ensure that families who are in a fragile emotional state get help directly rather than having to make a series of telephone calls to other agencies.

- Include funds for direct community outreach. The Center received a much greater borrower response to our grassroots outreach efforts than to advertisements and radio spots. This is a service that fully-funded housing counseling programs could provide.

Second, the State should consider proactively identifying and contacting homeowners in danger of foreclosure. Through Home Mortgage Disclosure Act data and other data sources, we can identify homeowners who received adjustable rate loans before these loans reset. Assuming that the reset of these loans is the event that precipitates foreclosure, the State should contact these families in advance of their loan reset date and make them aware of the foreclosure prevention resources that are available to them. Professor Stephen Ross, an Economist with the University of Connecticut and a national expert on race and lending, can provide the Task Force with specific recommendations regarding how to combine data sources to generate this information. Professor Ross may even be able to generate the data.

Communications with Lenders

The Task Force should consider recommending a law that will prevent a foreclosure from going forward unless the lender has engaged in meaningful loss mitigation efforts with the borrower and a housing counselor. Short of this, the Department of Banking should determine if there might be an incentive system that can be put in place to reward lenders that are working with borrowers and housing counselors. The City of Boston is currently engaged in such a program with extremely positive results. In addition, we recommend that the Task Force survey housing counselors to obtain their opinions about how best to ensure that lenders participate in loss mitigation efforts in good faith. Loss mitigation efforts benefit not only the homeowner, but also the cities and towns where the housing is located because foreclosure affects tax income relative to the property at issue and neighboring property values.

Alternative Refinancing

The Center recommends a broadening of refinancing foreclosure prevention products.

- The Emergency Mortgage Assistance Program (EMAP) should be fully funded so it can be a true resource for homeowners in default who will in time be able to resume their mortgage payments. In addition, the EMAP eligibility requirements should be expanded to ensure that all households who need help qualify for this program.

- CHFA's First-Time Homebuyer program should be expanded and made available on a long-term basis to victims of predatory lending and, on a short-term basis during the present crisis, to qualifying borrowers who are in danger of losing their homes due to adjusting subprime loans. While there are clearly valid concerns about "bailing out" bad industry actors, the value of preserving homeownership, and particularly minority homeownership, outweighs the risk of benefiting unscrupulous lenders. Future market corrections and state and federal regulations will hopefully prevent these lenders from continuing their bad practices.

- A Fannie Mae, State, lender partnership program soon to be launched in Rhode Island provides refinances but at the same time forces current subprime lenders to decrease the loan amount by 20%. That might be a solution to consider.

Improving Connecticut Foreclosure Laws

The Task Force should recommend a full review of the foreclosure process in Connecticut. Currently, borrowers are not permitted to raise most equitable defenses in foreclosure. Judges also need to be given additional options to order workouts, especially where the lender refuses to engage with the borrower. Foreclosure Prevention Advocates could also be placed in foreclosure courts where currently many borrowers are intimidated and unrepresented. We endorse the recommendation in the Task Force's draft report that judges impose a standing order of a certain period of time where they will not order a foreclosure judgment. We also support the draft report's suggestion regarding partial payments. Lastly, we recommend that the Task Force explore a relationship with the Judicial Branch to provide comprehensive data on foreclosures, including the number filed, the location, and the final disposition.

Housing Counselors

While we believe that stronger laws are the most cost effective long-term solution to the subprime lending crisis, housing counselors should play a significant role in assisting borrowers in need of immediate assistance, particularly those who are in danger of losing their homes because of adjusting subprime products or predatory lending. The experience and training of housing counselors varies considerably. Many have focused their efforts to date on homeownership education, not foreclosure counseling. A uniform training course that ensures that counselors are themselves fully financially literate, aware of all the state and federal programs available to borrowers in trouble, and able to identify the indicators of predatory lending is essential. We strongly urge the Task Force to recommend a training course provided by a consumer-oriented non-profit without industry ties, such as the National Consumer Law Center.

We predict that a significant number of additional housing counselors will be needed to handle the inevitably increasing numbers of requests for assistance resulting from the shift in the subprime market. We suggest that the Task Force consult directly with the housing counseling organizations to generate an estimate of the potential borrower demand and the number of counselors needed to meet it.

We also believe that counselor salaries need to be set a level allowing for the recruitment and retention of excellent counselors. The director of a Massachusetts-based housing counseling organization recently reported that over the last two years he has lost nine housing counselors to banks who have been able to offer much more attractive salary and benefit packages. Perhaps the bank members of the Task Force would be willing to share the salary information of their employees with comparable positions.

Lastly, since such emphasis is being put on housing counselors, it must not become an unfunded mandate. Even though housing counseling continues to be raised as a possible solution to the subprime lending problem, it is our understanding from housing counselors that federal funding for housing counseling services is decreasing. We would recommend that an additional fee be part of each residential closing that would be dedicated to fully funding housing counseling organizations across the State.

Pro Bono Assistance

The Task Force's Draft Report suggests that assistance from the State's three legal services organizations might be part of the solution to the predicted foreclosure crisis. The Center has discussed with several legal services organizations the possibility of working together on predatory lending cases and while the legal services organizations are sympathetic to the plight of subprime borrowers in danger of foreclosure, most of the non-elderly borrowers who need assistance do not have incomes low enough to qualify for legal services assistance (generally 125% of the federal poverty rate).

Over the last year the Center has also tried to engage members of the private bar in our anti-predatory lending efforts. Reaction from the larger Connecticut firms has generally been that the firm either has a direct or positional conflict because it represents a particular lender or lenders generally. Smaller firms generally do not have the specific expertise necessary and are not in a financial position to take these cases. In addition, the major pro bono program in the State, the Connecticut Bar Association's Pro Bono Network, has income eligibility requirements mirroring those of legal services. Unless the criteria of this program are changed, the significant number of attorneys who have volunteered through this network will not be able to assist with foreclosure or predatory lending cases through the Network. In Massachusetts the Office of the Attorney General has taken on the task of organizing attorneys to take foreclosure cases pro bono. Perhaps a similar program could be instituted in Connecticut.

Training for volunteer attorneys is critical. In a request for assistance that we sent to attorneys participating in the Pro Bono Network's Foreclosure Defense Training asking for volunteers to work on predatory lending cases, at least half of the attorneys who responded said they could take a case, *if they had more training*. The National Consumer Law Center offers such training, but it costs approximately $5,000 for the two-day program. The Task Force should consider including a recommendation for funding for such training. The Connecticut Bar Association might be a good partner on such a training.

Even with solid pro bono assistance, the best step we can take to ensure that borrowers in danger of foreclosure receive needed legal representation is to improve and strengthen the State's foreclosure and lending laws.

Thank you for this opportunity to comment on the Subcommittee's draft report of possible recommendations. If anyone on the Subcommittee would like to discuss these policy proposals in more depth, I would welcome the opportunity to meet with them.

Sincerely,

Erin Boggs, Esq.
Project Director

WARD MICHAEL

From: Cicchetti, Alan J [Alan.Cicchetti@ct.gov]
Sent: Saturday, September 08, 2007 8:53 AM
To: michael.ward@chfa.org
Subject: FW: Report

may be a duplicate.

-----Original Message-----
From: Peter Spalthoff(CSMBCT) [mailto:pspalthoff@csmbct.com]
Sent: Wed 8/22/2007 5:50 PM
To: Charbonneau, Jeanne; 'Tom Egan'; Cicchetti, Alan J; 'Ben Niles'; 'Carol DeRosa'; 'Charlie Basil'; 'Daniel Blinn'; 'Deb Killian'; Pitkin, Howard; Mandyck, Jackie; Farrell, Jerry; 'Joan Saddler'; 'Joan Saddler'; 'John Ertle'; 'John Neves'; 'Judy Walter'; 'Mary Jane Kononchik'; 'Mike Meotti'; 'Norm Roos'; 'Norm Roos'; 'Ron Pugliese'
Cc: gary.king@chfa.org; Pitkin, Howard
Subject: RE: Report

Jeanne,

For a myriad of reasons I was not able to attend the final meeting of the sub-committee before it issued the proposed draft and I want to thank the chairmen for allowing us one last look at the proposal.

