

HOUSE BILL REPORT

HB 1861

As Reported by House Committee On:
Community Development, Housing & Tribal Affairs

Title: An act relating to down payment assistance for single-family homeownership.

Brief Description: Creating loan-making authority for down payment assistance for single-family homeownership.

Sponsors: Representatives Ormsby, Sells, Appleton, Ryu and Freeman; by request of Washington State Housing Finance Commission.

Brief History:

Committee Activity:

Community Development, Housing & Tribal Affairs: 2/19/13, 2/20/13 [DP].

Brief Summary of Bill

- Authorizes the Housing Finance Commission to make loans for down payment assistance to home buyers.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

Majority Report: Do pass. Signed by 9 members: Representatives McCoy, Chair; Appleton, Vice Chair; Angel, Ranking Minority Member; Johnson, Assistant Ranking Minority Member; Haler, Pike, Ryu, Santos and Sawyer.

Staff: Sean Flynn (786-7124).

Background:

Housing Finance Commission.

The Legislature created the Washington State Housing Finance Commission (HFC) to provide available funding at affordable rates for financing low-to-moderate income single or multiple family housing. The HFC is not a state agency and does not provide financing with

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state funds. The HFC issues revenue bonds in its own name and its debt is not backed by the full faith and credit of the state.

The HFC may use funding in coordination with federal, state, and local housing programs for the construction and rehabilitation of single or multiple family homes, including the refinancing of debt and home purchases. The HFC may make loans to mortgage lenders or purchase mortgages or mortgage loans, including down payment assistance loans, from mortgage lenders.

The United States Department of Housing and Urban Development Interpretive Rule.

The National Housing Act (NHA) requires single family homebuyers to make a minimum down payment for a mortgage in order to qualify for federal mortgage insurance. The NHA allows homebuyers to obtain funds for the down payment from third parties, but no part of the down payment may be financed by the seller or other party who benefits from the sale.

On December 5, 2012, the United States Department of Housing and Urban Development (HUD) issued an interpretive ruling of this provision of the NHA. The HUD rule provides that down payment assistance financed directly by a state or local government housing finance program is not a prohibited source of financing for purposes of qualifying for federal housing insurance. In January 2013 the HUD provided clarification of its rule that a down payment loan provided to a homebuyer by the mortgage lender or other entity that is later reimbursed by a government housing finance program is not a permitted source of financing for federal housing insurance qualification purposes.

Summary of Bill:

The HFC is authorized to make loans for down payment assistance to home buyers in conjunction with other HFC programs.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

(In support) This bill lets the HFC take over for homeowner down payment assistance loans in order to comply with the federal insurance requirements. The HFC has a strong track record, providing \$68 million in down payment assistance for over 9,000 purchases. The HFC has worked with bankers and lenders in making first and second mortgage loans. The HFC has provided finance by buying first and second mortgage loans from the banks and lenders. The HUD new rule requires the HFC to provide funding for down payment

assistance directly at the closing table in the name of the HFC. This bill gives the HFC the necessary authority to make down payment assistance loans, not first mortgage loans. Down payment loans may be between 0 to 4 percent interests. The HFC makes loans in cooperation with several counties and cities. Default rates have increased due to the housing market bubble bursting, but unemployment has been the biggest problem for default. The default rate on second mortgages was never as high as for first mortgage. This is an important bill for housing sellers who benefit from this program.

(Opposed) None.

Persons Testifying: Representative Ormsby, prime sponsor; Kim Herman, Washington State Housing Finance Committee; and Bob Mitchell Washington Realtors.

Persons Signed In To Testify But Not Testifying: None.