HOUSE BILL REPORT
HB 1980

As Reported by House Committee On:
Community Development, Housing & Tribal Affairs
Capital Budget

Title: An act relating to creating a low-income home rehabilitation revolving loan program.

Brief Description: Creating a low-income home rehabilitation revolving loan program.

Sponsors: Representatives Blake, Chapman, Macri, Robinson, Van Werven, Morris, Smith, Haler, J. Walsh, Ryu, Johnson, Stanford, Sells, Ormsby, Frame, Kretz, Dye, Santos, Doglio, Pollet, Tarleton and Jinkins.

Brief History:

Committee Activity:

Community Development, Housing & Tribal Affairs: 2/14/17, 2/16/17 [DPS];
Capital Budget: 2/22/17, 2/23/17 [DP2S(w/o sub CDHT)].

Brief Summary of Second Substitute Bill

- Creates the Low-Income Home Rehabilitation Revolving Loan Program within the Department of Commerce for the rehabilitation of homes owned by low-income homeowners in rural areas.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Ryu, Chair; Macri, Vice Chair; McCabe, Ranking Minority Member; Barkis, Assistant Ranking Minority Member; Jenkin, Reeves and Sawyer.

Staff: Kirsten Lee (786-7133).

Background:

Department of Commerce Housing Assistance Program.
The state Housing Trust Fund (HTF), a common name for the state Housing Assistance Program, was established as a renewable resource to meet the basic housing needs of low

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income and special needs citizens. The HTF is managed by the Department of Commerce (Department) to support the Department's housing programs.

Through the HTF, the Department distributes funding through a competitive grant process to eligible organizations for projects that serve individuals and families with special needs and whose income is at, or below, 50 percent of the median family income for the county or city where the project is located. At least 30 percent of the HTF funding must be used for projects in rural areas. Organizations eligible to receive funding include local governments, local housing authorities, regional support networks, nonprofit community or neighborhood-based organizations, federally recognized Indian tribes, and regional or statewide nonprofit housing assistance organizations.

Funding from the HTF may be used for various related purposes, including:
- low-income housing construction and rehabilitation;
- rent subsidies, matching funding for housing-related social services;
- administrative and technical costs for housing assistance groups;
- homeless shelters;
- mortgage and down payment assistance; and
- accessibility in housing for persons with disabilities.

<u>Federal Department of Health and Human Services</u>.
The United States Department of Health and Human Services (HHS) provides nationwide health and human services, and oversees programs that provide advancement in medicine, public health, and social services. Each year the HHS issues poverty guidelines, also referred to as the federal poverty level. The poverty guidelines are used as eligibility criterion for a number of federal assistance programs. For example, in Washington, the federal poverty level used for a single person is $12,060 and the federal poverty level used for a family of four is $24,600.

<u>United States Department of Housing and Urban Development</u>.
The United States Department of Housing and Urban Development (HUD) provides many affordable housing opportunities to states, local governments, and individual homebuyers. The HUD's Community Development Block Grant Program provides grants to non-entitled areas in state and local governments for housing and community development needs. The HUD defines "non-entitlement areas" as those that are not metropolitan cities or part of an urban county, cities with a population of less than 50,000, and counties with a population of less than 200,000.

Summary of Substitute Bill:

The Low-Income Home Rehabilitation Revolving Loan Program (LHRRLP) is established within the Department. The program must include certain elements, including:
- Eligible homeowners must be low-income and live in rural areas. "Low-income" means persons or households with incomes at or below 200 percent of the federal poverty level as adjusted for family size and determined annually by the federal HHS. "Rural areas" means areas of Washington defined as non-entitlement areas by HUD.

- Homeowners who are senior citizens, persons with disabilities, families with children 5 years old and younger, and veterans must receive priority for loans.
- The cost of the home rehabilitation must be the lesser of 80 percent of the assessed value of the property or $40,000. "Home rehabilitation" means residential repairs and improvements that address health, safety, and durability issues in existing housing in rural areas.
- The maximum amount that may be loaned under this program may not exceed the cost of the home rehabilitation.
- The interest rate of the loan must be equal to the previous calendar year's annual average consumer price index compiled by the Bureau of Labor Statistics.
- The Department must allow participating homeowners to defer repayment of the loan principal and interest and any fees related to the administration or issuance of the loan.