At the last meeting of the sub committee on "Barriers to Entry" I had addressed two of the items in the report. One being the proposal to increase the Brokers Bond from its present $40,000.00 to $60,000.00. I did not feel then the need for an increase and I and the board members of the CSMB are in complete agreement that we see no need for the increase. As commissioner Cicchetti noted at the meeting," that the bond has been challenged very infrequently if at all" and from all we have seen and read it has not added to the present woes of our industry. To raise an in adamant object such as a bond because of inflation and current market conditions just doesn't make any sense especially, when we do not have any history to determine what a proper amount is. $40,000.00 appears to be a sufficient amount. Remember, as noted 31 States have lower bond requirements than Connecticut. We also feel that the insurance carriers who issue the bonds would certainly get into the act by forcing the issue to increase them if they felt the need. Finally on this issue, the bankruptcies and other industry problems have in no way shape or form been created, nor caused by the $40,000.00 bond or lack of a higher bond. To the best of my knowledge not a single consumer has been affected in a negative manner by the Brokers bond of $40,000.00. I can assure everyone involved in this process that we (the CSMB) would be one of the first groups to propose an increase if we felt that it would make our industry better than it is. Raising the bond to $60,000.00 is not an issue that we feel will help anyone but the insurance agencies who issue the bonds.

On the second issue of increasing the Brokers net worth from $25,000.00 to $50,000.00. Here again we feel that the proposal is certainly not warranted nor for that matter fair. Not warranted because the size of the individuals net worth has not been determined to have caused any harm to the consumer that the Broker serves and not fair because here again an uneven playing field has been established between the Broker and the Banker. We do not believe that the consumer is affected one iota by the size of the Brokers net worth nor the size of the bond that they are required to have. As the mortgage Broker in Connecticut for the most part is a mom and pop operation, by increasing the bond we could very easily be putting some of our smaller Broker's out of business by having them keep a $50,000.00 net worth. Once again, the size of a Brokers net worth in no way has a relation (that can be documented) between being a "good or bad Broker". We in Connecticut pride ourselves with being ahead of the curve with regard to our banking regulations and the $25,000.00 net worth requirement is one of the highest requirements in the country. Remember only 7 states require more of a net worth for their Brokers than we do. We do not believe that by increasing the net worth will better our industry and ask that this proposal as well as the proposed bond increase not be part of the committee's proposals.

Speaking on behalf of the officers and directors of the CSMB we believe that there is no justification to be proposing an increase in either the bond or net worth requirements for the Broker.

However, we strongly believe and have been advocating for years that we need specific education standards in our industry. We will continue to push for educational standards for everyone who deals directly with the consumer and we applaud this committee for the proposal that we are making regarding the educational requirements. An educated loan originator can and will make our industry that much more professional and is a win win situation for Connecticut's consumers.

Thanks again for allowing me to share our thoughts, concerns and recommendations on the issues.

Peter L. Spalthoff

Executive Director

The Connecticut Society of Mortgage Brokers

From: Charbonneau, Jeanne [mailto:Jeanne.Charbonneau@ct.gov]
Sent: Monday, August 20, 2007 11:03 AM
To: Tom Egan; Cicchetti, Alan J; Ben Niles; Carol DeRosa; Charlie Basil; Daniel Blinn; Deb Killian; Pitkin, Howard; Mandyck, Jackie; Farrell, Jerry; Joan Saddler; Joan Saddler; John Ertle; John Neves; Judy Walter; Mary Jane Kononchik; Mike Meotti; Norm Roos; Norm Roos; Peter Spalthoff; Ron Pugliese
Cc: gary.king@chfa.org; Pitkin, Howard
Subject: Report

Attached is the subcommittee report on Policy, Regulation and Consumer Education. Please review and send any comments you may have to me, jeanne.charbonneau@ct.gov, by Friday, August 24th. As always, feel free to contact Commissioner Howard Pitkin at 860-240-8100 or at howard.pitkin@ct.gov with any issues.

Thank you.

WARD MICHAEL

From: Cicchetti, Alan J [Alan.Cicchetti@ct.gov]
Sent: Saturday, September 08, 2007 8:53 AM
To: michael.ward@chfa.org
Subject: FW: Report

-----Original Message-----
From: Dan Blinn [mailto:dblinn@consumerlawgroup.com]
Sent: Thu 8/23/2007 2:14 PM
To: Charbonneau, Jeanne; Tom Egan; Cicchetti, Alan J; Ben Niles; Carol DeRosa; Charlie Basil; Deb Killian; Pitkin, Howard; Mandyck, Jackie; Farrell, Jerry; Joan Saddler; Joan Saddler; John Ertle; John Neves; Judy Walter; Mary Jane Kononchik; Mike Meotti; Norm Roos; Norm Roos; Peter Spalthoff; Ron Pugliese
Cc: gary.king@chfa.org; Pitkin, Howard
Subject: Re: Report

I have a comment regarding the mortgage fraud portion of the report and would also like to respond to Peter Spalthoff's comments regarding the broker bond issue.

MORTGAGE FRAUD

With regard to the recommendation for a mortgage fraud criminal statute, I had expressed my strong opinion at the last meeting that we should not recommend that borrowers be included within the scope of the statute. The reason for this is three-fold.

First, unlike the other participants in the process, borrowers have varying degrees of culpability when fraud is an issue. Sometimes, they are active participants, but more frequently, they simply sign off on papers prepared for them by others, frequently without realizing that they are doing anything wrong.

This leads me to my second point, which is that there are already criminal laws that can be applied to fraud in mortgage applications. The reason that the Committee decided to recommend that a criminal statute specifically addressed to mortgage fraud is to provide additional incentive to prosecute and to provide an additional deterrent to misconduct. One of these reasons does not apply to consumers; unlike the industry participants, consumers are unlikely to be aware of the statute, so no additional deterrent to fraud will exist. As for the other benefit of a mortgage fraud statute, incentive to prosecute, I do not believe that the Committee has reached a consensus that this is a desireable result with regard to the substantial percentage of consumers who are not fully cognizant of the impropriety of their actions or who did not understand that fraud has taken place.

The minimal benefit that would be obtained by prosecuting the minority of consumers in fraudulent transactions who knowingly participated in fraud must be weighed against the third reason for my objection, i.e., the problem of creditors and debt collectors who threaten criminal prosecution as a collection tactic. The legislature enacted Public Act 07-176, An Act Concerning the Prevention of Abusive and Deceptive Debt Collection Practices, during the past session. This was in response to the growing problem of creditors using abusive collection tactics on consumer debts such as mortgages. One of the most pernicious practices described at the public hearing on the Public Act was the threat of criminal prosecution. The inclusion of borrowers within a mortgage fraud statute would result in an increase of that threat, and this type of collection tactic would be applied to consumers who were ignorant of any fraud in their mortgage applications. The possibility that this will occur outweights any deterrent effect that a mortgage fraud statute would have on borrowers.

My recollection is that there was an agreement that the reference to borrowers would not be included in the committee report, and I am requesting that it be removed.

BROKER BOND

With regard to Mr. Spalthoff'scomments, I would like to make two points. The first concerns his argument that very few claims are made under the bonds and that the only consequence of increasing the bond amount would be to enrich the bonding agents and sureties. It is important to note, however, that one of the recommended changes is to increase the scope of claims that can be asserted under the bonds. One of the problems identified by the committee is that the bond coverage is not adequate to provide protection to consumers for any broker misconduct other than the theft of closing costs paidin advance. By expanding the coverage to include unsatisfied judgments obtained against brokers, it is anticipated that the bond will provide protection against the brokers that close up shop once they have been sued. Once the scope of claims has been expanded, then the amount of coverage becomes meaningful.

The second point is the amount of the proposed increase. The proposed increase is substantially less than the rate of inflation when measured from the date that the bond requirement was initially imposed. I believe that we determined that the premium amount would be well over $80,000 if we applied the inflationary rate. The consensus of those who attended the final meeting was that the proposed increase to $60,000 represented a reasonable compromise between the need to the rate of inflation into account, the need to protect consumers, and the brokers' interest in not having premium costs increase excessively.

Dan Blinn
Consumer Law Group, LLC
35 Cold Spring Road, Suite 512
Rocky Hill, CT 06067
860 571-0408,x101
fax: 860 571-7457

dblinn@consumerlawgroup.com

----- Original Message -----
From: Charbonneau, Jeanne
To: Tom Egan ; Cicchetti, Alan J ; Ben Niles ; Carol DeRosa ; Charlie Basil ; Daniel Blinn ; Deb Killian ; Pitkin, Howard ; Mandyck, Jackie ; Farrell, Jerry ; Joan Saddler ; Joan Saddler ; John Ertle ; John Neves ; Judy Walter ; Mary Jane Kononchik ; Mike Meotti ; Norm Roos ; Norm Roos ; Peter Spalthoff ; Ron Pugliese
Cc: gary.king@chfa.org ; Pitkin, Howard
Sent: Monday, August 20, 2007 11:03 AM
Subject: Report

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Thank you.

