

## **BILL ANALYSIS**

Senate Research Center  
76R3565 DB-D

S.B. 1703  
By: Ellis  
Border Affairs - Special  
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As Filed

### **DIGEST**

Owner-built houses can result in substandard housing for persons who lack the financing or skills to produce an adequate structure. Private activity bonds are tax-exempt bonds that benefit private individuals or businesses and are Texas' largest source of affordable housing funds. S.B. 1703 would increase affordable housing funds by recapturing and recycling eligible portions of the state's bond cap that relate to private activity bonds sold by local issuers and scheduled for repayment or redemption.

### **PURPOSE**

As proposed, S.B. 1703 provides loan assistance to low-income individuals and their families.

### **RULEMAKING AUTHORITY**

This bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Chapter 2306, Government Code, by adding Subchapter FF, as follows:

#### **SUBCHAPTER FF. INTERIM CONSTRUCTION LOAN PROGRAM**

Sec. 2306.751. DEFINITIONS. Defines "construction supply company" and "owner-builder."

Sec. 2306.752. INTERIM CONSTRUCTION LOAN PROGRAM. Requires the Texas Department of Housing and Community Affairs (TDHCA) to meet certain requirements to provide for the development of affordable housing in this state. Authorizes an interim construction loan under this program to provide resources to build new residential hearing, or develop, renovate, or otherwise make improvements to existing residential housing. Authorizes TDHCA to adopt rules necessary to accomplish the purposes of this subchapter.

Sec. 2306.753. PARTICIPATION AGREEMENT. Requires TDHCA to enter into a participation agreement with one or more construction supply companies to provide loan guarantees from TDHCA for interim construction loans made by the construction supply companies to eligible owner-builders under the program, under this subchapter. Authorizes TDHCA, by rule, to establish a threshold limit for the percentage of an interim construction loan that TDHCA guarantees under the program that is based on the estimated value of the property after the improvements to the property are completed. Prohibits TDHCA from agreeing to a guarantee for an interim builder loan issued to an owner-builder by a participating construction supply company that exceeds that threshold. Prohibits TDHCA from making an agreement with a construction supply company under the program unless TDHCA is allowed to annually renegotiate the guarantee percentage for an interim construction loan issued by the construction supply company. Requires TDHCA to renegotiate the terms of an interim construction loan guarantee when possible to obtain a better guarantee percentage for the state from the construction supply company. Authorizes a participating construction supply company to require an owner-builder to provide a warranty deed for the property that is the proposed subject of the interim construction loan as collateral for the loan.

Sec. 2306.754. OWNER-BUILDER ELIGIBILITY. Requires TDHCA to establish eligibility requirements for owner-builders to participate in the program. Requires the eligibility requirements to include a priority for owner-builders who are individuals or families of low, very

low, or extremely low income. Authorizes TDHCA to select nonprofit housing assistance organizations to certify the eligibility of owner-builders to participate in the interim construction loan program. Requires a nonprofit housing assistance organization selected by TDHCA to use the eligibility requirements established by TDHCA to certify the eligibility of an owner-builder for the program.

Sec. 2306.755. CONSTRUCTION SUPPLY COMPANY DUTIES. Sets forth duties for construction supply companies that participate in the program.

Sec. 2306.756. REFINANCING ASSISTANCE. Requires TDHCA to assist an owner-builder who obtains an interim construction loan under the program to refinance the loan to pay the balance of the interim construction loan and other debts on the property; and obtain a mortgage loan on the improved property. Requires TDHCA to identify private lenders to provide private market rate mortgages for low-income owner-builders who obtain loans under the program; and nonprofit housing assistance organizations and housing assistance programs to aid owner-builders who do not qualify for private market-rate mortgages.

Sec. 2306.757. FUNDING. Prohibits TDHCA from spending state money to fund a loan guarantee issued under this subchapter. Requires TDHCA to identify funds that are appropriate for the program. Authorizes TDHCA to cooperate with nonprofit housing assistance organizations to establish loan guarantee pools that may be used to obtain loans for the purposes of this subchapter.

Sec. 2306.758. REPORTING DUTIES. Requires TDHCA to compose an annual report that evaluates the repayment history and coinciding guarantee percentages for guarantees issued under a program under this subchapter; and deliver a copy of the report to the governor, the lieutenant governor, and the speaker of the house or representatives.

SECTION 2. Amends Chapter 2306K, Government Code, by adding Section 2306.255, as follows:

Sec. 2306.255. CONTRACT FOR DEED CONVERSION PROGRAM. Provides that in this section, "office" means the office established by TDHCA to promote initiatives for colonias. Requires the office to establish a program to guarantee loans made by private lenders to convert a contract for deed into a warranty deed. Requires TDHCA to make agreements with private lenders that will issue loans for contract conversions under the guarantee of TDHCA. Requires the office and the lender to agree on the criteria for issuing a deed conversion loan. Prohibits the office from making an agreement with a lender unless the agreement allows the office to annually renegotiate the guarantee percentage for a loan issued by the lender. Requires the office to renegotiate the terms of a guarantee when possible to obtain a better guarantee percentage for the state from the lender. Requires the office to establish eligibility criteria for a holder of a contract for deed who participates in this program. Requires the criteria to include a priority for homeowners and owners of residential real property who are individuals or families of low, very low, or extremely low income. Requires the office to use funds allocated to TDHCA under the federal HOME Investment Partnerships program established under Title II of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. Section 12701 et seq.) for a guarantee issued under this section. Prohibits the office from spending state money to fund a guarantee for a loan under the program. Authorizes the office to use the services of the Texas State Affordable Housing Corporation when necessary to accomplish the purposes of this section. Requires the office to compose an annual report that evaluates the repayment history and coinciding guarantee percentages for guarantees issued under this section, and deliver a copy of the report of the report to the governor, the lieutenant governor, and the speaker of the house of representatives. Authorizes TDHCA to adopt rules necessary to accomplish the purposes of this section.

SECTION 3. (a) Effective date: September 1, 1999.

(b) Requires TDHCA to deliver the first report required by Section 2306.758, Government Code, as added by this Act, no later than January 1, 2001.

(c) Requires the office established by TDHCA to promote initiatives for colonias to deliver the first report required by Section 2306.255(h), Government Code, as added by this Act, no later than January 1, 2001.

SECTION 4. Emergency clause.