

HOUSE BUSINESS AND INDUSTRY COMMITTEE

March 3, 1981

SUMMARIES OF

SENATE BILL 90 -

Introduced by Senator Goodover, Rep. Fabrega and others, revises the law regarding the Montana Board of Housing by replacing the interest limit of 9% on bonds issued by the board by a rate 1% less than the rate established by the Department of Housing and Urban Development and the Federal Housing Administration 30 days prior to the sale of bonds or notes. The act is effective immediately.

SENATE BILL 91 -

Introduced by Senator Goodover, Rep. Fabrega and others, raises the bond debt limit of the Montana Board of Housing from \$375 million to \$675 million. The Statement of Intent attached clarifies that the interest rate on the board's bonds and notes shall be as established by SB 90. The act is effective immediately.

SENATE BILL 143 -

Introduced by Sens. Hazelbaker and Turnage by request of the Board of Housing, allocates to the board all of the aggregate amount of qualified mortgage bonds that may be issued during any calendar year in accordance with Section 103A(g) of the Internal Revenue Code. The board is authorized to adopt standards for determining and may designate areas of chronic economic distress within the meaning of that section of federal law. The act is effective immediately.

HOUSE BUSINESS AND INDUSTRY COMMITTEE

The committee was called to order by Rep. W. J. Fabrega, Chairman, at 9:00 a.m. in room 129, Capitol Building, Helena, March 3, 1981. Rep. Vincent was excused; all other members were present. Bills to be heard were SB 90, 91, 143.

SENATE BILL 91 -

SENATOR PAT GOODOVER, District 22, Great Falls, explained SB 91 would increase the bond debt limit of the Montana Board of Housing which was set at \$375 million two years ago \$300 million for a total of \$675 million. This would allow the Board of Housing authority to issue bonds up to a total of \$675 million for housing loans thereby increasing jobs, home building, and business activities in home supplies.

SENATE BILL 90 relies on SB 91 for the money with which to issue bonds at a rate that is based at 1% less than the interest rate established from time to time by HUD and FHA thirty days prior to the sale of bonds or notes.

LYLE OLSON, Administrator of the Montana Board of Housing said the first issue of these bonds was sold in 1976, and the Board now has over \$225 million out in single family bonds representing better than 5,000 homes in all but 10 counties in the state, and 560 multifamily units funded by \$22 million in bonds. They presently have applications for 370 units for over \$10 million. Because of high interest rates, they are unable to sell bonds at the rate of 9%. They would be allowed to sell multiunits right now if the interest rates keep coming down.

They have had only 19 foreclosures out of all their loans, and assets are over \$250 million now. They get between 15-20 requests by phone each day asking when the board will have money to put out. There is a public need for this type of loan.

DAVID BROWN, MBA, First Bank, Helena, supports all three bills - SB 90, 91, 143. The Board of Housing has contributed substantially to the building industry and market in Montana. They have basically imported capital into Montana that is beneficial to our economy and to our home owners. The program has been stifled because of high interest rates. He thinks the program is worthwhile.

CLIFF CHRISTIAN, Montana Association of Realtors, supports all three bills. They are anticipating building needs will increase in 1981, and the state needs to keep somewhat even with the supply and demand. In 1979 approximately 8,000 single family units were built, and since that time the 1981 projection for the whole year for new homes is 2,100 units of single family homes. Unions project that Montana needs a minimum of 8,000 new home starts per year to come close to meeting needs. New no-fringe homes cost \$60,000, and Montana needs this influx of capital so, hopefully, about 2,100 units can be built. He commended the Board of Housing and staff for their incredible efficiency and fairness, and hopes all three bills pass.

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NEIL WEICH, Montana Home Builders Association, supports SB 90 and 91 and hopes that any administrative changes be left to the Board of Housing. This is something that's needed and this program should be continued for the state. Trusts the committee supports the bills.

STEVE MANDEVILLE, Board of Housing Northwest Bank loan officer, Helena, said the industry appreciates the fact these bills are here. Lending for housing is way down because nobody likes the interest rates, but the pent up demand is there. He thinks these bills will do what is necessary to get the housing industry moving again.