WARD MICHAEL

From: Cicchetti, Alan J [Alan.Cicchetti@ct.gov]
Sent: Saturday, September 08, 2007 8:52 AM
To: michael.ward@chfa.org
Subject: FW: Report

image001.jpg (1 KB)

-----Original Message-----
From: John Neves [mailto:jneves@elitemortgageusa.com]
Sent: Fri 8/24/2007 8:09 PM
To: 'Peter Spalthoff(CSMBCT)'; 'Dan Blinn'; Charbonneau, Jeanne; 'Tom Egan'; Cicchetti, Alan J; 'Ben Niles'; 'Carol DeRosa'; 'Charlie Basil'; 'Deb Killian'; Pitkin, Howard; Mandyck, Jackie; Farrell, Jerry; 'Joan Saddler'; 'Joan Saddler'; 'John Ertle'; 'Judy Walter'; 'Mary Jane Kononchik'; 'Mike Meotti'; 'Norm Roos'; 'Norm Roos'; 'Ron Pugliese'
Cc: gary.king@chfa.org; Pitkin, Howard
Subject: RE: Report

Dear Fellow Committee Members,

I would like to preface this email by saying that I was asked to be on this Task Force as President of The Connecticut Association of Mortgage Brokers. My intentions are to help determine what the causes of the current foreclosure problem are and to suggest viable ideas for preventing future problems. I also see my role as a monitor to make sure any recommendations that may be implemented do not represent a restraint of trade that could ultimately hurt the consumer more. CTAMB was formed to increase broker professionalism and our organization currently engages in activities, although not mandatory, that educate in the areas of origination and compliance.

With out going on a tangent of my own I believe I addressed this issue (Raising The Bond Amount) on more than one occasion at the meetings we all attended in Hartford. That being said as you all know I disagree with this recommendation because as Peter has outlined the current amount does in fact more than cover any upfront fees incurred by a borrower. Making a change to the amount of the bond and/or the circumstances that would allow claims to the bond in my opinion would only serve the purpose of opening the flood gates for lawyers looking to cash in on it. Although as Peter mentioned a law preventing a broker from "closing up shop" to avoid fraudulent allegations or penalties would certainly be welcomed.

On the subject of raising the minimum net worth requirement for brokers above what the vast majority of states require is ludicrous and simply squelches competition. The implication is that the bad guys don't have more money than the good guys. Ridiculous, this has nothing to do with the ability of brokers to conduct their business professionally or ethically. Raising these two topics as issues isn't warranted nor is it supported by any formal data representing that a change in these policies would alleviate or help us solve the current or future problem(s).

I must also comment on the subject of "barriers to entry" as a whole. We were all asked to be on a committee to address the rising foreclosure issue in Connecticut, next thing you know 18 people are gathered around a table drawing a huge bull's-eye on the back of the brokers. At this point I am going to paste a response to my colleagues from our barriers to entry sub committee that I think will explain my stance clearly. [John V. Neves Writes] I just wanted to mention that after pondering the "barriers to entry" I am wondering why it seems as if the culpability for an increased foreclosure rate as well as the sub-prime lending problem, is being passed on to the brokers? I strongly question why "barriers to entry" is even a topic of conversation at this point. I believe, most Mortgage Brokers conduct themselves with integrity and consider their role in home financing to be fiduciary in nature. In fact, on a percentage basis per loan, I believe there are many brokers who earn far less than lenders/banks who originate on a retail basis. If a loan officer or broker is trying to make as much money as possible on a deal, and that person is unscrupulous, then all the education and other barriers to entry don't matter. The current discussion began as a result of the higher than average foreclosure rate and the realistic Task Force mission is to implement preventative measures. The irony is that CHFA is experiencing a 9% foreclosure rate and they are not brokers.

Training and Continuing Education.we all know the answer to this one, and I think we all agree with a test to become a broker, and anybody who has been a broker for a certain number of years should not be exempt. But we also all know that continuing education is all about money for the select few who run the schools. Loan officers and brokers with more than five years in the industry should be exempt from continuing education etc. beyond the passing of a test.

Thank You,

John V. Neves

President

<http://www.elitemortgageusa.com/welcome.htm##>

From: Peter Spalthoff(CSMBCT) [mailto:pspalthoff@csmbct.com]
Sent: Friday, August 24, 2007 6:30 PM
To: 'Dan Blinn'; 'Charbonneau, Jeanne'; 'Tom Egan'; 'Cicchetti, Alan J'; 'Ben Niles'; 'Carol DeRosa'; 'Charlie Basil'; 'Deb Killian'; 'Pitkin, Howard'; 'Mandyck, Jackie'; 'Farrell, Jerry'; 'Joan Saddler'; 'Joan Saddler'; 'John Ertle'; 'John Neves'; 'Judy Walter'; 'Mary Jane Kononchik'; 'Mike Meotti'; 'Norm Roos'; 'Norm Roos'; 'Ron Pugliese'
Cc: gary.king@chfa.org; 'Pitkin, Howard'
Subject: RE: Report

Dan, it was not my intent to rehash everything that the committee had gone over to get to this point of the presentation. It was simply my intention to share with the group once again my position towards the proposal of increasing the bond from its present amount. So allow me to respond to your comments and I promise you and the rest of the group that this will be my last comments on the issue.

In no way was I trying to use an argument of not increasing the bond because the only one who would benefit by it would be the bonding issuer themselves. It was said that way because of the three groups affected-the consumer-the Broker or the Bond company I felt an increase in the bond would only benefit the bond company. This was not an argument, just an off the cuff comment.

As you noted, the bond only covers fees paid by the consumer. That being the case, it is my belief that the $40,000.00 bond would still cover more than the consumer would ever be required to pay to the Broker in up front fees. The rate of inflation to the value of the bond is not an issue. It's what the bond was required to pay for and $40,000.00 is still a realistic amount now as it was then for the very reasons it was designed. Once again, I do not know of any data that indicates that the $40,000.00 is not reasonable and sufficient. I think It's also noteworthy to point out that Connecticut is one of eight States that require $40.000.00 or more for a bond. Forty two State's require less.

To your point of Broker misconduct, what history do we have that would warrant an increase in the bond amount? And while I am not trained in the area of law I will ask, wouldn't any other claims that an individual might have towards a Broker be taken up in a court of law in a civil suit? If it is yours and the committees concern that a Broker is going to get off scott free from any fraudulent dealings they have with a consumer because they close up shop. I can assure you that I and every Broker I know would certainly sign on with you to seek some other sort of law that would prohibit that from happening. Lets deal with that specifically and not with a broad decree to raise the bond for everyone. I just do not see the merit of the increase. The fees we charge today are the same fees we charged years ago-we are limited and most of the Brokers as I noted earlier do not charge up front fees in the first place.

I guess I am looking at it from a different direction than you are. I see the $40,000.00 bond having been established rightfully so to protect the consumer from losing any upfront fees or closing costs due to a fraudulent transaction created by a Broker. I also see first hand that many of the up front fees charged by Brokers in years past are a thing of the past and most Brokers DO NOT require any fees up front in any transaction. So the risk of loss to the consumer would be more than covered by the $40,000.00. Therefore I do not see why the committee would need to agree to a compromise on this issue when real hard core numbers are not present to warrant the request in the first place.

Finally, Dan I hope you believe me when I tell you that my concerns are what I have listed above and not because the Broker might have an increase in his or her Bond. If I thought for a moment that the increase in the Bond would be a help to the consumer I would certainly support it because the consumer is who I work with directly in all my Broker dealings. I am just not a proponent of doing something for the sake of doing it. And I think that's what we are proposing here with the bond increase. If the consumer is being duped by a Broker, or a Banker, or a loan originator than I would be the first to start action on their account.

Peter Spalthoff

From: Dan Blinn [mailto:dblinn@consumerlawgroup.com]
Sent: Thursday, August 23, 2007 2:14 PM
To: Charbonneau, Jeanne; Tom Egan; Cicchetti, Alan J; Ben Niles; Carol DeRosa; Charlie Basil; Deb Killian; Pitkin, Howard; Mandyck, Jackie; Farrell, Jerry; Joan Saddler; Joan Saddler; John Ertle; John Neves; Judy Walter; Mary Jane Kononchik; Mike Meotti; Norm Roos; Norm Roos; Peter Spalthoff; Ron Pugliese
Cc: gary.king@chfa.org; Pitkin, Howard
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This leads me to my second point, which is that there are already criminal laws that can be applied to fraud in mortgage applications. The reason that the Committee decided to recommend that a criminal statute specifically addressed to mortgage fraud is to provide additional incentive to prosecute and to provide an additional deterrent to misconduct. One of these reasons does not apply to consumers; unlike the industry participants, consumers are unlikely to be aware of the statute, so no additional deterrent to fraud will exist. As for the other benefit of a mortgage fraud statute, incentive to prosecute, I do not believe that the Committee has reached a consensus that this is a desireable result with regard to the substantial percentage of consumers who are not fully cognizant of the impropriety of their actions or who did not understand that fraud has taken place.