The Department must contract with rehabilitation agencies to provide home rehabilitation to participating homeowners. "Rehabilitation agency" means any approved Department grantee, tribal nation, or any public service company, municipality, public utility district, mutual cooperative or other entity that bears the responsibility for rehabilitating residences under the LHRRLP. Rehabilitation agencies may not charge more than the allowed administrative fee to participating homeowners and must report at least quarterly on project costs and the number of homes repaired and rehabilitated under the LHRRLP.

A nonappropriated account is created, the LHRRLP Account (Account), in the custody of the State Treasurer. Expenditures from the Account may only be used for the purpose of the LHRRLP and may only be authorized by the Director of the Department or the Director's designee.

Substitute Bill Compared to Original Bill:

The substitute bill: (1) expands eligible rehabilitation projects to include duplexes and rental properties; (2) limits the loan amount to 80 percent of the assessed value on the property, rather than 80 percent of the appraised value of the home; (3) changes the interest rate of rehabilitation loans from variable to fixed interest rates; (4) requires there to be an exchange of money for refinancing purposes, not solely a property transfer, for repayment of a loan under the program to be required; (5) eliminates the requirement that a rehabilitation loan must be repaid when an owner no longer resides in the home permanently; and (6) places the rehabilitation loan in second position to the rehabilitation mortgage, rather than first.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) The LHRRLP is meant to work in conjunction with other programs, including low-income weatherization programs, to address the need to stabilize homes requiring repair before other improvements can be made. For example, the Opportunity Council weatherizes approximately 125 homes per year and is unable to weatherize some homes due to severe issues with the homes. In many instances, homeowners have the equity in their home, but do not have funds available to make necessary repairs to keep a home stable. This program will provide a means for homeowners to make the necessary repairs, allowing for additional improvements to be made, and avoiding potential loss of the home in the future. Not only will the program be an additional resource for homeowners in rural areas, but will help homeowners from needing subsidized housing or becoming homeless. The goal in the end is to create a sustainable revolving fund to support these efforts, creating a more robust program to help with affordable housing.

(Opposed) None.

Persons Testifying: Representative Blake, prime sponsor; John Davies, Opportunity Council; Dan Dunn, Combustion Appliance Zone Energy Services; and Dave Finet, Washington State Community Action Partnership.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Community Development, Housing & Tribal Affairs. Signed by 19 members: Representatives Tharinger, Chair; Doglio, Vice Chair; Peterson, Vice Chair; DeBolt, Ranking Minority Member; Smith, Assistant Ranking Minority Member; Dye, Johnson, Koster, Kraft, MacEwen, Macri, Morris, Reeves, Riccelli, Ryu, Sells, Steele, Stonier and J. Walsh.

Staff: Melissa Palmer (786-7388).

Summary of Recommendation of Committee On Capital Budget Compared to Recommendation of Committee On Community Development, Housing & Tribal Affairs:

The Capital Budget Committee removed duplex and rental property from the list of eligible homes. Additionally, the Capital Budget Committee removed the exemption for loan repayments for property transfers that do not involve an exchange of money.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This creates a rural home rehabilitation loan program to address the health and safety housing needs in rural parts of the state. There are many homes that are not eligible for funding through the weatherization program due to the dilapidated state of the homes. There are denials for weatherization projects due to the extensive repair needs, such as a roof replacement. Many people have equity in their homes but do not have cash to make the repairs. Additionally, many of these home owners are seniors or disabled and desire to remain in their homes. Due to low incomes, these individuals cannot access private loans. If $20 million were provided for this program, there would be funding to help 800 homes. There are similar smaller programs operating right now. These programs have low default rates of less than 5 percent; this was when the loan value was up to 90 percent of the home value. Most of the defaults occurred during the recession. In these programs, the loans typically revolve every six to seven years. The existing programs show that this is a proven model. This funding would create a systematic approach to rural home rehabilitation.

(Opposed) None.

Persons Testifying: Dave Finet and Merritt Mount, Washington Community Action Partnership; and Dale Wilson, Olympia Community Action Programs.

Persons Signed In To Testify But Not Testifying: None.