OPPONENTS: None

QUESTIONS -

In response to a question from Rep. Kitselman as to whether this would address veteran administration type of housing, Mr. Olson said the veterans bill was exempt from the Ullman Act. He had asked the National Guard General Duffy had that their pay be excluded from income. Under the Ullman bill it would do no good to include the National Guard. There has been National Guard in other states, but they don't get the veterans in that bill. This would give them the same equality. It wouldn't do much good to add the National Guard or Veterans to this. He will work with the National Guard and has already notified them to that effect.

Rep. Schultz asked what the rationale for having this money tied up by a contractor rather than allowing home owners to have the money is. Mr. Olson said they had to do that to get started. By giving the money to the builder, they have been trying to stimulate construction and thereby turning the money around twice. It's a Catch 22 - May 25 you could start building and the money that was not used up by November would revert back. At the moment there are four contractors stuck with new houses, and the board has to go along with them. Money has to be set aside for the contractor or they will be stuck with a new house.

The new Ullman legislation (Omnibus bill) says this will only be for first time home owners. Purchase price will only be a certain percent of state average for new and existing homes and this will cut down on allocations. Sixty-two percent has gone to new purchaser, 106 lenders throughout the state will get pretty good coverage. They are in the rural areas and are getting to the rural communities and are very pleased with that.

Rep. Robbins asked what regulations are there on the banks. Mr. Olson said the Board can only charge 1% of what their cost of money is, and that is the commitment fee charged banks. The Board has made a lot of money and wanted it for a rainy day. Banks have to make an application and have to have a real good contract. This gives the board a chance to cancel if the lender is not doing what the board wants. They have a real good mix of lenders.

Rep. O'Hara remarked that house prices had gone up about \$3,000 when the Board of Housing money came out. Mr. Olson said a lot of improvements made on home previously raised the cost. There were some problems with

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realtors in Missoula. Mr. Olson said by holding the price down, they have allowed some older homes to be unloaded on the market and those are the ones that are being foreclosed right now. He hasn't noticed much inflation, and asked if houses are coming down since the Board of Housing has been out of the market. Everything had to be committed by the end of November. They have loaned money for private home ownership fixing up.

Senator Goodover commented that financial institutions want to increase the interest when a lower interest loan is already on the house, so want the old loan paid off and new one at a higher interest rate established. Interest rates are causing inflation.

Rep. Fabrega said SB 90 removes the 9% ceiling that was the interest rate and now it is pegged to the interest being charged the consumer. The board will add 1% to your cost of money making a loan equal to HUD and FHA. If the FHA interest rate was 13%, the Board of Housing could sell bonds at 12%, and put the money out at 13%.

Mr. Olson said the Board of Housing gets .10% with .40% cost of insurance, .375% goes for servicing, .125% goes for trustee fees. They couldn't operate on that, but have reserves. They sell extra bonds for the reserve which they never use. Have almost \$11 million in the reserve now. Loans are either VA or FHA guaranteed.

Rep. Robbins asked what happens after the bonds are sold, and Mr. Olson said there are several trustee payments. The money does not go into state funds. They use local banks to run the payments through, and money is invested in large banks. If the going rate is 13%, a safe rate for the Board of Housing would be about 11%. If FHA was 13% and the Board put it out at 12%, and if FHA dropped, it would wipe them out. They have a 7-member board.

Senator Goodover remarked that if somebody wants to buy bonds back east and if they can be sold at 1% below or less, Montana bonds sell very well.

Rep. Fabrega asked whether the board has a 'due on sale' contract. Mr. Olson said he knew the Ullman bill does. The only people who are eligible to assume a loan are those who meet the requirements. The VA says all their loans could be assumed. As long as the buyer is qualified under Board rules, they can assume at the rate at which it was first issued. This is good for the board and has kept from having to foreclose some. Refunding is illegal on revenue bonds. They are guaranteed to be on the market for the first five years.