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Dan Blinn
Consumer Law Group, LLC
35 Cold Spring Road, Suite 512
Rocky Hill, CT 06067
860 571-0408,x101
fax: 860 571-7457

dblinn@consumerlawgroup.com

----- Original Message -----

From: Charbonneau, Jeanne <mailto:Jeanne.Charbonneau@ct.gov>

To: Tom Egan <mailto:tom.egan@indymacbank.com> ; Cicchetti, Alan J <mailto:Alan.Cicchetti@po.state.ct.us> ; Ben Niles <mailto:benjamin_niles@freddiemac.com> ; Carol DeRosa <mailto:carol.derosa@chfa.org> ; Charlie Basil <mailto:cbasil@reiner.com> ; Daniel Blinn <mailto:dblinn@consumerlawgroup.com> ; Deb Killian <mailto:debkillian@snet.net> ; Pitkin, Howard <mailto:Howard.Pitkin@ct.gov> ; Mandyck, Jackie <mailto:Jackie.Mandyck@ct.gov> ; Farrell, Jerry <mailto:Jerry.Farrell@ct.gov> ; Joan Saddler <mailto:Lending.Integrity@yahoo.com> ; Joan Saddler <mailto:jesaddler2 @aol.com> ; John Ertle <mailto:john_ertle@hud.gov> ; John Neves <mailto:jneves@elitemortgageusa.com> ; Judy Walter <mailto:judy.walter@chfa.org> ; Mary Jane Kononchik <mailto:maryjane.kononchik@chfa.org> ; Mike Meotti <mailto:mike.meotti@ctunitedway.org> ; Norm Roos <mailto:nroos@thelen.com> ; Norm Roos <mailto:nroos@brownraysman.com> ; Peter Spalthoff <mailto:pspalthoff@csmbct.com> ; Ron Pugliese <mailto:ronald.j.pugliese@us.hsbc.com>

Cc: gary.king@chfa.org ; Pitkin, Howard <mailto:Howard.Pitkin@ct.gov>

Sent: Monday, August 20, 2007 11:03 AM

Subject: Report

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Thank you.

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From: Cicchetti, Alan J [Alan.Cicchetti@ct.gov]
Sent: Saturday, September 08, 2007 8:49 AM
To: michael.ward@chfa.org
Subject: FW: Report

Basil Charles F.vcf
(216 B)

-----Original Message-----
From: Basil, Charles F. [mailto:CBasil@reiner.com]
Sent: Tue 8/28/2007 12:37 PM
To: Peter Spalthoff(CSMBCT); Dan Blinn; Charbonneau, Jeanne; Tom Egan; Cicchetti, Alan J; Ben Niles; Carol DeRosa; Deb Killian; Pitkin, Howard; Mandyck, Jackie; Farrell, Jerry; Joan Saddler; Joan Saddler; John Ertle; John Neves; Judy Walter; Mary Jane Kononchik; Mike Meotti; Norm Roos; Norm Roos; Ron Pugliese
Cc: gary.king@chfa.org; Pitkin, Howard
Subject: RE: Report

I apologize for not commenting sooner due to trial obligations. However, since comments still seem to be ongoing, I thought I would, as well.

First, in general the report is excellent, and it is obviously the product of the dedicated chairs, participants and drafters. Kudos.

That being said, Peter Spalthoff and John Neves points are well taken. My recollection is that there were extremely few, if any, case in the recollection of the committee members in which a bond claim was ever made. Creating barriers to entry may have the effect of creating a socio-economic stratification for no significant purpose, which may prevent certain markets from being properly served.

As to Dan Blinn's points, with regard to the Fraud issue, there have clearly been cases in which borrowers (and often their sellers) have participated in fraud schemes, both on their own and also with participation of certain originators and appraisers. I have knowledge of several cases in which there were first or second payment defaults under such circumstances. All of the mortgage fraud, no matter who perpetrates it, is probably covered within the penumbra of existing criminal statutes. However, if there is going to be the creation of a new law specifically geared toward mortgage fraud, I do not see the sense in excluding a certain segment of the wrongdoers from its application.

This in no way should eviscerate Public Act 07-176, which applies to wrongful collection tactics by creditors. The laws would seem to me to be exclusive of each other.

Charles F. Basil, Esq.

Reiner, Reiner & Bendett, PC
Telephone: (860) 255-5005
Facsimile: (860) 677-4549/(860) 677-2327
Email: cbasil@reiner.com
****

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Reiner, Reiner & Bendett, P.C. is committed to ensuring our clients the highest level of satisfaction.

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From: Peter Spalthoff(CSMBCT) [mailto:pspalthoff@csmbct.com]
Sent: Friday, August 24, 2007 6:30 PM
To: 'Dan Blinn'; 'Charbonneau, Jeanne'; 'Tom Egan'; 'Cicchetti, Alan J'; 'Ben Niles'; 'Carol DeRosa'; Basil, Charles F.; 'Deb Killian'; 'Pitkin, Howard'; 'Mandyck, Jackie'; 'Farrell, Jerry'; 'Joan Saddler'; 'Joan Saddler'; 'John Ertle'; 'John Neves'; 'Judy Walter'; 'Mary Jane Kononchik'; 'Mike Meotti'; 'Norm Roos'; 'Norm Roos'; 'Ron Pugliese'
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Subject: RE: Report

Dan, it was not my intent to rehash everything that the committee had gone over to get to this point of the presentation. It was simply my intention to share with the group once again my position towards the proposal of increasing the bond from its present amount. So allow me to respond to your comments and I promise you and the rest of the group that this will be my last comments on the issue.

In no way was I trying to use an argument of not increasing the bond because the only one who would benefit by it would be the bonding issuer themselves. It was said that way because of the three groups affected-the consumer-the Broker or the Bond company I felt an increase in the bond would only benefit the bond company. This was not an argument, just an off the cuff comment.

As you noted, the bond only covers fees paid by the consumer. That being the case, it is my belief that the $40,000.00 bond would still cover more than the consumer would ever be required to pay to the Broker in up front fees. The rate of inflation to the value of the bond is not an issue. It's what the bond was required to pay for and $40,000.00 is still a realistic amount now as it was then for the very reasons it was designed. Once again, I do not know of any data that indicates that the $40,000.00 is not reasonable and sufficient. I think It's also noteworthy to point out that Connecticut is one of eight States that require $40.000.00 or more for a bond. Forty two State's require less.

To your point of Broker misconduct, what history do we have that would warrant an increase in the bond amount? And while I am not trained in the area of law I will ask, wouldn't any other claims that an individual might have towards a Broker be taken up in a court of law in a civil suit? If it is yours and the committees concern that a Broker is going to get off scott free from any fraudulent dealings they have with a consumer because they close up shop. I can assure you that I and every Broker I know would certainly sign on with you to seek some other sort of law that would prohibit that from happening. Lets deal with that specifically and not with a broad decree to raise the bond for everyone. I just do not see the merit of the increase. The fees we charge today are the same fees we charged years ago-we are limited and most of the Brokers as I noted earlier do not charge up front fees in the first place.

I guess I am looking at it from a different direction than you are. I see the $40,000.00 bond having been established rightfully so to protect the consumer from losing any upfront fees or closing costs due to a fraudulent transaction created by a Broker. I also see first hand that many of the up front fees charged by Brokers in years past are a thing of the past and most Brokers DO NOT require any fees up front in any transaction. So the risk of loss to the consumer would be more than covered by the $40,000.00. Therefore I do not see why the committee would need to agree to a compromise on this issue when real hard core numbers are not present to warrant the request in the first place.

Finally, Dan I hope you believe me when I tell you that my concerns are what I have listed above and not because the Broker might have an increase in his or her Bond. If I thought for a moment that the increase in the Bond would be a help to the consumer I would certainly support it because the consumer is who I work with directly in all my Broker dealings. I am just not a proponent of doing something for the sake of doing it. And I think that's what we are proposing here with the bond increase. If the consumer is being duped by a Broker, or a Banker, or a loan originator than I would be the first to start action on their account.

Peter Spalthoff

From: Dan Blinn [mailto:dblinn@consumerlawgroup.com]
Sent: Thursday, August 23, 2007 2:14 PM
To: Charbonneau, Jeanne; Tom Egan; Cicchetti, Alan J; Ben Niles; Carol DeRosa; Charlie Basil; Deb Killian; Pitkin, Howard; Mandyck, Jackie; Farrell, Jerry; Joan Saddler; Joan Saddler; John Ertle; John Neves; Judy Walter; Mary Jane Kononchik; Mike Meotti; Norm Roos; Norm Roos; Peter Spalthoff; Ron Pugliese
Cc: gary.king@chfa.org; Pitkin, Howard
Subject: Re: Report

I have a comment regarding the mortgage fraud portion of the report and would also like to respond to Peter Spalthoff's comments regarding the broker bond issue.

MORTGAGE FRAUD

With regard to the recommendation for a mortgage fraud criminal statute, I had expressed my strong opinion at the last meeting that we should not recommend that borrowers be included within the scope of the statute. The reason for this is three-fold.

