SUBJECT: Establishing a secure loan pilot program for low-income families

COMMITTEE: Urban Affairs — committee substitute recommended

VOTE: 8 ayes — Y. Davis, Alvarado, Fletcher, Gutierrez, Kent, Miklos, Pierson, C. Turner

0 nays

3 absent — C. Howard, Mallory Caraway, Walle

WITNESSES: For — John Henneberger, Texas Low Income Housing Information Service; Jeanne Talerico, Texas Association of Local Housing Finance Agencies; (*Registered, but did not testify*: Noelita Lugo, Texans Care for Children)

Against — None

On — Michael Gerber, Texas Department of Housing and Community Affairs

DIGEST: CSHB 2308 would establish the Texas secure loan pilot program to provide first and second lien single-family mortgage loans to low-income families and individuals. The pilot program would be administered by the Texas Department of Housing and Community Affairs (TDHCA) and could include down payment and closing cost assistance.

To be eligible to receive a mortgage loan from the program, a homebuyer would have to meet the following qualifications:

- earn an income, adjusted for family size, of not more than 80 percent of the area median income if in a rural area or 60 percent of the area median income if in an urban area;
- intend to occupy the home for which the mortgage was issued as the homebuyer's principal residence;
- met any additional eligibility requirements or limitations outlined by TDHCA.

TDHCA could enter into a memorandum of understanding with other state agencies or could contract with no more than three private entities at any one time to process, service, or administer all or a portion of the issued loans from the program.

CSHB 2308 would require TDHCA to issue at least 50 percent of all loans to homebuyers whose incomes did not exceed 60 percent of area median family income, adjusted for family size. TDHCA would establish reasonable interest rates for first and second lien mortgages to allow full repayment and recover the full amount of the principal of the issued loan.

The bill would allow TDHCA to modify the terms of a loan if a homebuyer's income was adversely affected by circumstances such as unemployment, a reduction of wages or hours of employment, illness, or the death of a spouse or other person contributing to the homebuyer's income by:

- suspending payments for specific period;
- extending the term of the loan to reduce payment amounts; or
- lowering the interest rate to reduce payment amounts.

Modification of loan terms could be requested by the homebuyer or initiated by TDHCA or other loan servicer, regardless of whether a loan payment was missed. If a homebuyer missed a scheduled payment for a loan, TDHCA or other loan servicer would contact the homebuyer and determine the reason for the missed payment. If the payment was missed because of a hardship adversely effecting the homebuyers income, TDCHA or servicer could modify the loan terms.

The bill would require TDHCA to administer the program and for its board to adopt rules governing the following:

- administration of the program, including the origination of loans under the program;
- criteria for approving another entity to service loans originated under the program;
- the use of insurance on loans and homes financed under the program as deemed appropriate to provide additional security for the loans;
- verification of occupancy of the home by the homebuyer as his or her principal residence;

- terms of any memorandum of understanding or contract with another entity for processing, servicing, or administering the loans; and
- criteria for authorizing the modification of loan terms for homebuyers whose income is adversely affected by circumstances such as unemployment, a reduction of wages or hours of employment, illness, or the death of a spouse or other person contributing to the homebuyer's income.

TDHCA would provide homebuyer and homeowner education and counseling services to persons receiving mortgages from the pilot program.

The bill would authorize TDHCA to utilize Private Activity Bond authority, legislative appropriations, or any other available resources or to solicit gifts or grants to fund the program.

TDHCA would have to adopt rules for the pilot program no later than October 1, 2009, and begin issuing loans under the Texas secure loan pilot program no later than January 1, 2010.

The bill would take effect September 1, 2009.

SUPPORTERS SAY:

CSHB 2308 would establish a pilot program to grant secure, affordable loans to low-income families and individuals and would provide help with closing costs and down payments. The bill would provide a modest opportunity for the state to find an innovative and fair alternative to subprime mortgages, which have led to foreclosures across the state, by creating an environment more resistant to foreclosures. The high rate of foreclosures across the state has not only eroded the tax base for municipalities, but also has disrupted the lives of thousands of families and their communities. CSHB 2308 would provide a constructive solution to a corrosive problem.

The pilot program would use existing resources within the Texas Department of Housing and Community Affairs (TDHCA) to place low-income families in housing in a responsible manner by applying best practices, including homebuyer and homeowner education, to ensure that individuals were financially prepared for a mortgage and by ensuring that mortgages were affordable to participants. Additionally, the bill would provide counseling services and would allow TDHCA to restructure loan terms to ensure that people stayed in their homes and mortgages rather than immediately face foreclosure should they encounter economic hardship. Participation in the program would be limited to available funding. CSHB 2308 would represent a way for Texas to lead the nation in finding reasonable, affordable loans for low-income Texans.

OPPONENTS SAY:

While CSHB 2308 seeks the worthy goal of homeownership for low-income families, it comes too soon on the heels of the mortgage meltdown in the state and across the country, despite being a pilot program. New program should occur after more certainty has returned to the housing and lending markets.

OTHER OPPONENTS SAY:

The bill purports to establish a pilot program, but other than restrictive eligibility requirements and availability of funding, there are no provisions limiting the number of program participants, the duration of the program, or performance benchmarks.

NOTES:

According to the Legislative Budget Board, the bill would not have an impact on the state's general revenue, but would use $1.07 million from TDHCA's existing Neighborhood Stabilization Program, whose purpose is to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. This amount assumes 10 loans with an average loan amount of $107,000.

The companion bill, SB 1026 by Lucio, has been referred to the Senate International Relations and Trade Committee.