

SUBJECT: Changes affecting the Texas State Affordable Housing Corporation

COMMITTEE: Urban Affairs — committee substitute recommended

VOTE: 7 ayes — Carter, Burnam, Clark, Edwards, Ehrhardt, Hill, Najera

0 nays

2 absent — Bailey, Hodge

WITNESSES: For — Michael Sullivan, Texas State Affordable Housing Corporation

Against — None

BACKGROUND: The Texas State Affordable Housing Corporation was established in 1994 as a non-profit corporation. The corporation serves the housing needs of moderate and lower income Texans, and promotes a number of programs including those of the Texas Department of Housing and Community Affairs (TDHCA). The corporation is a mortgage banking company and makes affordable loans to low-income families and individuals. The corporation also makes housing finance available for multi-family developments for low-income households.

DIGEST: CSHB 3059 would amend the statute providing for the Texas State Affordable Housing Corporation, making a number of changes on affordable housing loans, make-up of the board, persons qualifying for loans, and competition with private entities.

Earnings. CSHB 3059 would provide that net earnings of the corporation no longer would have to be deposited with Department of Housing and Community Affairs to the credit of the Housing Trust Fund, as current law requires. Instead, earnings could be used by the corporation for affordable housing initiatives.

Competition. CSHB 3059 would revise a prohibition in current law forbidding the corporation to compete with private lenders, or originate or make any loan that could be made by a private lender. It instead would provide that the corporation could not *actively* compete with private lenders

or make a loan that would be made under the same *circumstances* by a private lender.

Loans. The bill would delete a current provision requiring the corporation to rely on private mortgage companies, banks, or similar entities to originate loans. It also would delete a provision allowing the corporation to act as a co-originator in a loan where the funding resources came from the corporation.

The bill would delete language requiring the Texas Affordable Housing Corporation to serve to families of moderate income. It instead would require the corporations to serve individuals and families of low and very low income, adding “extremely low income” to that list.

The bill would allow the corporation to make first lien, single family purchase money mortgage loans only to families of low, very low, and extremely low income. That income could be no more than 60 percent of the median income for the state or 60 percent of the median family income of the area, whichever is greater.

The board. The six-member board of the corporation would be reduced to five members. The presiding officers of both TDHCA’s board, and the programs committee of the board no longer would be required to serve on the corporation’s board of directors.

Under CSHB 3059, all five board members, instead of four as current law requires, would be appointed by the governor, representing any one of a number of areas including real estate, building, financial services, and community organizations. The governor would designate the presiding officer of the board of directors, and the corporation would employ the president.

The bill would take effect September 1, 1999.

**SUPPORTERS
SAY:**

CSHB 3059 would take the last steps needed to ensure that the Texas Department of Housing and Community Affairs and the Texas State Affordable Housing Corporation would be completely independent of each other and that the affordable housing corporation could operate, build equity, and survive.

CSHB 3059 also would loosen some statutory restrictions on the affordable housing corporation's use of revenue and competitive practices. If left in place, these restrictions would guarantee the corporation's demise.

Legislation enacted in 1997 to make sure the two agencies operated independently prohibited TDHCA from transferring funds to the affordable housing corporation. To keep operating, the corporation must build up equity. But because current law requires the corporation to send all excess revenues to the TDHCA's Housing Trust Fund, this is impossible. CSHB 3059 would solve the problem by allowing the corporation to use net earnings for new or existing affordable housing initiatives.

This legislation also would prevent any appearance of impropriety if the corporation ever should apply for grants or other state resources from TDHCA.

When the corporation was created, it was dependent on TDHCA for management guidance and resources. The TDHCA board served as the corporation's board. This overlap of management and operations led to criticism that TDHCA was not holding the corporation to the same standards as other recipients of TDHCA funding.

CSHB 3059 would loosen, but not remove, a current statutory restriction on the corporation from competing with private lenders. This prohibition prevents the corporation from being able to do what it was intended to do: leverage scanty state and federal funds by partnering with private lenders and accessing secondary market capital.

The strict prohibition is not necessary because the dollar value of the loans from the corporation is insignificant compared to the loan volume of private lenders. Private lenders rarely deal with the low-income individuals served by the affordable housing corporation.

The bill would provide a more realistic income formula that would benefit people in poorer and rural areas of the state. A borrower seeking a first lien, single family mortgage loan from the corporation could be someone whose household income was not more than 60 percent of the statewide average income or 60 percent average income of the local area, whichever is greater.

Under current law, a person's income is calculated based on a percentage of the average income in the area. This is a problem in poorer areas of the state. In Starr County, for example, that limit would be 60 percent of \$15,500. Hardly anyone with an income that low could afford a home. More residents of that same county could qualify with an income limit of not less than 60 percent of the statewide median income, a higher, more realistic figure for potential borrowers.

OPPONENTS
SAY:

Despite the fact that the corporation is being made independent from TDHCA, those competing for federal funds will always feel that the corporation, which was once so closely allied to TDHCA, would have a competitive advantage.

NOTES:

The original bill did not include provisions requiring the corporation to promote housing for "extremely" low income families and individuals, and it did not remove moderate income individuals. The original bill did not include any references to single family purchase money mortgage loans, nor did it delete language concerning qualification requirements for the president of the corporation.