First, unlike the other participants in the process, borrowers have varying degrees of culpability when fraud is an issue. Sometimes, they are active participants, but more frequently, they simply sign off on papers prepared for them by others, frequently without realizing that they are doing anything wrong.

This leads me to my second point, which is that there are already criminal laws that can be applied to fraud in mortgage applications. The reason that the Committee decided to recommend that a criminal statute specifically addressed to mortgage fraud is to provide additional incentive to prosecute and to provide an additional deterrent to misconduct. One of these reasons does not apply to consumers; unlike the industry participants, consumers are unlikely to be aware of the statute, so no additional deterrent to fraud will exist. As for the other benefit of a mortgage fraud statute, incentive to prosecute, I do not believe that the Committee has reached a consensus that this is a desireable result with regard to the substantial percentage of consumers who are not fully cognizant of the impropriety of their actions or who did not understand that fraud has taken place.

The minimal benefit that would be obtained by prosecuting the minority of consumers in fraudulent transactions who knowingly participated in fraud must be weighed against the third reason for my objection, i.e., the problem of creditors and debt collectors who threaten criminal prosecution as a collection tactic. The legislature enacted Public Act 07-176, An Act Concerning the Prevention of Abusive and Deceptive Debt Collection Practices, during the past session. This was in response to the growing problem of creditors using abusive collection tactics on consumer debts such as mortgages. One of the most pernicious practices described at the public hearing on the Public Act was the threat of criminal prosecution. The inclusion of borrowers within a mortgage fraud statute would result in an increase of that threat, and this type of collection tactic would be applied to consumers who were ignorant of any fraud in their mortgage applications. The possibility that this will occur outweights any deterrent effect that a mortgage fraud statute would have on borrowers.

My recollection is that there was an agreement that the reference to borrowers would not be included in the committee report, and I am requesting that it be removed.

BROKER BOND

With regard to Mr. Spalthoff'scomments, I would like to make two points. The first concerns his argument that very few claims are made under the bonds and that the only consequence of increasing the bond amount would be to enrich the bonding agents and sureties. It is important to note, however, that one of the recommended changes is to increase the scope of claims that can be asserted under the bonds. One of the problems identified by the committee is that the bond coverage is not adequate to provide protection to consumers for any broker misconduct other than the theft of closing costs paidin advance. By expanding the coverage to include unsatisfied judgments obtained against brokers, it is anticipated that the bond will provide protection against the brokers that close up shop once they have been sued. Once the scope of claims has been expanded, then the amount of coverage becomes meaningful.

The second point is the amount of the proposed increase. The proposed increase is substantially less than the rate of inflation when measured from the date that the bond requirement was initially imposed. I believe that we determined that the premium amount would be well over $80,000 if we applied the inflationary rate. The consensus of those who attended the final meeting was that the proposed increase to $60,000 represented a reasonable compromise between the need to the rate of inflation into account, the need to protect consumers, and the brokers' interest in not having premium costs increase excessively.

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----- Original Message -----

From: Charbonneau, Jeanne <mailto:Jeanne.Charbonneau@ct.gov>

To: Tom <mailto:tom.egan@indymacbank.com> Egan ; Cicchetti, Alan J <mailto:Alan.Cicchetti@po.state.ct.us> ; Ben Niles <mailto:benjamin_niles@freddiemac.com> ; Carol <mailto:carol.derosa@chfa.org> DeRosa ; Charlie Basil <mailto:cbasil@reiner.com> ; Daniel Blinn <mailto:dblinn@consumerlawgroup.com> ; Deb Killian <mailto:debkillian@snet.net> ; Pitkin, <mailto:Howard.Pitkin@ct.gov> Howard ; Mandyck, Jackie <mailto:Jackie.Mandyck@ct.gov> ; Farrell, <mailto:Jerry.Farrell@ct.gov> Jerry ; Joan Saddler <mailto:Lending.Integrity@yahoo.com> ; Joan Saddler <mailto:jesaddler2 @aol.com> ; John Ertle <mailto:john_ertle@hud.gov> ; John Neves <mailto:jneves@elitemortgageusa.com> ; Judy <mailto:judy.walter@chfa.org> Walter ; Mary Jane Kononchik <mailto:maryjane.kononchik@chfa.org> ; Mike Meotti <mailto:mike.meotti@ctunitedway.org> ; Norm Roos <mailto:nroos@thelen.com> ; Norm <mailto:nroos@brownraysman.com> Roos ; Peter Spalthoff <mailto:pspalthoff@csmbct.com> ; Ron Pugliese <mailto:ronald.j.pugliese@us.hsbc.com>

Cc: gary.king@chfa.org ; Pitkin, <mailto:Howard.Pitkin@ct.gov> Howard

Sent: Monday, August 20, 2007 11:03 AM

Subject: Report

Attached is the subcommittee report on Policy, Regulation and Consumer Education. Please review and send any comments you may have to me, jeanne.charbonneau@ct.gov, by Friday, August 24th. As always, feel free to contact Commissioner Howard Pitkin at 860-240-8100 or at howard.pitkin@ct.gov with any issues.

Thank you.

WARD MICHAEL

From: Cicchetti, Alan J [Alan.Cicchetti@ct.gov]
Sent: Saturday, September 08, 2007 8:48 AM
To: michael.ward@chfa.org
Subject: FW: Report

-----Original Message-----
From: Jesaddler2@aol.com [mailto:Jesaddler2@aol.com]
Sent: Wed 8/29/2007 7:36 AM
To: debkillian@snet.net; CBasil@reiner.com; pspalthoff@csmbct.com; dblinn@consumerlawgroup.com; Charbonneau, Jeanne; tom.egan@indymacbank.com; Cicchetti, Alan J; benjamin_niles@freddiemac.com; carol.derosa@chfa.org; Pitkin, Howard; Mandyck, Jackie; Farrell, Jerry; Lending.Integrity@yahoo.com; john_ertle@hud.gov; jneves@elitemortgageusa.com; judy.walter@chfa.org; maryjane.kononchik@chfa.org; mike.meotti@ctunitedway.org; nroos@thelen.com; nroos@brownraysman.com; ronald.j.pugliese@us.hsbc.com
Cc: gary.king@chfa.org
Subject: Re: Report

Hello All -

I also apologize for the late response, and want to make a point. There are so many issues here, it's hard to know where to begin. However, in my opinion, it all boils down to education and accountability requirements for the consumer and the loan officer/originator. This also needs to be extended to realtors, appraisers, attorneys, anyone who has a hand in the transaction.

I want to make it very clear that it is the loan officer/originator I'm indicating above, whether they work for a large bank or the small broker on the corner. I've personally dealt with both for many years, and the problem is across the board. In my opinion, banks are NOT doing a sufficient job of educating their sales staff on ethical lending practices, fraud and its implications, how to qualify an applicant, etc. Many can't seem to even perform the simple but very important task of executing the completed loan application!

I know it was discussed at length that what we do will have limited influence on the activity of the lending institutions that are not state chartered. But anything that can be done to make the education requirements all-encompassing for the whole industry would be very helpful.

And Deb Killian - I don't think you're nuts at all - makes perfect sense to me!

Thanks,
Joan Saddler
Lending Integrity, LLC
(203) 676-5343

From: Cicchetti, Alan J [Alan.Cicchetti@ct.gov]
Sent: Saturday, September 08, 2007 8:48 AM
To: michael.ward@chfa.org
Subject: FW: Report of the Policy Regulation and Consumer Education Subcommittee

-----Original Message-----
From: Rafie Podolsky [mailto:RPodolsky@larcc.org]
Sent: Fri 8/24/2007 3:53 PM
To: Cicchetti, Alan J
Cc: Pitkin, Howard; Gary King
Subject: Report of the Policy Regulation and Consumer Education Subcommittee

Legal Assistance Resource Center

? of Connecticut, Inc. ?

44 Capitol Avenue, Room 301 ? Hartford, Connecticut 06106

(860) 278-5688 ? FAX (860) 278-2957

August 24, 2007

To: Alan Cicchetti, Chair, Subcommittee on Policy Regulation and Consumer Education
Cc: Howard Pitkin and Gary King, Co-chairs, Governor's Task Force on Subprime Mortgage Lending
From: Raphael Podolsky

Dear Alan:

I recently saw the revised copy of the Subcommittee's report. There are many parts of it with which we are pleased, such as the recommendations on the option to cure default by making partial payments, the recruitment of pro bono attorneys, the qualifying of borrowers at the fully indexed rate, and funding for housing advocacy agencies and mortgage counselors, among others. There are several areas where we wish the Subcommittee had gone further (e.g., the proposed increase in the bonding requirement does not come close to matching inflation in housing costs since 1985); but there is one Subcommittee recommendation with which we strongly disagree. I wanted to call that to your attention in the hope that it might yet be changed. Please feel free to distribute this comment to the Subcommittee and the Task Force.