Other proponents of SB 90, 91, 143 who attending this meeting are listed on the Visitors' Register attached.

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SENATE BILL 143 -

SENATOR HAZELBAKER, District #41, Beaverhead County, co-sponsor at the request of the Board of Housing, said SB 143 could be considered enabling legislation for SB 90 and 91 to be sure that Montana qualifies for the mortgage bonds that may be issued during any calendar year in accordance with Section 103A(g) of the Internal Revenue Code. The board is authorized to adopt standards for determining areas where low income people could avail themselves of this type of housing. The Board may also designate areas of chronic economic distress consistent with the Internal Revenue Code of 1954 as amended.

LINDA FORREY, Single Family Program Officer for the Montana Board of Housing, Helena, said SB 143 was introduced to comply with one of the many provisions of the Mortgage Subsidy Bond Tax Act of 1980, which allocated \$200 million for single family housing and is split 50-50 between a state agency and local communities authorized to issue tax-exempt securities for housing programs. There are no local authorized issuers, so it is necessary for the Legislature to assign the entire allocation to the state agency. Her testimony EXHIBIT A gives details of what SB 143 would accomplish.

OPPONENTS: None

QUESTIONS -

Ms. Forrey said as yet the Board hasn't received authority for this type of mortgage bond for economically distressed areas. Yellowstone hasn't seen any need for this. In Anaconda there are other people who might want a home. They are only going to provide housing on an average sale price. Nobody wants to go into Colstrip with any money to finance homes. Rep. Ellison questioned whether such areas would be able to qualify for such help. Ms. Forrey said \$20 million would be set aside for those designated areas and would be available for a year and if they are not used, they can be used in other places in the state.

Rep. Kitselman asked if any loans made in Colstrip were 30-year loans and were defaulted because of the temporariness of employment there, would they become property of the state. Mr. Olson said they would be guaranteed by the VA or FHA.

Rep. Ellison said they are only going to be able to loan 90% of the average sale price in the state of Montana. He would be very happy to know what that price would be to get something that would satisfy federal housing authorities.

Rep. Fabrega asked if multi-family units are eliminated from the \$200 million for single family housing. Mr. Olson said by allocating all of the state's authorized level to the Board of Housing, they will be able to allocate \$200 million for each of the next two years.

Sen. Hazelbaker closed saying that it can be understood that SB 90 and 91 won't fly without SB 143. Recommends passage of all three.

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SENATE BILL 78 - Will continue hearing 3/4/81.

SENATOR ELMER SEVERSON, District #46, Stevensville, sponsor of SB 78, introduced this bill because of a man in Corvallis who has a restaurant near that town. He would like to get a liquor license for his evening trade, but he has run into this 5-mile obstacle. SB 78 revises the method of determining distance requirements for establishing quota limits on retail beer licenses. Under this bill, the distance would be measured over the shortest practical route while current law requires measurement in a straight line.

ELMER CUCHERA, in 1978 an all-beverage liquor license was applied for for a restaurant 4.8 miles from town and was turned down. He went to the highway patrol and their measurement was 6.5 miles from the city limits on Highway 93, but their affidavit was also turned down because the measurement had to be in a straight line. There is a sewer project coming in this year and he feels he is handicapped and the public is denied the convenience of this location. He feels he can exist with a license and cannot without one. His restaurant is near Hamilton.

OPPONENTS: None

QUESTIONS -

Rep. Schultz said this would be setting a precedent for other communities. Senator Severson said the Department of Revenue has no problem with it and the Tavern Industry has no problem.

Sen. Severson answer Rep. Ellison's question about distance from a city's limits by saying the shortest 'practical' route would be the shortest route. Page 11 sets out that distance in mileage shall be measured by a vehicle equipped with an accurate odometer.

Rep. Andreason asked if there are going to be some places where terrain causes problems? There was a good deal of discussion on this problem with seemingly no positive decisions.

Rep. Ellison asked whether it would change the liquor license quota in either the city or county.

