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This revised analysis replaces the analysis dated 11-6-89.

EXPAND HOUSING PROGRAM UNDER MSHDA

House Bill 4874 (Substitute H-5)
Revised First Analysis (2-2-90)

Sponsor: Rep. Nelson W. Saunders
Committee: Urban Affairs

THE APPARENT PROBLEM:

The Michigan State Housing Development Authority (MSHDA) was established by the legislature in 1966 to improve housing opportunities for people with low and moderate incomes. MSHDA now administers two types of loan programs: a direct loan program and a pass through loan program. Direct loans are supplied through the mortgage revenue bond (MRB) program (which operates according to federal rules regarding gross income and purchase price limits), and MSHDA's own mortgage credit certificate (MCC) program, which has certain less restrictive limits for qualifying depending on the location of a dwelling. Both of these loan programs supply loans for single-family, new and existing homes. In the pass through loan program, MSHDA acts more as an economic development authority by helping to finance multi-family developments in distressed and nondistressed areas.

While MSHDA is financed entirely through the sale of bonds and notes, it receives its operating authority and program scope limitations from the legislature. As MSHDA evaluates its operating strengths, weaknesses, and potential opportunities, it returns periodically to the legislature seeking amendments to its authorizing legislation. To continue serving that part of the single family housing market that neither can obtain nor afford a home loan at conventional rates, MSHDA needs increases and modifications in program scope limitations which dictate the circumstances for making loans. MSHDA's statutory debt capacity of $3 billion will return to $1.8 billion on November 1 of this year; this sunset needs to be extended, and MSHDA has requested the allowable debt ceiling be raised an additional $200 million. In addition, because of the increase in the cost of living index and, particularly, due to the rising cost of new and existing housing, MSHDA has requested raising the gross income and purchase price limits for qualifying under the act.

THE CONTENT OF THE BILL:

The bill would amend the state housing development authority act to extend the debt ceiling reduction sunset from November 1, 1989 to November 1, 1991, and to increase the debt capacity of the authority from $3 billion to $3.2 billion. In addition, the bill would modify gross income and purchase price limits for qualifying under various loan programs.

Use of New Bond Proceeds. The bill specifies that for the first 120 days following the announcement of a program funded by new bonds issued under the bill (for financing single family homes after November 1, 1989), 50 percent of the bond proceeds would have to be reserved for applicants with gross annual incomes at or below 55 percent of the statewide median gross income (which, for 1989, is $20,075). The amount of the bond proceeds, for purposes of this provision, would be determined by preliminary information obtained by originating lenders at the time a loan reservation was submitted. MSHDA would publicize the programs funded under the bill by using all reasonable means available, including, but not limited to, public interest announcements in the media, and announcements to lending institutions, community groups, and real estate organizations.

Limits to Qualify on Existing Dwelling. Currently, a person can qualify under the mortgage credit certificate (MCC) program to acquire an existing dwelling if the unit's purchase price does not exceed $60,000 and the borrower's gross income does not exceed $28,000. Under MSHDA's mortgage revenue bond (MRB) program these limits vary, however, depending on where a dwelling to be purchased is located. For a dwelling located in a distressed area, gross income cannot exceed $26,300 nor the purchase price $50,000, while the limits for loans on dwellings in non-distressed areas are $24,600 and $40,000. (Federal guidelines under the Internal Revenue Code apply to loans made under the MCC program, while MSHDA can set certain lower limits on gross income and purchase price for loans made under its housing program.)

The bill would eliminate these differences and establish a purchase price limit on an existing-dwelling loan under either of these programs of $60,000. The income limit would be based on "family income" rather than "gross income," where a borrower's income could not exceed:

- for a dwelling located in an eligible distressed area, $42,000 until November 1, 1991, and $36,500 after that date. ($36,500 represents the "statewide median gross income" in Michigan for 1989.) MCC commitments issued before November 1, 1991 for persons or families with incomes between $36,500 and $42,000 would qualify under the bill if the closing occurred and the certificate was issued on or after November 1, 1991;
- for a dwelling located in other than an eligible distressed area, $36,500.

In addition, the bill would set the same income limits to qualify for a mortgage credit certificate on a home improvement or rehabilitation loan for an existing dwelling.

New Dwelling Limits. Qualification to acquire a new dwelling (including a residential condominium) under the MCC program now requires that the borrower's gross income does not exceed $30,000 nor the unit's purchase price $73,500 ($30,000 gross income, $70,000 purchase price limits under the MRB program). The bill would raise the purchase price limit on a new dwelling loan made under either of these programs to $80,000, and would

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specify the same family income limits and provisions as proposed for an existing-dwelling loan.

Cost Increases, Handicapper Improvements. MSHDA could increase the purchase price limit for qualifying under the MCC program for an existing dwelling mortgage certificate to cover the cost of improvements to adapt property for use by handicapped persons. Also, the purchase price limit on a new dwelling under the MCC program could be adjusted upward to cover unexpected cost increases during construction, or for handicapper improvements. The increase in either case would be limited to the additional costs needed or $3,500, whichever was less.

Additional Powers Granted to MSHDA. In addition to powers granted the authority currently, the bill specifies that MSHDA could enter into interest rate exchanges or swaps, hedges, or similar agreements with respect to its bonds or notes in the same way, and subject to the same limitations, that a municipality may under the Municipal Finance Act. Also, MSHDA could make working capital loans to contractors or subcontractors on housing projects financed by the authority.

Annual Report to Legislature. MSHDA would have to submit an annual report to the legislature containing the amount, recipient, duration, circumstance, and other related statistics for each capital loan made to a contractor or subcontractor under the bill. Also, statistics related to the cost of improvements made to adapt property for handicapper use, as well as statistics showing the authority's use of new bond proceeds issued under the bill, would have to be included.

