

SFA

BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

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RECEIVED**Senate Bills 899 and 900**

Sponsor: Senator Doug Cruce

Committee: Human Resources and Senior Citizens

SEP 12 1988

Mich. State Law Library

Date Completed: 8-2-88

SUMMARY OF SENATE BILLS 899 & 900 as introduced 5-26-88:

Senate Bill 899 would amend the State Housing Development Authority Act to establish a Home Equity Fund in the Department of Treasury for the purpose of providing loans to first-time home buyers. Senate Bill 900 would amend Public Act 134 of 1966 to increase the real estate transfer tax established by the Act and to provide for the deposit of the proceeds of the tax increase into the Home Equity Fund. The bills are tie-barred to each other.

Senate Bill 899

The bill would amend the State Housing Development Authority Act to create a Home Equity Fund within the Department of Treasury and to require the State Treasurer to credit the Fund with deposits of proceeds from the real estate transfer tax. The Fund would be a revolving fund and any deposits made by the State Treasurer, repayments to the Fund, interest earned by the Fund, and other money available to the Michigan State Housing Development Authority (MSHDA) for the purpose of the Fund, including negotiable bonds and notes issued by MSHDA, would be available for future loans to first-time home buyers to finance the down payment on the purchase of a home. The term "first time home buyer" would mean either an individual who for the first time was purchasing a home as his or her principal residence or, if there were more than one purchaser, at least one of the purchasers who for the first time was purchasing a home as a principal residence.

The disbursement of money from the Fund would have to be made at the time of the closing of the financing to the first time buyer; the disbursement, however, could not include closing costs on the purchase of a home.

The total amount of a loan from the Fund that a first-time home buyer could receive could not exceed 10% of the purchase price of the home or 10% of its appraised value, whichever was less.

Eligibility

A first-time home buyer would be eligible to receive a loan if the buyer were not or would not be receiving assistance from any other State, local or Federal government financing program relating to the purchase of the home; the purchase price of the home did not exceed 120% of the median purchase price of a home within the nonmetropolitan county or metropolitan statistical area in which the home was located as determined by the U.S. Department of Treasury; and the buyer met any other

requirements MSHDA provided for in promulgated rules. MSHDA could not give special consideration to a buyer based on the type of financing obtained by the buyer or the type of home, age of the home, or location of the home being purchased.

Application

A first-time buyer requesting a loan from the Home Equity Fund would have to file an application with MSHDA and pay any application fees established in rules promulgated by MSHDA. Loan applications would have to include the names of all members of the buyer's household and the amount of income received by each household member, a legal description and street address of the property being purchased, proof and certification that the buyer met the eligibility requirements for a loan, and any other information MSHDA considered necessary. MSHDA would have to develop guidelines for evaluating loan applications.

Loan Provisions

Home Equity Fund loans would bear an interest rate of 4%. MSHDA would have to retain a second lien on the property purchased by the first-time home buyer; however, this second lien would not impair the rights of the first mortgage lender. The principal amount of, and the accrued interest on, the loan would be due and payable five years from the date of closing. If the loan were not paid in full at this time, the interest rate would increase to 10%.

MSHDA would be required to execute a loan document with the buyer that included all of the following:

- A legal description and street address of the property being purchased.
- Provisions for repayment of the loan as agreed upon by MSHDA and the buyer. MSHDA and the buyer could agree that the buyer would make minimum payments of principal, if any, and the payment of interest at regular intervals and make the final payment of interest and principal five years from the date of closing.
- Other provisions MSHDA considered necessary.

A first mortgage lender could not discriminate against a first-time home buyer obtaining a loan from the Fund in providing financial assistance to the buyer for the purchase of a home.

Reports/Rules

MSHDA would be required to submit to the Department an annual report that would include those items required

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by the Department. The Department would have to submit to the Legislature an annual report on the use of the Fund which, at the least, would have to include a list and description of approved loans, other accomplishments of the Fund, and the Department's recommendations on the continuation or cessation of the Fund and for changes in the Fund.

MSHDA would be empowered to promulgate rules to implement the Home Equity Fund.

MCL 125.1425 et al.

Senate Bill 900

The bill would amend Public Act 134 of 1966, which taxes written instruments that transfer an interest in real property, to double the real estate transfer tax from the current 55 cents to \$1.10 in a county with a population under 2 million, and from not more than 75 cents to not more than \$1.50 as authorized by the county board of commissioners in a county with a population of 2 million or more, for each \$500 or fraction of \$500 of the total value. The increase would begin January 1, 1989, and the proceeds of the increase would be deposited with the State Treasurer who would then distribute the proceeds to the Home Equity Fund. A county, however, could retain 5% of the proceeds of the increase to offset costs incurred by the county in collecting the tax and depositing the funds with the State Treasurer.

MCL 207.504 and 207.509

Legislative Analyst: L. Burghardt

FISCAL IMPACT

Senate Bills 899 and 900 would double the existing real estate transfer tax, increasing State revenues by approximately \$18 to \$20 million per year. The real estate transfer tax is a local tax deposited into the General Fund of the county in which the tax is collected. Since the tax is collected locally, no central data history is available. Aggregating county audit reports, however, results in an estimated revenue collection of \$18.1 million in FY 1985-86. Subtracting the 5% county administration fee leaves an estimated increase in revenue to be deposited in the "Home Equity Fund" of approximately \$17 to 19 million per year.

Fiscal Analyst: N. Khouri

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.