Legislative Analysis

HOUSE FISCAL AGENCY
Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

REVISE MSHDA ACT

House Bill 6077 (Substitute H-1)
Sponsor: Rep. Steve Tobocman
Committee: Local Government and Urban Policy

First Analysis (9-21-04)

BRIEF SUMMARY: The bill would update the income guidelines for those eligible to participate in the programs offered by the Michigan State Housing Development Authority (MSHDA

FISCAL IMPACT: There is no direct fiscal impact by this bill on either the state or on local units of government. The Michigan State Housing Development Authority's loans and operating expenses are financed through the sale of tax-exempt and taxable bonds and notes to private investors, not from state tax revenues. There may be indirect benefits to local and state revenues due to expanded home ownership programs and property improvement. Whatever benefits these may be are indeterminate.

THE APPARENT PROBLEM:

The Michigan State Housing Development Authority, established by the legislature in 1966, provides financial and technical assistance through public and private partnerships to create affordable housing for low and moderate-income Michigan residents. The authority's loans and operating expenses are financed through the sale of tax-exempt and taxable bonds and notes to private investors, not from state tax revenues. Proceeds of the bonds and notes are loaned at below-market interest rates to developers of rental housing, and the proceeds also fund home mortgages and home improvement loans. The authority also administers federal housing programs. See Background Information below.

Currently the authority operates 21 programs to increase rental housing, home purchase, home improvement, and community development. Many of the programs are intended to increase housing opportunities for people at or below the poverty level which is $18,660. For example, nine programs are designed to make rental housing more accessible for the poor, and the annual family income of those who participate in those programs averages about $12,000. Further, two programs are designed to make home improvements affordable for the poor whose annual family incomes are between $15,164 and $23,291, depending upon the program. Finally, five programs are designed to make home purchase affordable for those families having moderate incomes below half of Michigan's median income, or under $30,350.

To take advantage of the authority's programs, families must meet income eligibility criteria. The criteria vary depending upon distressed or non-distressed areas, and they are updated by the legislature from time to time. (Currently there are 123 eligible distressed areas in Michigan—96 cities, 26 townships, and one village.) The law was last updated four years ago in 2000, and the eligibility criteria have been capped since 2002. Legislation has been introduced in order to update the family income eligibility criteria for distressed and non-distressed areas.

THE CONTENT OF THE BILL:

House Bill 6077 would amend the State Housing Development Authority Act to establish the income guidelines for those eligible to participate in the programs offered by the Michigan State Housing Development Authority (MSHDA).

Currently under the law, in order to qualify for a mortgage credit certificate to acquire an existing housing unit, or to improve or rehabilitate an existing unit, the borrower's family income cannot exceed specified limits for particular home values located in certain geographic areas, and set for the years 2001 and 2002. House Bill 6077 would eliminate this language and specify instead that to qualify for a mortgage credit certificate to acquire " *a new* or existing" housing unit, both of the following would apply: a) the purchase price could not exceed three times the income limit, pursuant to the sections of the legislation that establish a borrower's income limits set by the act; b) the borrower's family income could not exceed the following: i) for eligible distressed areas, $69,800 until June 1, 2006, $72,250 until November 1, 2007, and $74,750 on and after November 1, 2007; or ii) for any other area, $60,700 until June 1, 2006, $62,800 until November 1, 2007, and $65,000 on and after November 1, 2007.

Under current law, MSHDA can make loans to a nonprofit housing corporation, consumer housing cooperative, limited dividend housing corporation, limited dividend housing association, mobile home park corporation, mobile home park association, or to a public body or agency for the construction, rehabilitation, and long-term financing for low income or moderate income people. The bill would maintain this provision, but eliminate a reference to a program that originated in 1987 which allows MSHDA to finance multifamily housing projects that meet the 20-50 or 40-60 tests, in which not less than 15 percent of the dwelling units are allotted to people and families whose gross housing income does not exceed 125 percent of the median income for a family; not less than 15 percent are allotted to people and families whose gross household income does not exceed 150 percent of family median income; and not more than 50 percent of the dwelling units are available for occupancy without regard to income.

Currently under the law, MSHDA can make loans to a nonprofit housing corporation, limited dividend housing corporation, mobile home park corporation, or mobile home park association for the construction or rehabilitation of housing units. The law specifies certain restrictions on the loans, and also additional requirements if the units are sold while a loan is outstanding. Under the bill these provisions would be retained. However, the law also currently specifies that the loan mortgage be replaced by a mortgage running from the individual purchaser to the authority, and it requires the authority to encourage nonprofit housing corporations and limited dividend housing corporations engaged in construction or rehabilitation to utilize the labor or prospective individual purchasers, and the value of their labor is used to reduce the project costs of the housing units. Further, the law specifies that if the sale price to low or moderate income purchasers does not exceed $12,000, then the purchasers may be required to perform a minimum number of hours of labor which is later credited to the purchase. Under the bill, these provisions would be eliminated.

