

---

## Housing Committee

---

### HB 1696

**Brief Description:** Modifying the covenant homeownership program.

**Sponsors:** Representatives Taylor, Peterson, Ryu, Ortiz-Self, Stearns, Salahuddin, Duerr, Reed, Cortes, Street, Mena, Entenman, Hill, Gregerson, Simmons, Obras, Santos, Ramel, Donaghy, Berry, Goodman, Parshley, Stonier, Scott, Fosse, Berg, Macri, Kloba, Nance, Hunt, Springer, Fey, Walen, Leavitt, Reeves, Bergquist, Bernbaum, Doglio, Zahn, Pollet, Ormsby and Thomas.

**Brief Summary of Bill**

- Modifies the Covenant Homeownership Program by raising the area median income threshold for eligibility to 140 percent, authorizing full loan forgiveness once a loan has been in repayment for at least five years, and modifying one of the membership positions on the oversight committee.

**Hearing Date:** 2/10/25

**Staff:** Audrey Vasek (786-7383).

**Background:**

Restrictive Real Estate Covenants.

Restrictive real estate covenants prohibiting people of certain races, religions, and ethnicities from buying or owning homes were recorded across the state until 1968, when the federal Fair Housing Act (FHA) prohibited real estate covenants that discriminate on the basis of race, color, religion, or national origin. In 1969 the Washington Law Against Discrimination also made these types of restrictive covenants void.

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

### Special Purpose Credit Programs.

The federal Equal Credit Opportunity Act and Regulation B issued by the federal Consumer Financial Protection Bureau permit creditors to extend special purpose credit through Special Purpose Credit Programs (SPCPs) to applicants who meet eligibility requirements under certain types of credit programs, including a credit assistance program expressly authorized by federal or state law for the benefit of an economically disadvantaged class of persons. This may include a specific class of persons who share one or more common characteristics such as race, national origin, or sex.

### Covenant Homeownership Program.

The Covenant Homeownership Program (Program) provides down payment and closing cost assistance to first-time homebuyers who are part of an economically disadvantaged class of persons identified in a Program study. The Program is funded through a \$100 document recording assessment that is deposited into a dedicated Program account. The Legislature may appropriate moneys in the Program account to the Department of Commerce for costs related to the Program. Commerce must contract with the Washington State Housing Finance Commission (Commission) for the creation of one or more SPCPs to provide down-payment and closing-cost assistance to Program participants.

To be eligible to receive down payment and closing cost assistance through an SPCP authorized as part of the Program, an applicant must have a household income at or below 100 percent of the area median income (AMI), be a first-time home buyer, and be a Washington resident who:

- was a state resident on or before the enactment of the FHA on April 11, 1968, and was or would have been excluded from homeownership in Washington by a racially restrictive real estate covenant on or before that date; or
- is a descendant of a person who meets that criterion.

The initial Program study was published in March 2024, and recommended implementing an SPCP for economically disadvantaged households with Black, Latino, Native American, Alaska Native, Native Hawaiian, Other Pacific Islander, Korean, or Asian Indian borrowers. The initial Program study also recommended that the new SPCP should provide down payment assistance as a zero-interest loan, and provide customized amounts of down payment assistance that would enable households with incomes between 80-100 percent of the AMI to afford a modest-cost home in their county. Another recommendation was to consider expanding eligibility to impacted residents with incomes up to 140 percent of the AMI.

Updated Program studies are due every five years after the initial Program study. The first updated Program study is due December 31, 2028.

On July 1, 2024, the Program started providing down payment and closing cost assistance to participants.

### Covenant Homeownership Program Oversight Committee.

The Program Oversight Committee (Committee), established by the Department of Financial

Institutions, oversees and reviews the Commission's activities and performance related to the Program, including the Commission's creation and administration of the SPCPs authorized under the Program.

The Committee must consist of the following members appointed by the Governor:

- one person who meets the eligibility criteria for SPCP applicants and is from east of the crest of the Cascade Mountains;
- one person who meets the eligibility criteria for SPCP applicants and is from west of the crest of the Cascade Mountains;
- one representative of an organization that operates an SPCP, counseling service, or debt relief program that serves people who were commonly subject to unlawful exclusions contained in racially restrictive real estate covenants;
- one representative of a community-based organization that specializes in the development of permanently affordable housing that serves people who were commonly subject to unlawful exclusions contained in racially restrictive real estate covenants;
- one representative of the real estate sales profession;
- one representative of the home mortgage lending profession who has a minimum of five years' lending or underwriting experience; and
- one representative of the nonprofit affordable housing development industry.

In addition to the nonlegislative members appointed by the Governor, the Committee must also consist of the following legislative members:

- two senators, one from each of the two largest caucuses, appointed by the President of the Senate; and
- two members of the House of Representatives, one from each of the two largest caucuses, appointed by the Speaker of the House of Representatives.

### **Summary of Bill:**

#### Covenant Homeownership Program Eligibility.

The AMI threshold for Program eligibility is raised to 140 percent of the AMI for the county where the home is located, instead of 100 percent of the AMI. As part of its rulemaking authority, the Commission may adjust the AMI threshold for Program eligibility by county based on a reasonable determination of the need for housing assistance in each county.

#### Loan Forgiveness.

An SPCP authorized under the Program may fully forgive a loan once the loan has been in repayment for at least five years.

#### Covenant Homeownership Program Oversight Committee Membership.

The Committee membership is adjusted to include one representative of a nonprofit organization that provides housing counseling to persons who were commonly subject to unlawful exclusions contained in racially restrictive real estate covenants. This replaces the membership position for a representative of a community-based organization that specializes in the development of

permanently affordable housing that serves persons who were commonly subject to these types of unlawful exclusions.

**Appropriation:** None.

**Fiscal Note:** Requested on February 5, 2025.

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