

S.5035 (Sen. Peralta) - The Home Mortgage Bridge Loan Assistance Act

THIS BILL IS APPROVED

THE PROBLEM

* Despite flickering signs of improvement in some localities, 7 years after US home prices peaked & then plunged, the nation's mortgage markets remain mired in a slump that weighs down on the states' & the nation's economies & continues to sweep mortgages into default.

* There are 2 widely recognized types of mortgage troubles: some stem ultimately from poorly underwritten & poorly structured loans made during the real estate bubble; others were well underwritten & structured, but are underperforming now solely because of slump-induced temporary unemployment on the part of ordinarily credit-worthy homeowners. *Temporary loss of income is now a primary cause of mortgage defaults.*

* The federal Home Affordable Modification Program & Home Affordable Refinance Program lump both types of troubled mortgages together. These programs' approaches are not necessary for all mortgages. A recent Federal Reserve Bank of New York study concluded that certain under- or unemployed borrowers would be better served by a temporary mortgage bridge loan assistance program than HAMP or HARP.

THE REMEDY

THE HOME MORTGAGE BRIDGE LOAN ASSISTANCE ACT (HMBLAA)

Purpose: To provide *temporary & repayable* financial assistance through bridge loans to homeowners experiencing difficulty in paying their mortgage loans due to income loss.

* Will help avoid both *unnecessary foreclosures* & other restructuring-related complications by eliminating the need to negotiate loan modification terms with lenders & loan servicers. Borrower's monthly obligations are temporarily reduced depending on household income & length of unemployment. HMBLAA makes up the difference, for periods up to 24 or 36 months.

* Available to low, moderate or middle income mortgagors who meet *strict underwriting criteria*, such as the cause of their temporary financial hardship, a reasonable prospect of resuming mortgage payments before the state's supplemental payments cease & a favorable mortgage payment history prior to the current financial hardship. HMBLAA will mitigate the harm to eligible mortgagors' credit scores & reduce the social & other economic ills associated with home foreclosures.

* Based on a *highly successful* Pennsylvania program established over 25 years ago; about **80%** of participants have retained their homes & paid back their bridge loans. Due to improvements made to HMBLAA that are absent from the Pennsylvania program, it is expected that the repayment rate by New York homeowners will be even higher.

* Funding would be substantially self-perpetuating through *borrower repayment* of principal & interest once regular incomes are restored. ***Funding options:*** (1) repayments of mortgage bridge loan assistance to the state; (2) state appropriations; (3) contributions made available by firms in return for tax credits; (4) charitable contributions made available by any party; & (5) contributions by financial institutions to fulfill their state & federal Community Reinvestment Act obligations.

LEGISLATIVE AFFAIRS DEPARTMENT

MARIA CILENTI | Director
212.382.6655 - mcilenti@nycbar.org

ELIZABETH KOCIENDA | Asst. Director
212.382.4788 - ekocienda@nycbar.org

THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK
42 West 44th Street, New York, NY 10036-6689
www.nycbar.org

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