Area of disagreement - borrower "fraud"

While we support a new anti-fraud criminal statute for brokers and lenders who violate the law, we strongly oppose the Subcommittee's recommendation that the law further criminalize homeowners for so-called "fraud for housing." In light of the evidence before the Subcommittee of lender/broker abuse, the limited knowledge of borrowers and the frequent participation of lenders/brokers themselves in this alleged "fraud," the ability of lenders to protect themselves through reasonable verification mechanisms, and the existence of other criminal fraud statutes that can be applied to homeowners, we are puzzled why the Subcommittee would, in the face of consumer opposition, be so insistent in including borrowers in what should be a proposal to regulate this portion of the lending industry. We think that the practical effect of the proposal will be to enhance the ability of unscrupulous lenders to use the threat of arrest as a powerful bill collection technique. For this reason, we think that the Subcommittee's recommendation, as applied to borrowers, is a serious mistake that is contrary to the underlying purpose of the Task Force and will have an adverse impact on homeowners already been victimized by subprime loans. We hope that, if the Subcommittee does not withdraw the proposal, the Task Force will reject it.

Thanks very much for your consideration of these comments.

Sincerely,

Raphael L. Podolsky

Washington Business Journal - September 10, 2007
http://washington.bizjournals.com/washington/stories/2007/09/10/daily15.html

WASHINGTON BUSINESS JOURNAL

BUSINESS PULSE SURVEY: Meltdown in sub-prime lending

Fannie, Freddie meet subprime rules, regulator says

Washington Business Journal - 5:37 PM EDT Monday, September 10, 2007 by Neil Adler Staff Reporter

Mortgage financers Fannie Mae and Freddie Mac have implemented new federal guidelines regarding the purchase of risky subprime loans, according to the regulator for the two companies.

Last month, the Office of Federal Housing Enterprise Oversight directed D.C.-based Fannie Mae and McLean-based Freddie Mac to apply tighter standards for buying subprime loans, which are made to borrowers with shaky credit.

The oversight office had requested that nontraditional and subprime loans purchased by the two companies comply with the new guidelines for subprime lending no later than Sept. 13.

Fannie Mae (NYSE: FNM) and Freddie Mac (NYSE: FRE) hold about $370 billion in private-label securities, almost all of which carry the highest investment-grade rating. About $170 billion of those securities are backed by subprime mortgages, according to the regulator.

The two companies have pledged to continue supporting subprime borrowers. Fannie Mae has said it will purchase "tens of billions" of dollars in subprime loans over the next several years. Freddie Mac has said it will buy $20 billion of these loans, according to their regulator.

"These actions, which address the practices of both regulated and unregulated mortgage originators, reinforce the historic and statutory role of Fannie Mae and Freddie Mac in promoting market liquidity through standardization of mortgage underwriting," said James Lockhart, director of the Office of Federal Housing Enterprise Oversight.

Defaults by borrowers with spotty credit has helped fuel a downturn in the housing and mortgage markets, which has spilled over to home buyers with strong credit, leading to falling home prices, an increase in the supply of new and existing homes and a credit crunch affecting private equity deals, commercial finance transactions and other investments.

Both Fannie Mae and Freddie Mac have asked for the flexibility to increase the holdings of their mortgage-related portfolios to help address deteriorating conditions in the secondary mortgage market. Lockhart said a month ago that his agency will "keep under active consideration requests for an increase in the portfolio caps, but we are not authorizing any significant changes at this time."

Also on Monday, U.S. Sen. Charles Schumer, D-N.Y., introduced legislation to temporarily allow the two companies to spend about 10 percent more than their current investment cap.

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Investopedia

The Rise And Fall Of Subprime Paper

Ryan Barnes, Investopedia 09.10.07, 2:30 PM ET

Dozens of mortgage lenders declare bankruptcy in a matter of weeks. The market is filled with concerns of a major global credit crunch, which could affect all classes of borrowers. Central banks use emergency clauses to inject liquidity into scared financial markets. The real estate markets plummet after years of record highs. Foreclosure rates double year-over-year during the latter half of 2006 and in 2007.

The reports sound intimidating, but what does this all mean?

We are currently knee-deep in a financial crisis that centers on the U.S. housing market, where fallout from the frozen subprime mortgage market is spilling over into the credit markets, as well as domestic and global stock markets.

The Path to a Crisis

Was this the case of one group or one company falling asleep at the wheel? Is this the result of too little oversight, too much greed, or simply not enough understanding? As is often the case when financial markets go awry, the answer is likely, "all the above."

Remember, the market we are watching today is a byproduct of the market of six years ago. Rewind back to late 2001, when fear of global terror attacks after Sept. 11 roiled an already-struggling economy, one that was just beginning to come out of the recession induced by the tech bubble of the late 1990s. (For related reading, see "The Greatest Market Crashes" and "When Fear And Greed Take Over.")

In response, during 2001, the Federal Reserve began cutting rates dramatically, and the fed funds rate arrived at 1% in 2003, which in central banking parlance is essentially zero. The goal of a low federal funds rate is to expand the money supply and encourage borrowing, which should spur spending and investing. The idea that spending was "patriotic" was widely propagated, and everyone from the White House to the local parent-teacher association encouraged us to buy, buy, buy.

It worked, and the economy began to steadily expand in 2002.

Real Estate Begins to Look Attractive

As lower interest rates worked their way into the economy, the real estate market began to work itself into a frenzy as the number of homes sold, and their selling prices, increased dramatically beginning in 2002. At the time, the rate on a 30-year fixed-rate mortgage was at its lowest level in nearly 40 years, and people saw a unique opportunity to gain access into what was just about the cheapest source of available equity. (For related reading, see "Why Housing Market Bubbles Pop.")

Investment Banks, and the Asset-Backed Security

If the housing market had only been dealt a decent hand--say, one with low interest rates and rising demand--any problems would have been fairly contained. Unfortunately, it was dealt a fantastic hand, thanks to new financial products being spun on Wall Street. These new products ended up spreading far and wide, and were picked up in pension funds, hedge funds and international governments.

And, as we're now learning, many of these products ended up being worth absolutely nothing.

A Simple Idea Leads to Big Problems
The asset-backed security (ABS) has been around for decades, and at its core lies a simple investment principle: Take a bunch of assets with predictable and similar cash flows (like an individual's home mortgage), bundle them into one managed package that collects all the individual payments and use the money to pay investors a coupon on the managed package. This creates an asset-backed security in which the underlying real estate acts as collateral. (For more insight, read "Asset Allocation With Fixed Income.")

Another big plus was credit rating agencies such as Moody's and Standard & Poor's putting their "AAA" or "A+" stamp of approval on many of these securities, signaling their relative safety as an investment. (For more insight, read "What Is A Corporate Credit Rating?")

The advantage for the investor is that he or she can acquire a diversified portfolio of fixed-income assets that arrive as one coupon payment.

The Government National Mortgage Association (Ginnie Mae) had been bundling and selling securitized mortgages as ABS's for years; their "AAA" ratings have always had the guarantee afforded by Ginnie Mae's government backing. Investors gained a higher yield than on Treasuries, and Ginnie Mae was able to use the funding to offer new mortgages.

Widening the Margins
Thanks to an exploding real estate market, an updated form of the ABS was also being created, only these ABS's were being stuffed with subprime mortgage loans, or loans to buyers with less-than-stellar credit. (To learn more about subprime, read "Subprime Is Often Subpar" and "Subprime Loans: Buyer Beware.")

Subprime loans, along with their much higher default risks, were placed in different risk classes, or tranches, each of which came with its own repayment schedule. Upper tranches were able to receive "AAA" ratings even if they contained subprime loans, because these tranches were promised the first dollars that came into the security. Lower tranches carried higher coupon rates to compensate for the increased default risk. All the way at the bottom, the "equity" tranche was a highly speculative investment, as it could have its cash flows essentially wiped out if the default rate on the entire ABS crept above a low level, in the range of 5% to 7%. (To learn more, read "Behind The Scenes Of Your Mortgage.")

Suddenly, even subprime mortgage lenders had an avenue to sell their risky debt, which in turn enabled them to market this debt even more aggressively. Wall Street was there to pick up their subprime loans, package them with other loans (some quality, some not), and sell them to investors. Additionally, nearly 80% of these bundled securities magically became investment grade ("A" rated or higher), thanks to the rating agencies, which earned lucrative fees for their work in rating the ABS's. (For more insight, see "What does investment grade mean?")

As a result of this activity, it became very profitable to originate mortgages--even risky ones. It wasn't long before even basic requirements like proof of income and a down payment were being overlooked by mortgage lenders; 125% loan-to-value mortgages were being underwritten and given to prospective homeowners. The logic was, with real estate prices rising so fast (median home prices were rising as much as 14% annually by 2005), a 125% LTV mortgage would be above water in less than two years.

