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Flaws In Mortgage Bill

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State lawmakers appear close to finalizing the language on a comprehensive plan to help homeowners with their mortgage payments and put clamps on the subprime lending crisis.

A few elements of the bill, however, need to be tightened.

The measure, crafted by Banks Committee co-chairmen Sen. Bob Duff of Norwalk and Rep. Ryan Barry of Manchester, eliminates prepayment penalties, which are often so costly that they discourage refinancing to lower rates. Some in the industry, however, want to preserve them in some form. The penalties should go.

The yield-spread premium — a fee paid to mortgage brokers who persuade subprime borrowers to accept higher interest rates than they can afford — have not been eliminated. They should be. The bill simply requires that brokers disclose the fee to borrowers.

Another sticking point is the borrower's right to sue a lender who violates the new rules. As the law is written, the lender — if caught — has a grace period of 90 to 120 days from the closing to correct the violation.

Borrowers who sue after the grace period must prove that the violation was intentional, which is extremely difficult. They might as well have no right to sue at all.

The bill now on the agenda for a House vote is otherwise sound and should pass. It provides education for consumers on how to repair their credit and avoid being swindled; job training for homeowners who can't make payments due to a job loss or a salary cut; and three mortgage assistance programs.

The programs are backed with \$140 million in funding for borrowers in varying stages of difficulty.

The first program, Refinance To An Affordable Loan, is exactly what the name implies. Borrowers who are no more than 59 days past due on their mortgages and have a credit score of 620 would be eligible for 30-year fixed-rate loans.

Under the second program, Home Equity Recovery Opportunity, the state would buy a troubled homeowner's mortgage directly from the lender and place the borrower on an affordable repayment plan.

Emergency [Mortgage Assistance](#), meanwhile, helps families who need small amounts of cash to carry them over for a few months or to cover prepayment penalties on loans they want to dissolve.

The General Assembly's mortgage relief plan should go a long way toward preventing thousands of families from losing their homes. Portions of it, unfortunately, still leave room for lending-industry abuses.

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