

MSHDA "SAVE THE DREAM" REFINANCING PROGRAM

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Senate Bill 948 as passed by the Senate
Sponsor: Sen. Tupac A. Hunter

Senate Bill 951 as passed by the Senate
Sponsor: Sen. Buzz Thomas

Senate Bill 950 as passed by the Senate
Sponsor: Sen. Hansen Clarke

Senate Bill 1133 as passed by the Senate
Sponsor: Sen. Randy Richardville

House Committee: Banking and Financial Services
Senate Committee: Banking and Financial Institutions

Complete to 3-11-08

A SUMMARY OF SENATE BILLS 948, 950-951, & 1133 AS REPORTED BY COMMITTEE 3-11-08

The bill package, along with House Bills 5443 and 5446 (both of which have passed the Senate), would allow MSHDA to implement its Save the Dream Program, programs allowing homeowners and certain owners of rental units with adjustable rate mortgages, and those who had missed a payment, to refinance with a fixed-rate loan. The Senate bills are all tie-barred to each other and to House Bills 5443 and 5446.

Senate Bills would make revisions to various sections of the State Housing Development Authority Act (MSHDA) as follows:

Senate Bills 948 and 1133 would both amend Section 44 of the act (MCL 125.1444). Currently, Section 44 allows MSHDA, among other things, to make, purchase, or participate in loans made to individual purchasers for acquisition and long-term financing of newly rehabilitated, newly constructed, or existing 1- to 4-unit housing units intended to provide housing for low income or moderate income persons in all or a portion of those units. Both bills would allow MSHDA to refinance these projects. If the loan were made for refinancing of an one- to four-unit housing unit, including a residential condominium unit as defined in Section 4 of the Condominium Act, one of the units would have to be occupied by the borrower. The authority for MSHDA to make, purchase, or participate in loans for refinancing under the bills would expire three years after the bills' effective date.

In addition, to qualify under this provision, the purchase price of the unit must be under the caps established in the act. Senate Bill 948 would specify that in the case of a refinancing, the appraised value could not exceed the currently listed caps. Senate Bill 1133 would raise the cap on purchase prices or, in the case of refinancing, the appraised values, as follows:

- With respect to a one- or two-family unit, \$224,500 (instead of three times the income limit).
- With respect to a three-family unit, \$261,625 (instead of three and one-half times the income limit).
- With respect to a four-family unit, \$299,000 (instead of four times the income limit).

Further, Senate Bill 1133 would increase the limit on a borrower's family income to \$108,000 for all borrowers, instead of the limits currently in the act that are based on whether the property is located in a distressed area and that currently are set at \$65,000 for property located in a non-distressed area and \$74,750 for a distressed area. Also, under current law, if the act's income or purchase price limit exceeds an applicable limit prescribed by the Internal Revenue Code, the Code limit applies. Senate Bill 1133 would specify this would be the case if the loan would be financed with the proceeds of a tax-exempt bond.

Senate Bill 950 would add a new section to the act (MCL 125.1424f) to create the Recapture Tax Fund. The fund would be under the jurisdiction and control of MSHDA. Money in the Fund could be used to reimburse individual borrowers for any taxes the borrowers paid and for which they were liable under Section 143(m) of the Internal Revenue Code. Money in the Fund could also be used for any similar recapture taxes applicable to programs that MSHDA administers.

Any money available to MSHDA from any source or sources, including funds held by MSHDA, could be paid into the Fund. There would be no obligation for the authority to maintain a balance of money in the Fund.

Senate Bill 951 would amend Section 1 of the act (MCL 125.1401), which contains several legislative "determinations" related to the need to provide assistance with financing purchases of existing single-family residences for low and moderate income families. The bill would include in the list of legislative determinations, the need to provide assistance with refinancing single-family homes.

The bill would add a new legislative determination that there is a pressing need for the creation of programs to assist low and moderate income individuals and families with the refinancing of single-family mortgages in order to prevent families from losing their homes and to help stabilize the housing market in the state. The bill says that "economic conditions and single-family home mortgage market standards, activities, and practices, including forms of predatory and abusive mortgage loan financing, have resulted in an increase in the incidence of mortgage loan default and mortgage foreclosure in the state" (giving rise to the need for the refinancing programs).

FISCAL IMPACT:

Senate Bills 948, 950, and 951 will have no direct fiscal impact on the State of Michigan or its local units of government. The Michigan State Housing Development Authority

finances its loans and operating expenses through the sale of bonds to, rather than from state revenue. These bonds are solely a direct obligation of MSHDA and are not a debt of the state.

Senate Bill 1133 would have no fiscal impact on the state.

BACKGROUND INFORMATION:

To help some homeowners avoid foreclosure, MSHDA has developed two new programs. One, the ARM Assist Refinance Program, would help people with an adjustable rate mortgage to obtain a fixed-rate mortgage. The MSHDA Rescue Refinance Program would assist homeowners who have missed or been late for a few payments, and who have been unable to work out an affordable loan restructure with their current lender, to obtain a more affordable fixed-rate mortgage. Current MSHDA income limits would apply, as well as other eligibility criteria such as having an overall good credit history.

The programs would work similarly to other MSHDA programs: a bank would offer an individual a refinance loan, the bank would approve it, and, if the borrower would likely fit the qualifications for a MSHDA loan (meaning, low- to moderate-income level), the bank would send the loan to MSHDA for review and approval, the bank would close on the loan, and MSHDA would purchase the loan. There would be no cost to taxpayers since these programs would be financed by the proceeds of selling taxable bonds, along with some revenue generated by the sale of non-taxable bonds that predate the change in federal regulations banning the use of non-taxable bond revenue from loan refinancing.

In order to implement the new programs, however, the MSHDA Act needs to be amended to grant statutory authority to allow for mortgage refinancing activities. As a whole, the package would provide adequate public purpose backing to the refinance programs (SB 951), ensure adequate financial resources by keeping the current limit on outstanding bonds and notes for several more years (HB 5446), explicitly provide MSHDA with the statutory authority to engage in refinancing single-family homes and certain eligible residential rental units (HB 5443, SB 948, and SB 1133), and, since in certain situations, the refinancing of MSHDA mortgages by other lenders can result in a tax liability for the borrower, create a Recapture Tax Fund to compensate the borrower for this tax liability (SB 950).

The proposed programs will not help all those at risk of losing their homes, nor will they address other issues such as predatory lending practices that contributed to the crisis. MSHDA does not actually loan individuals money, but buys the mortgage loan from the lending institution that provides the mortgage. The new programs would therefore mirror the system in place now, meaning that the MSHDA programs would be administered on a first come, first served basis, rather than targeting the neediest or those who were the victims of predatory or fraudulent lending practices.

As stated earlier, the new programs will not help everyone in danger of losing his or her home. They will, however, provide immediate help to low- and moderate-income individuals who could not otherwise refinance their homes at payments they can afford by providing an option not currently available. Every home that can be saved from foreclosure helps not only the family involved, but has economic implications for the neighborhood, the community, and the state.

More information about the Save the Dream Program proposed by MSHDA can be found at www.michigan.gov/mshda (click on the "Save the Dream" icon) or by calling 1-866-946-7432 (toll free).

POSITIONS:

The following agencies and associations indicated support for the bills on 3-11-08:

The Michigan State Housing Development Authority (MSHDA)
The Michigan Credit Union League
The Michigan Association of Realtors
The Michigan Bankers Association

Legislative Analyst: Susan Stutzky
Fiscal Analyst: Mark Wolf

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.