



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL



ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 540 (as enrolled)
Sponsor: Senator Dave Honigman
Committee: Local, Urban and State Affairs

PUBLIC ACT 196 of 1995

Date Completed: 6-15-95

RATIONALE

Under the State Housing Development Authority Act, the Authority is permitted to issue bonds and notes in amounts needed to provide sufficient funds to make loans to low-income persons seeking to purchase a home and to developers of low-income, multi-family residential projects. The Act permits the Authority to establish one or more special funds, called capital reserve funds, to secure its notes and bonds. To raise money for these funds, the Authority issues "excess debt" by increasing the amount of the bonds and using the proceeds for the reserve funds. If the Authority needed \$1 million, for example, it would issue a bond for that amount plus \$100,000, which would be allocated to the reserve fund. The Authority has sought in the past to purchase surety bonds as a way to raise money for the reserve funds, but was advised by the Attorney General that it did not have to authority under the Act to purchase surety bonds or to use other security arrangements. It has been suggested that the Authority be permitted to use these security arrangements to raise money for capital reserve funds.

CONTENT

The bill would amend the State Housing Development Authority Act to permit the Authority to use insurance policies, surety bonds, guarantees, or other security arrangements for capital reserve funds, and to revise retroactively to October 29, 1993, purchase price limits of existing or newly constructed or rehabilitated housing units eligible for loans.

Security Arrangements

The Act permits the Authority to establish one or more capital reserve funds to secure its notes and bonds. The Authority is required to pay into a capital reserve fund State appropriations for the fund, proceeds from the sale of notes or bonds, and other money made available to the Authority from any other source for a fund. In addition to, or in lieu of, depositing money in a fund, the Authority may obtain and pledge letters of credit that may be drawn upon for purposes of the capital reserve fund.

Under the bill, the Authority could obtain and pledge, effective retroactively as of June 1, 1993, insurance policies, surety bonds, guarantees, or other security arrangements if those other security arrangements were approved by the State Treasurer for purposes of the capital reserve fund.

Purchase Price Revisions

The Authority is designated as the administrator of the mortgage credit certificate program for the State under the Internal Revenue Code. Currently, to qualify for a mortgage credit certificate for the acquisition of an existing housing unit, including a residential condominium or mobile home, the purchase price of the unit cannot exceed the lesser of \$80,000 or 90% of the average area purchase price for existing housing. To qualify for a mortgage certificate for the acquisition of a new housing unit, including a residential condominium or mobile home, the purchase price of the unit cannot exceed the lesser of \$99,000 or 90% of the

average area purchase price for new housing. The bill would revise these provisions by deleting references to the percentage of the average purchase price. The changes made to the purchase price limits would be retroactive, effective as of October 29, 1993.

The Authority also may make loans to any nonprofit housing corporation, limited dividend housing corporation, mobile home park corporation, or mobile home park association for the construction or rehabilitation of housing units, including residential condominium units for sale to individual purchasers of low or moderate income or to individual purchasers regardless of income when the housing units are located in an eligible distressed area. The Authority also may make or purchase loans to individual purchasers for the long-term financing of a newly rehabilitated, newly reconstructed, or existing housing unit, including a residential condominium. For a loan for a newly rehabilitated or newly constructed housing unit, including a condominium, the purchase price of the unit cannot exceed the lesser of \$99,000 or 90% of the average area purchase price for new housing. For a loan for an existing housing unit, including a condominium, the purchase price of the unit cannot exceed the lesser of \$80,000 or 90% of the average area purchase price for existing housing. The bill would delete references to the percentage of the average area purchase price. The limits on the purchase prices would be effective retroactively as of October 29, 1993.

MCL 125.1432 et al.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Capital reserve funds are established to serve as a means of security for bonds or notes issued by the Authority. The Authority provides capital for these funds by increasing the size of a bond and allocating the increase to capital reserve funds. The Authority is seeking to use other methods for capitalizing these funds, but has been advised by the Attorney General that the purchase of other types of security arrangements is not authorized under the State Housing Development Authority Act. Under the bill, the Authority would be permitted to use surety bonds, insurance policies, guarantees, or other security arrangements for capital reserve funds. This could result in savings for the Authority because a surety bond would be less expensive to purchase and would require a

smaller cash commitment than increasing the size of an Authority bond, according to Authority officials. Furthermore, additional funds potentially could be available for some housing loans. The volume of tax-exempt bonds that can be sold, for example, is capped. If less expensive security arrangements could be used for these bonds' capital reserve funds, then more money and tax-exempt bonds could become available for housing loans.

Supporting Argument

The Act currently specifies a price or a percentage of average area purchase price for new or existing housing, or newly rehabilitated or constructed housing, that cannot be exceeded to qualify for a mortgage credit certificate or a loan. These limits are defined by Federal and State law, according to Authority officials. The limits specified under Federal law are lower than those set under State law. By deleting references to the percentage of the average area purchase price, the bill would bring the State Act into conformity with Federal law.

Legislative Analyst: L. Arasim

FISCAL IMPACT

This bill would permit the Michigan State Housing Development Authority to use a surety bond to fund the capital reserve fund required when issuing bonds. The capital reserve requirement for the recent issue of taxable bonds, equal to one year's debt service on the \$34,600,000 sale, totals \$3,375,000. To fund this amount with cash, the total issue would have been increased and the \$3,375,000 would have been invested in U.S. Treasury bonds. The difference in bond yield of 7.4% and the issue's interest rate of 8.5% would have led to a loss of 1.1% or \$1,113,750 over 30 years. If the retroactive approval provided in this bill to obtain a surety bond were provided, only \$67,500 would be needed. The saved \$3,307,500 would be available for housing assistance activities.

Fiscal Analyst: K. Lindquist

A9596\S540A

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.