Leverage Squared
The reinforcing loop was starting to spin too quickly, but when Wall Street, Main Street and everyone in between was profiting from the ride, who was going to put on the brakes?

Record-low interest rates had teamed up with ever-loosening lending standards to push real estate prices to record highs across most of the United States. Existing homeowners were refinancing in record numbers, tapping into recently earned equity for the few hundred dollar cost a home appraisal. (For related reading, see "Home-Equity Loans: The Costs" and "The Home-Equity Loan: What It Is And How It Works.")

Meanwhile, thanks to the market liquidity, investment banks and other large investors were able to borrow more and more (increased leverage) to create additional investment products, including shaky subprime assets.

Collateralized Debt Joins the Fray
The ability to borrow more prompted banks and other large investors to create collateralized debt obligations (CDOs), which essentially "scooped up" equity, and medium- to low-rated "mezzanine" tranches from mortgage-backed securities (MBS's) and repackage them yet again, this time into mezzanine CDOs.

By using the same "trickle down" payment scheme, most of the mezzanine CDOs could garner a "AAA" credit rating, making them available to hedge funds, pension funds, commercial banks and other institutional investors.

CDOs and Residential mortgage-backed securities (RMBS), which draw cash flow from residential debt, were effectively removing the lines of communication between the borrower and the original lender. Suddenly, large investors controlled the collateral. As a result, negotiations over late mortgage payments were bypassed for the "direct-to-foreclosure" model of an investor looking to cut his losses. (For more, read "Saving Your Home From Foreclosure.")

These factors would not have caused the current crisis if the real estate market continued to boom, and homeowners could actually pay their mortgages. But that is not what happened, and these factors only helped to fuel the number of foreclosures later on.

Teaser Rates and the ARM

With mortgage lenders exporting much of the risk in subprime lending out the door to investors, they were free to come up with interesting strategies to originate loans with the capital they had freed up. By using teaser rates (special low rates that would last for the first year or two of a mortgage) within adjustable-rate mortgages (ARMs), borrowers could be enticed into an initially affordable mortgage in which payments would skyrocket in three, five, or seven years. (To learn more, read "ARMed And Dangerous" and "American Dream Or Mortgage Nightmare?")

As the real estate market pushed to its peaks in 2005 and 2006, teaser rates, ARMs, and the "interest-only" loan (where no principle payments are made for the first few years) were increasingly pushed on homeowners. As these loans became more common, fewer borrowers questioned the terms and were instead enticed by the prospect of being able to refinance in a few years--at a huge profit, the argument stated--enabling them to make any necessary catch-up payments. What borrowers didn't take into account in the booming housing market, however, was that any decrease in home value would leave the borrower with an untenable combination of a balloon payment and a much higher mortgage payment.

A market as close to home as real estate becomes impossible to ignore when it's firing on all cylinders. In five years, home prices in many areas had literally doubled, and just about anyone who hadn't purchased a home or refinanced considered themselves behind in the race to make money in that market. Mortgage lenders knew this, and pushed ever more aggressively. New homes couldn't be built fast enough, and home builders' stocks soared.

Issuance in the CDO market, secured mainly with subprime debt, ballooned to more than $600 billion during 2006 alone--more than 10 times the amount issued just a decade earlier. These securities, though illiquid, were snatched up eagerly in the secondary markets, which happily parked them in large institutional funds at their market-beating interest rates.

Cracks Begin to Appear

By the middle of 2006, however, cracks began to appear. New-homes sales stalled, and median sale prices halted their climb. Interest rates, while still low historically, were on the rise, with inflation fears threatening to raise them higher. All of the easily underwritten mortgages and refinances had already been done, and the first of the shaky ARMs, written 12 to 24 months earlier, were beginning to reset.

Default rates began to rise sharply. Suddenly, the CDO didn't look so attractive to investors in search of yield. After all, many of the CDOs had been re-packaged so many times that it was difficult to tell how much subprime exposure they'd actually had.

The Crunch of Easy Credit

It wasn't long before news of problems in the housing sector progressed from boardroom discussions to headline-grabbing news.

Scores of mortgage lenders, with no more eager secondary markets or investment banks to sell their loans to, were cut off from what had become a main funding source and were forced to shut down operations. As a result, CDOs went from illiquid to unmarketable.

In the face of all this financial uncertainty, investors became much more risk averse, and looked to unwind positions in potentially hazardous MBS's and any fixed-income security not paying a proper risk premium for the perceived risk level. Investors were casting their votes en masse: Subprime risks were not risks worth taking.

Amid this flight to quality, three-month Treasury bills became the new "must-have" fixed-income product, and yields fell a shocking 1.5% in a matter of days. Even more notable than the buying of government-backed bonds (short-term ones at that) was the spread between similar-term corporate bonds and T-bills, which widened from about 35 basis points to more than 120 basis points in less than a week.

To the untrained eye, these changes may sound minimal or undamaging, but in modern fixed-income markets, where leverage is king and cheap credit is only the current jester, a move of that magnitude can do major damage. This was illustrated by the collapse of several hedge funds. (For more on these collapses, read "Losing The Amaranth Gamble" and "Massive Hedge Fund Failures.")

Many institutional funds were faced with margin and collateral calls from nervous banks, which forced them to sell other assets, such as stocks and bonds, to raise cash. The increased selling pressure took hold of the stock markets, as major equity averages worldwide were hit by sharp declines in a matter of weeks, which effectively stalled the strong market that had taken the Dow Jones Industrial Average to all-time highs in July 2007.

To help stem the impact of the crunch, the central banks of the U.S., Japan and Europe, through cash injections of several hundred billion dollars, helped banks with their liquidity issues and helped to stabilize the financial markets. The Federal Reserve also cut the discount window rate, which made it cheaper for financial institutions to borrow funds from the Fed, add liquidity to their operations and help struggling assets. (To learn more, read "Get To Know The Major Central Banks.")

The added liquidity helped to stabilize the market to a degree, but the full impact of these events is not yet clear.

There is nothing inherently wrong or bad about the collateralized debt obligation or any of its financial relatives. It is a natural and intelligent way to diversify risk and open up capital markets. As illustrated by the dot-com bubble, Long-Term Capital Management's collapse and the hyperinflation of the early 1980s, if a strategy or instrument is misused or "overcooked," the arena will eventually need a good shaking-out. Call it a natural extension of capitalism, where greed can inspire innovation, but if unchecked, major market forces are required to bring balance back to the system.

What's Next?

So where do we go from here? The answer will center on finding out just how far-reaching the impact will be, both in the U.S. and around the world. The best possible outcome for all parties involved remains one in which the U.S. economy does well, unemployment stays low, personal income keeps pace with inflation and real estate prices find a bottom. Only when the last piece settles will we be able to assess the total impact of the subprime meltdown.

Regulatory oversight is bound to get stiffer after this fiasco, and will likely keep lending restrictions and bond ratings very conservative for the next few years. Aside from any lessons learned, Wall Street will continue to seek new ways to price risk and package securities, and it will remain the investor's responsibility to see the future through the valuable filters of the past.

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Send comments and questions to newsletters@forbes.com.

Substitute House Bill No. 7073

Public Act No. 07-118

AN ACT PROTECTING CONSUMERS' PRIVACY IN MORTGAGE APPLICATIONS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 36a-498 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2007*):

(a) Except as provided in subsection (c) of this section, every advance fee paid or given, directly or indirectly, to a mortgage lender or first mortgage broker required to be licensed pursuant to sections 36a-485 to 36a-498a, inclusive, shall be refundable.

(b) No originator required to be registered pursuant to sections 36a-485 to 36a-498a, inclusive, shall accept payment of any advance fee except an advance fee on behalf of a licensee. Nothing in this subsection shall be construed as prohibiting the licensee from paying an originator all or part of an advance fee, provided such advance fee paid is not refundable under this section.

(c) Subsection (a) of this section shall not apply if: (1) The person providing the advance fee and the mortgage lender or first mortgage broker agree in writing that the advance fee shall not be refundable, in whole or in part; and (2) the written agreement complies in all respects with the provisions of subsection (d) of this section.

(d) An agreement under subsection (c) of this section shall meet all of the following requirements to be valid and enforceable: (1) The agreement shall be dated, signed by both parties, and be executed prior to the payment of any advance fee; (2) the agreement shall expressly state the total advance fee required to be paid and any amount of the advance fee that shall not be refundable; (3) the agreement shall clearly and conspicuously state any conditions under which the advance fee will be retained by the licensee; (4) the term "nonrefundable" shall be used to describe each advance fee or portion thereof to which the term is applicable, and shall appear in boldface type in the agreement each time it is used; and (5) the form of the agreement shall (A) be separate from any other forms, contracts, or applications utilized by the licensee, (B) contain a heading in a size equal to at least ten-point boldface type that shall title the form "AGREEMENT CONCERNING NONREFUNDABILITY OF ADVANCE FEE", (C) provide for a duplicate copy which shall be given to the person paying the advance fee at the time of payment of the advance fee, and (D) include such other specifications as the commissioner may by regulation prescribe.