The current law also allows the authority to make or purchase loans made to an individual for long-term financing of a newly rehabilitated, newly constructed, or existing housing unit. Under the bill, this provision would be revised to specify that the authority could make, purchase, "or participate in" loans made to "individual purchasers for acquisition and" long-term financing of newly rehabilitated, newly constructed, or existing "one- to four-unit housing units." However, the borrower's family income cannot exceed specified limits for particular home values located in certain geographic areas, and set for the years 2001 and 2002. House Bill 6077 would eliminate this language and specify instead that to qualify for these loans, all of the following would apply: *a) the borrower's family income could not exceed the following:* (i) for eligible distressed areas, $69,800 until June 1, 2006, $72,250 until November 1, 2007, and $74,750 on and after November 1, 2007; or ii) for any other area, $60,700 until June 1, 2006, $62,800 until November 1, 2007, and $65,000 on and after November 1, 2007; and *the purchase price could not exceed the following:* i) with respect to a one- or two-family unit, three times the income limit, as established pursuant to the act; ii) with respect to a three-family unit, three and one-half times the income limit, as established by the act; and iii) with respect to a four-family unit, four times the income limit, as established by the act.

Finally, currently under the law, the authority may make, purchase, or participate in loans, grants, or deferred payment loans to persons and families of low and moderate income to finance the rehabilitation of residential real property designed for occupancy by not more than 11 families, if that property is owned or is being purchased by one or more people of low and moderate income, and will be for occupancy by low and moderate income people or families. House Bill 6077 would retain this provision but revise it to specify that the residential real property could be designed for occupancy by not more than 24 families. The law then defines people and families of low and moderate income for home located in certain geographic areas, and set for the years 2001 and 2002. The bill would eliminate these income limits and instead define low and moderate income to mean persons and families whose family income does not exceed the following: (i) for eligible distressed areas, $69,800 until June 1, 2006, $72,250 until November 1, 2007, and $74,750 on and after November 1, 2007; or ii) for any other area, $60,700 until June 1, 2006, $62,800 until November 1, 2007, and $65,000 on and after November 1, 2007.

Currently under the law, the maximum principal loan amounts for home improvement loans, exclusive of finance charges are as follows: a) $25,000 for a residential structure (unless the loan is made in conjunction with additional money provided by a municipality or nonprofit community-based organization, in which case a loan for a resident structure containing one unit is $35,000); or b) $15,000 per dwelling unit for a residential structure containing two to eleven dwelling units. House Bill 6077 would revise this provision to specify that the maximum principal loan amounts would be a) $50,000 (not $25,000) for a residential structure (unless the loan were made in conjunction with additional money provided by a municipality or nonprofit community-based organization, in which case a loan for a resident structure containing one unit is $35,000); or b) $25,000 (not $15,000) per dwelling unit for a residential structure containing 2 to 24 (not 11) dwelling units.

House Bill 6077 is tie-barred to Senate Bill 1341 which would amend the State Housing Development Authority Act to, among other things, revise certain of the limitations on notes and bonds, allow the authority to establish annual fees paid by the borrower during the term of a loan, and allow multifamily housing projects for students, as well as low and moderate income people, if the student housing project developers cooperate with college or university officials (including meeting the requirement that the college or university board of trustees approve any sale of the housing project).

MCL 125.1411 et al

BACKGROUND INFORMATION:

The Michigan State House Development Authority, created by Public Act 346 of 1966, has four goals: to increase the production, safety, and preservation of Michigan's affordable housing supply; to spearhead a statewide effort that will substantially close the housing gap, by 2010, for families and individuals who are most in need; to strengthen communities by supporting local, comprehensive community development strategies; and to improve the authority's organizational performance. For further information about the authority, visit their website at http://www.michigan.gove/mshda

ARGUMENTS:

For:

To take advantage of the Michigan State Housing Development Authority's programs, families must meet low income eligibility criteria. The income criteria vary depending upon whether a family lives in a distressed or non-distressed area, and the income limits are updated by the legislature from time-to-time, as the statute is amended. The law was last updated four years ago in 2000, and the eligibility criteria have been capped since 2002. This bill is necessary in order to update the family income eligibility criteria so more poor and moderate income people can participate in the authority's programs that increase affordable rental housing, home purchase, and home improvement.

Against:

Although the bill is a good one, it should be amended to ensure that the low income limits increase periodically without requiring an act of the legislature. To that end, the income eligibility limits should be indexed as a percent of median income, as established from time-to-time by the U. S. Secretary of the Treasury under pertinent sections of the federal Internal Revenue Code. Pegged at a certain percent of median income, the income eligibility limits could rise as the median income was increased.

POSITIONS:

The Michigan Housing Council supports the bill. (9-15-04)

The Michigan State Housing Development Authority supports the bill. (9-15-04)

Habitat for Humanity supports the bill. (9-15-04)

The Michigan Association of Home Builders supports the bill. (9-15-04)

The Michigan Realtors Association supports the bill. (9-15-04)

The Michigan Municipal League supports the bill. (9-15-04)

The Michigan Bankers Association supports the bill as amended. (9-15-04)

The Community Economic Development Association of Michigan supports the bill. (9-15-04)

Legislative Analyst: J. Hunault
Fiscal Analyst: Steve Stauff