

SUBJECT: Owner-builder lending program for colonias

COMMITTEE: Urban Affairs — favorable, without amendment

VOTE: 7 ayes — Carter, Burnam, Clark, Edwards, Ehrhardt, Hodge, Najera
0 nays
2 absent — Bailey, Hill

SENATE VOTE: On final passage, May 4 — voice vote (Ogden voting nay)

WITNESSES: For — Veronica E. Cruz, Proyecto Azteca; John Henneberger, Texas Low Income Housing Information Service; Reymundo Ocanas, Texas Association of Community Development Corporations; Yolanda Hernandez
Against — None
On — Janna Cormier and Brent Stewart, Texas Department of Housing and Community Affairs

BACKGROUND: In 1995, the Legislature enacted SB 1509 by Zaffirini to establish colonia self-help centers in five border counties to assist colonia residents in obtaining home financing and to educate residents on how to build and maintain safe houses. The Texas Department of Housing and Community Affairs (TDHCA) is responsible for managing the self-help centers in cooperation with advisory committees composed of local residents.

DIGEST: SB 1287 would create the Owner-Builder Loan Program to provide loans through colonia self-help centers to low-income colonia residents for purchasing property, building new residential housing, or improving existing housing.

Definition. The bill would define “owner-builder” as a person who did not own or operate a construction business, who owned or purchased property through a warranty deed or deed of trust, and who intended to make improvements to the

property. The definition also would include a person who purchased property under a contract for deed if the deed was entered into before January 1, 1999.

Eligibility requirements. The bill would require TDHCA to establish eligibility requirements for an owner-builder to receive a loan. At least 50 percent of the loans would have to be made to owner-builders with an annual income of less than \$17,500. Owner-builders would have to:

- ! provide at least 60 percent of the labor to build the proposed housing by working through a state-certified owner-builder program, either for their own home or for another nonprofit housing program;
- ! successfully complete an owner-builder education class;
- ! have an annual income less than \$25,000, combined with the income of any other person residing with the owner-builder;
- ! reside in Texas for the preceding six months before applying for a loan; and
- ! reside with at least two other persons related to the owner-builder in the first degree of consanguinity or affinity.

TDHCA would be able to select non-profit housing programs to certify the eligibility of an owner-builder for the program.

Loan details. TDHCA could provide loans up to \$25,000 per owner-builder. An owner-builder could obtain additional funds from local governments, non-profit organizations, or private lenders, with the total amount of all funds not to exceed \$60,000.

Loans would be interest free for the first two years of the loan. Interest would be no more than five percent, increasing in stages by a percentage point each year, starting at one percent the third year of the loan. The loan could be secured by a lien on the property of the loan recipient, including a lien on another loan by another entity.

If an owner-builder purchased property under a contract for deed, TDHCA could not disburse any portion of a loan until the owner-builder received a deed to the property or refinanced the obligation under a contract for deed and converted the obligation to a deed of trust.

Education and certification. TDHCA could certify non-profit owner-builder housing programs to qualify potential owner-builders for loans, to provide education classes, to assist in housing projects, and to administer TDHCA loans. The classes would have to provide information on:

- ! the financial responsibilities of an owner-builder in obtaining a TDHCA loan;
- ! the consequences of failure to meet responsibilities;
- ! how to build housing;
- ! resources for low-cost building materials; and
- ! resources for building assistance.

Loan priorities. TDHCA would have to give priority to disbursing loans to owner-builders residing in counties or municipalities that agreed to waive building permit, inspection, or capital recovery fees related to this program.

Funding sources. TDHCA would also be able to use funds from the housing trust fund, federal block grants, state general obligation bonds, and amounts received by TDHCA in repayment of loans.

Reporting. TDHCA would have to prepare a report to deliver to the governor, the lieutenant governor, and the speaker by November 15, 2000, that evaluated the repayment history of persons receiving loans under the program.

Effective dates. The bill would take effect on January 1, 2000, only if the constitutional amendment proposed by SJR 34, 76th Legislature was approved by the voters and if a specific appropriation was provided in the General Appropriations Act of the 76th Legislature. TDHCA and the Secretary of State's Office would administer the loan program until August 31, 2000, after which TDHCA would be solely responsible for administering the program. The bill would expire on September 1, 2005.

SUPPORTERS
SAY:

Many colonia residents want to build and renovate their own homes, but lack the financial means to do so. Non-profit housing programs have helped colonia residents in counties bordering Mexico to build more than 500 owner-built homes over the past four years. One organization, Proyecto Azteca in

Hidalgo County, has made 58 loans for owner-built housing since 1991 without a single default.

SB 1287 would allow TDHCA to make up to \$30 million in loans directly to colonia residents who are willing to build or renovate their own homes, either on their own or with the help of non-profit housing organizations. In spite of the successful efforts of non-profit organizations to fund owner-built housing, these organizations have limited resources to address the high demand for housing in the border region. A state program is necessary to improve the opportunities for colonia residents to obtain owner-built home financing.

**OPPONENTS
SAY:**

The state should not use general obligation bonds for housing programs. If the Legislature wants to fund a \$30 million program, it should do so through the appropriations process rather than by increasing the state debt.

NOTES:

Enactment of SB 1287 is contingent on approval of SJR 34 by Lucio, which would allow the Legislature to authorize TDHCA to issue up to \$30 million in state general obligation bonds to finance an owner-built housing program for low-income persons. SJR 34 was adopted by the Senate by 29-1 (Ogden) on May 4 and was considered in a public hearing and left pending in the House Financial Institutions Committee on May 12.