

**FEDERAL HOUSING FINANCE AGENCY
No. 2012-N-13**

“State-Level Guarantee Fee Pricing”

*Comments of:
Connecticut Housing Finance Authority
999 West Street
Rocky Hill, CT 06067*

The Connecticut Housing Finance Authority (CHFA) is writing in response to the Federal Housing Finance Agency (“the Agency”) Notice 2012-N-13 of September 25th seeking comment on a proposed “state-level” increase in guarantee fees assessed by the Federal National Mortgage Association (“FannieMae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”). Our understanding is that the basis of this proposal is to compensate FannieMae and FreddieMac for the presumed foreclosure costs associated with judicial foreclosure processes.

CHFA’s view is that this imposition of state level guarantee fees is harmful and prejudicial to Connecticut and should not be implemented. Connecticut has, with good result, taken action to address home mortgage loan default and foreclosure. The Agency’s effort to set state level guarantee fees is prejudicial to this sovereign state action undertaken to protect its citizens and communities from undue harm associated with the recent collapse of the nation’s housing market. CHFA believes that it is bad public policy for the Federal government to single out and penalize states based on measures that these state have taken to protect their own citizens.

We urge the Agency to withdraw this Notice and not proceed with the imposition of state level guarantee fees.

Relevant Background and Experience of CHFA

CHFA was established by Connecticut Public Act No. 795 (the “Act”) in 1969 as a public instrumentality and political subdivision of the State of Connecticut. The Act provided a broad range of powers and authority to finance affordable housing to alleviate the shortage of quality affordable housing in Connecticut.

Using these powers and authorities for over 40 years CHFA has issued over \$14 billion in bonds to finance affordable homes and low-cost mortgages for low and moderate income first-time homebuyers. Through this financing CHFA funded home purchases for over 128,000 low and moderate income first time homebuyers and has provided financing to build or renovate over 39,000 affordable rental apartments. For much of its history, which has included the two significant recessions and the recent collapse in the housing and finance markets CHFA has continued to earn the highest ratings on its bonds.

CHFA has extensive experience lending to many of the types of low and moderate income homebuyers that suffered such high degrees of default and foreclosure during the sub-prime

*Comments of:
Connecticut Housing Finance Authority
999 West Street
Rocky Hill, CT 06067
Page 2*

crisis and subsequent housing market contraction. Based on this experience both the State and Federal governments have turned to CHFA to assist in efforts to avert mortgage default and foreclosure that often results in a family unnecessarily losing their home. These efforts also prevent financial institutions from booking unnecessary losses. These programs, the State of Connecticut's Emergency Mortgage Assistance Program and Federal Emergency Homeowners Loan Program, administered through CHFA, have allowed more than 1,500 CT homeowners to remain in their homes. CHFA has been active and directly involved in mortgage default and foreclosure mitigation and remediation efforts both as a provider of these mitigation programs and as a mortgage lender.

The Agency's Proposal to Establish State-level Guarantee Fees

Based on this experience CHFA views the Notice as based on a simplistic, single cause analysis that associates mortgage loss solely with the time taken in the foreclosure process. This does not reflect reality "on the ground" in Connecticut. As others have competently pointed out, for Connecticut, which employs a mediation approach required by law, this line of analysis does not account for the possibility that increased time actually results in fewer losses and better outcomes for both lenders, borrowers, and the enterprises.

A recent review of the mediation effort in our state indicates that 82 percent of cases result in favorable outcomes for both lenders and homeowners. Unfortunately, based on the reasoning of the Notice, the Agency's approach to setting the fee would be based solely on the 18% of the cases that did actually proceed to foreclosure with its associated higher level of financial loss, human suffering and very negative neighborhood impact. In addition, it has been our experience that there are other factors that contribute to delays in the foreclosure process, including negligence or unresponsiveness of mortgage servicers and their counsel. There is ample evidence of this with allegations of "robo signing" and other major problems that have characterized recent mortgage lending history across the nation. Unfortunately, the analysis that underlies the Agency's Notice does not account for the various valid reasons for the length or time and thus penalizes new borrowers for the prior performance of lenders, servicers and law firms.

CHFA Urges the Agency to Withdraw Its Notice and Not to Proceed with State-level Guarantee Fees

In light of these considerations, increasing the cost of mortgage financing for new borrowers in Connecticut based on such a simple analysis is inappropriate and unfair to new homebuyers. The housing market shows signs of improving and adding inappropriate additional costs to new market participants does not facilitate the long awaited recovery.

*Comments of:
Connecticut Housing Finance Authority
999 West Street
Rocky Hill, CT 06067
Page 3*

In addition, this action, in effect, penalizes future Connecticut homebuyers for actions that the State has taken to protect existing homeowners from undue loss and suffering in the default and foreclosure process. Connecticut's mediation process so carefully crafted by our state's elected officials is working and having a positive impact for both lenders, homeowners and presumably the enterprises. This effort should be respected and not penalized by ideas such as the guarantee fee increase proposed by the Agency.

Accordingly we urge the Agency to withdraw this rule and not proceed with establishing state level guarantee fees.

Thanks you for the opportunity to comment on this important proposed action by the Agency.

Kind regards,



Eric Chatman
President – Executive Director
Connecticut Housing Finance Authority