Senator Severson closed saying this has been discussed with the Department of Revenue and the Tavern Association, and they have no problems with the bill. He hoped for reasonable consideration of SB 78.

EXECUTIVE SESSION -

Rep. Manning moved SENATE BILL 90 BE CONCURRED IN. Discussion on SB 90 - Due on Sale means a previous loan has to be paid off in full, and a new loan could be issued at a higher rate of interest. All previous issues of bonds allowed a qualified person to assume the loan. Under the Ullman amendment, if it were financed by the Board of Housing a buyer

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would have to qualify under the same rules and if he doesn't then that loan isn't transferrable.

Rep. Schultz thought there is a problem in reselling property if a \$45,000 house has a \$25,000 improvement put into it. The total loan adds up, and with a higher interest rate, this works a hardship on the person having to refinance.

Rep. Fabrega said if the consumer were allowed to refinance on a \$75,000 loan at 18%, if there is a balance of \$30-40,000 on the house, a second mortgage is the way to go.

SENATE BILL 90 was CONCURRED IN unanimously. Reps. Ellerd and Vincent were absent.

Rep. Manning moved SENATE BILL 91 BE CONCURRED IN and it was unanimously adopted with Reps. Ellerd and Vincent absent.

Rep. Manning moved SENATE BILL 143 BE CONCURRED IN and it received unanimous approval with Reps. Ellerd and Vincent absent.

Meeting adjourned 10:15 a.m.

Jo Lahti
Jo Lahti, Secretary

W. J. Fabrega
REP. W. J. FABREGA, CHAIRMAN

VISITORS' REGISTER

HOUSE

COMMITTEE

BILL SB 90-91-143

Date 3/3/81

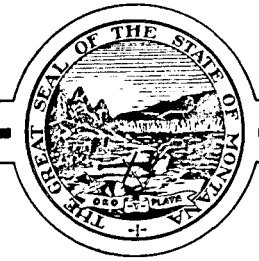
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IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

MONTANA BOARD OF HOUSING



TED SCHWINDEN, GOVERNOR

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STATE OF MONTANA

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HELENA, MONTANA 59620

SB 143 TESTIMONY

MARCH 3, 1981

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

My name is Linda Forrey, Single Family Program Officer for the Montana Board of Housing.

As you may know, the Montana Board of Housing sells tax-exempt notes and bonds to finance housing at below market interest rates. Bond proceeds are allocated to lending institutions through the form of "commitments" to provide homeownership to persons and families of lower income.

Recent federal legislation places policy controls on the tax-exempt market's financing of single family housing programs. Senate Bill 143 has been introduced to comply with one of many provisions of the Mortgage Subsidy Bond Tax Act of 1980. The new measure establishes a limit on the annual volume of bonds which can be issued for single family housing in an amount up to \$200 million. The allocation of the \$200 million is split 50-50 between a state agency and local communities authorized to issue tax-exempt securities for housing programs. Since there are no local authorized issuers, it is necessary for the State Legislature to assign the entire allocation to the state agency.

We are here today to ask you to favorably consider the entire allocation of \$200 million to the Montana Board of Housing so we may continue our programs to benefit qualified homebuyers and the housing industry itself.

Section 1, Item (2) of SB 143 will authorize the housing board to determine areas of chronic economic distress. The new law stipulates that at least 20% of bond proceeds shall be placed in targeted areas of each state if such areas exist. "Targeted areas" are either (1) an area of chronic economic distress, such as Anaconda; or (2) an area in which 70% of the families have incomes of no more than \$14,300. The criteria to define such areas is left up to individual states. However, the Treasury and HUD Secretaries shall evaluate the state's proposed "targeted areas." This provision shall insure that persons and families of low income and those suffering from serious economic conditions will have the opportunity to take advantage of a lower interest rate mortgage.

Please give SB 143 a "Do Pass" so the Board of Housing may issue up to \$200 million for single family housing each year and the authority to determine areas of economic distress. Thank you very much.

RESPECTFULLY SUBMITTED

MONTANA BOARD OF HOUSING.