Mutual Housing Associations. The bill would provide for the establishment of nonprofit mutual housing associations or cooperatives, which would have to meet the following criteria:

- At least 75% of an association's voting members or shareholders would have to be residents of housing owned or operated by the association;
- Its major purpose would have to be to provide high quality, long-term housing to low and moderate income persons lacking equity or ownership interest in the housing except through membership in the association. These persons would have the right to 1) become a member of the mutual housing association, 2) participate in the ongoing operation and management of the housing, and 3) continue to reside in the housing for as long as the member complied with the terms of the occupancy agreement and the association's rules and regulations, and met any health requirements the association established as a condition of continued occupancy;
- Any profit or surplus earned by an association would have to be used, as determined by its board of directors, to establish reserves, reduce rent, make physical improvements to the housing, and/or develop or acquire new affordable housing.

MSHDA could make a loan or grant to a nonprofit housing corporation or association, mobile home park corporation or association, or limited dividend housing corporation or association on the same basis as a loan or grant could be made to such an organization not established and controlled by a mutual housing association.

MCL 125.1411 et al.

BACKGROUND INFORMATION:

Under the act, an area which meets any one of the following groups of criteria qualifies as an eligible distressed area:

- An area located in a city with a population of at least 10,000 which is either designated as a "blighted area" by a local legislative body or which is determined by the authority to be blighted or largely vacant because of clearance or blight.
- A municipality which shows a negative population change from 1970 to the date of the most recent federal decennial census, shows an overall increase in the state equalized value of real and personal property of less than the statewide average increase since 1972, has a poverty rate greater than the statewide average, is eligible for the federal Urban Development Action Grant program, and has had an unemployment rate higher than the statewide average unemployment rate for three of the preceding five years.
- An area in a city with a population of more than 20,000 which is within the boundaries of a downtown development authority established on or before May 1, 1984.

FISCAL IMPLICATIONS:

According to the Michigan State Housing Development Authority, the bill would not have budgetary implications for state government since MSHDA is financed entirely through the sale of bonds and notes. (11-3-89)

ARGUMENTS:

For:

The changes proposed under the bill are necessary for MSHDA to continue to serve as an economic development tool and to continue providing improved housing opportunities for low and moderate income people. As federal subsidies are reduced further or entirely eliminated, the need to expand state housing programs increases. Also, the steady rise in housing costs over the last few years justifies the need for the bill: from 1984 to 1989, the average sales price of a Michigan home jumped from $59,000 to $78,000, according to information provided by MSHDA to the House Urban Affairs Committee. The bill contains numerous features which would allow MSHDA to adjust to present circumstances in the housing market. For example, the bill would:

- increase MSHDA's overall debt ceiling by $200 million, to $3.2 billion, to permit the authority to continue its financing activities;
- adjust qualifying income levels and purchase price limits to allow MSHDA to continue serving its target population as incomes and building and financing costs rise. This would further spur economic growth and development in the state;
- provide for the establishment of mutual housing cooperatives and associations which could add a creative force to local housing programs and work in conjunction with MSHDA to provide affordable housing for low and moderate income persons; and
- allow MSHDA the flexibility to make working capital loans to both contractors and subcontractors on housing projects which it finances, and enter into interest rate exchanges or similar agreements relative to its bonds or notes just as municipalities are now allowed to do under the Municipal Finance Act.

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MSHDA has proven to be an effective agency in dealing with housing concerns — reportedly, one of the best state housing agencies in the nation currently — and its request to expand the program should be heeded. Not only would the bill expand the program, it would require that detailed information relative to the use of additional bond proceeds issued under the bill be reported by MSHDA to the legislature annually for review.

Against:

Some people feel an increase in income limits and other expansions in MSHDA's program limits would represent a step away from MSHDA's original purpose of aiding low and moderate income people. Under the bill, a person could qualify for a MSHDA loan for a "distressed area" home who earned up to $42,000, which is more than $5,000 per year over the current state median gross income level of $36,500. Savings and loan institutions claim they are able to make loans to persons at and below the current income limitations for MSHDA loans. Increasing these limits would subject savings and loans to even more competition from MSHDA, which makes loans at below market rates. A state sponsored agency should not be interfering with a market served by the private sector. Income limits should not be raised and any attempts to expand MSHDA's programs should be carefully examined.

Response: Based on information made available to the House Urban Affairs Committee, it was not clear that MSHDA does or would actually interfere with a portion of the housing market which is or could be served by the private sector. While savings and loans apparently have made some loans to persons with incomes below MSHDA's qualifying limits, committee testimony did not indicate whether those persons were first time home buyers or what type of down payments they had made. According to a savings and loan spokesperson, MSHDA's increased use over the last few years of its MCC program (where a credit certificate is issued to a borrower <u>along with</u> a private mortgage loan provided by a private lender) has allowed the private sector to cooperate with the authority in providing low- and moderate-income housing. As long as MSHDA continues to emphasize this program over its MRB program (which, according to the spokesperson, it has promised to do), the additional bonding authority granted MSHDA under the bill poses no threat to private lenders, and in fact will probably increase their lending activity.

POSITIONS:

The Michigan State Housing Development Authority (MSHDA), within the commerce department, supports the bill. (11-1-89)

The Michigan League of Savings Institutions supports the bill. (11-1-89)

The Michigan Association of Realtors supports the concept of the bill. (11-1-89)

The Michigan Housing Council supports the bill. (11-1-89)

The Michigan Bankers Association supports the bill. (11-1-89)

The Michigan Association of Homebuilders supports the bill. (11-2-89)

The Mortgage Bankers Association of Michigan supports the bill. (11-1-89)