(e) An agreement under subsection (c) of this section that does not meet the requirements of subsection (d) of this section shall be voidable at the election of the person paying the advance fee.

(f) (1) No mortgage lender or first mortgage broker required to be licensed pursuant to sections 36a-485 to 36a-498a, inclusive, shall enter into an agreement with or otherwise require any person to pay the mortgage lender or first mortgage broker for any fee, commission or other valuable consideration lost as a result of such person failing to consummate a first mortgage loan, provided the mortgage lender or first mortgage broker may collect such fee, commission or consideration as an advance fee subject to the requirements of this section.

(2) No first mortgage broker required to be licensed pursuant to sections 36a-485 to 36a-498a, inclusive, shall enter into an agreement with or otherwise require any person to pay the first mortgage broker any fee, commission or other valuable consideration for the prepayment of the principal of a first mortgage loan by such person before the date on which the principal is due.

(g) (1) For the purposes of this subsection:

(A) "Unfair or deceptive act or practice" means (i) the failure to clearly and conspicuously state in the initial phase of the solicitation that the solicitor is not affiliated with the lender or broker with which the consumer initially applied, (ii) the failure to clearly and conspicuously state in the initial phase of the solicitation that the solicitation is based on personal information about the consumer that was purchased, directly or indirectly, from a consumer reporting agency without the knowledge or permission of the lender or broker with which the consumer initially applied, (iii) the failure in the initial solicitation to comply with the provisions of the federal Fair Credit Reporting Act relating to prescreening solicitations that use consumer reports, including the requirement to make a firm offer of credit to the consumer, or (iv) knowingly or negligently using information from a mortgage trigger lead (I) to solicit consumers who have opted out of prescreened offers of credit under the federal Fair Credit Reporting Act, or (II) to place telephone calls to consumers who have placed their contact information on a federal or state Do Not Call list; and

(B) "Mortgage trigger lead" means a consumer report obtained pursuant to Section 604 (c)(1)(B) of the federal Fair Credit Reporting Act, 15 USC 1681b, where the issuance of the report is triggered by an inquiry made with a consumer reporting agency in response to an application for credit. "Mortgage trigger lead" does not include a consumer report obtained by a lender that holds or services existing indebtedness of the applicant who is the subject of the report.

(2) No mortgage lender or first mortgage broker shall engage in an unfair or deceptive act or practice in soliciting an application for a first mortgage loan when such solicitation is based, in whole or in part, on information contained in a mortgage trigger lead. Any violation of this subsection shall be deemed an unfair or deceptive trade practice under subsection (a) of section 42-110b.

Sec. 2. Section 36a-521 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2007*):

(a) No person engaged in the secondary mortgage loan business in this state as a mortgage lender, or a secondary mortgage broker, including any licensee under sections 36a-510 to 36a-524, inclusive, and any person who is exempt from licensing under section 36a-512, may (1) charge, impose or cause to be paid, directly or indirectly, in connection with any secondary mortgage loan transaction, prepaid finance charges that exceed in the aggregate eight per cent of the principal amount of the loan, or (2) include in the loan agreement under which prepaid finance charges have been assessed any provision which permits the mortgage lender to demand payment of the entire loan balance prior to the scheduled maturity, except that such loan agreement may contain a provision which permits the mortgage lender to demand payment of the entire loan balance if any scheduled installment is in default for more than sixty days or if any condition of default set forth in the mortgage note exists. For the purposes of this section, "prepaid finance charge" has the meaning given to that term in section 36a-746a.

(b) Any mortgage lender who fails to comply with the provisions of this section shall be liable to the borrower in an amount equal to the sum of: (1) The amount by which the total of all prepaid finance charges exceeds eight per cent of the principal amount of the loan; (2) eight per cent of the principal amount of the loan or two thousand five hundred dollars, whichever is less; and (3) the costs incurred by the borrower in bringing an action under this section, including reasonable attorney's fees, as determined by the court, provided no such mortgage lender shall be liable for more than the amount specified in this subsection in a secondary mortgage loan transaction involving more than one borrower.

(c) Except as provided in subsection (e) of this section, every advance fee paid or given, directly or indirectly, to a mortgage lender or secondary mortgage broker required to be licensed pursuant to sections 36a-510 to 36a-524, inclusive, shall be refundable.

(d) No originator required to be registered pursuant to sections 36a-510 to 36a-524, inclusive, shall accept payment of any advance fee except an advance fee on behalf of a licensee. Nothing in this subsection shall be construed as prohibiting the licensee from paying an originator all or part of an advance fee, provided such advance fee paid is not refundable under this section.

(e) Subsection (c) of this section shall not apply if: (1) The person providing the advance fee and the licensee agree, in writing, that the advance fee shall not be refundable, in whole or in part; and (2) the written agreement complies in all respects with the provisions of subsection (f) of this section.

(f) An agreement under subsection (e) of this section shall meet all of the following requirements to be valid and enforceable: (1) The agreement shall be dated, signed by both parties, and be executed prior to the payment of any advance fee; (2) the agreement shall expressly state the total advance fee required to be paid and any amount of the advance fee that shall not be refundable; (3) the agreement shall clearly and conspicuously state any conditions under which the advance fee will be retained by the licensee; (4) the term "nonrefundable" shall be used to describe each advance fee or portion thereof to which the term is applicable and shall appear in boldface type in the agreement each time it is used; and (5) the form of the agreement shall (A) be separate from any other forms, contracts or applications utilized by the licensee, (B) contain a heading printed in a size equal to at least ten-point boldface type that shall title the form "AGREEMENT CONCERNING NONREFUNDABILITY OF ADVANCE FEE", (C) provide for a duplicate copy, which shall be given to the person paying the advance fee at the time of payment of the advance fee, and (D) include such other specifications as the commissioner may by regulation prescribe.

(g) An agreement under subsection (e) of this section that does not meet the requirements of subsection (f) of this section shall be voidable at the election of the person paying the advance fee.

(h) (1) No mortgage lender or secondary mortgage broker required to be licensed pursuant to sections 36a-510 to 36a-524, inclusive, shall enter into an agreement with or otherwise require any person to pay the mortgage lender or secondary mortgage broker for any fee, commission or other valuable consideration lost as a result of such person failing to consummate a secondary mortgage loan, provided the mortgage lender or secondary mortgage broker may collect such fee, commission or consideration as an advance fee subject to the requirements of this section.

(2) No secondary mortgage broker required to be licensed pursuant to sections 36a-510 to 36a-524, inclusive, shall enter into an agreement with or otherwise require any person to pay the secondary mortgage broker any fee, commission or other valuable consideration for the prepayment of the principal of a secondary mortgage loan by such person before the date on which the principal is due.

(i) (1) For the purposes of this subsection:

(A) "Unfair or deceptive act or practice" means (i) the failure to clearly and conspicuously state in the initial phase of the solicitation that the solicitor is not affiliated with the lender or broker with which the consumer initially applied, (ii) the failure to clearly and conspicuously state in the initial phase of the solicitation that the solicitation is based on personal information about the consumer that was purchased, directly or indirectly, from a consumer reporting agency without the knowledge or permission of the lender or broker with which the consumer initially applied, (iii) the failure in the initial solicitation to comply with the provisions of the federal Fair Credit Reporting Act relating to prescreening solicitations that use consumer reports, including the requirement to make a firm offer of credit to the consumer, or (iv) knowingly or negligently using information from a mortgage trigger lead (I) to solicit consumers who have opted out of prescreened offers of credit under the federal Fair Credit Reporting Act, or (II) to place telephone calls to consumers who have placed their contact information on a federal or state Do Not Call list; and

(B) "Mortgage trigger lead" means a consumer report obtained pursuant to Section 604(c)(1)(B) of the federal Fair Credit Reporting Act, 15 USC 1681b, where the issuance of the report is triggered by an inquiry made with a consumer reporting agency in response to an application for credit. "Mortgage trigger lead" does not include a consumer report obtained by a lender that holds or services existing indebtedness of the applicant who is the subject of the report.

(2) No mortgage lender or secondary mortgage broker shall engage in any unfair or deceptive act or practice in soliciting an application for a secondary mortgage loan when such solicitation is based, in whole or in part, on information contained in a mortgage trigger lead. Any violation of this subsection shall be deemed an unfair or deceptive trade practice under subsection (a) of section 42-110b.

Approved June 11, 2007