

HOUSE BILL REPORT

HB 1696

As Reported by House Committee On:

Housing
Appropriations

Title: An act relating to modifying the covenant homeownership program by adjusting the area median income threshold for program eligibility, introducing loan forgiveness, and modifying the oversight committee membership.

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 History:

Committee Activity:

Housing: 2/10/25, 2/18/25 [DPS];

Appropriations: 2/24/25, 2/27/25 [DP2S(w/o sub HOUS)].

Brief Summary of Second Substitute Bill

- Modifies the Covenant Homeownership Program by raising the area median income threshold for eligibility to 120 percent, authorizing full loan forgiveness under certain circumstances, and modifying one of the membership positions on the oversight committee.

HOUSE COMMITTEE ON HOUSING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Peterson, Chair; Hill, Vice Chair; Richards, Vice Chair; Entenman, Gregerson, Lekanoff, Reed, Thomas, Timmons and Zahn.

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.

Minority Report: Do not pass. Signed by 7 members: Representatives Low, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Manjarrez, Assistant Ranking Minority Member; Barkis, Connors, Dufault and Engell.

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.

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 (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.

At minimum, an SPCP authorized under the Program must provide loans that can be combined with other forms of down payment and closing cost assistance, require Program participants to repay loans for down payment and closing cost assistance at the time that the house is sold, and be implemented in conjunction with the Commission's housing finance programs.

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. Some of the other recommendations were to consider expanding eligibility to impacted residents with incomes up to 140 percent of the AMI and to consider alternative repayment approaches, such as forgiving all or some portion of the assistance amount over time.

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 Substitute 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.

Loan Forgiveness.

For Program participants who have a household income at or below 80 percent of the AMI for the county where the home is located at the time that the loan is made, an SPCP authorized under the Program may fully forgive a loan entered into at any time after enactment of the SPCP once the loan has been outstanding 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.

Substitute Bill Compared to Original Bill:

The substitute bill modifies the loan forgivability provisions by:

- authorizing full loan forgiveness only for Program participants who have a household income at or below 80 percent of the AMI for the county where the home is located at the time that the loan is made, instead for all Program participants; and
- specifying that an SPCP may fully forgive a loan entered into at any time after enactment of the SPCP once the loan has been outstanding for at least five years, instead of specifying that an SPCP may fully forgive a loan once the loan has been in repayment for at least five years.

The substitute bill also removes the language authorizing the Commission to adjust the AMI threshold for Program eligibility by county based on a reasonable determination of the need for housing assistance in each county.

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) This bill responds to some of the difficulties faced in implementing the Program. Current law sets the maximum AMI for Program eligibility at 100 percent, but the Program study noted that many people with incomes above that threshold were still not able to afford a modest home in their county. The study recommended raising the AMI threshold to 140 percent. The study also recommended consideration of more options for loan repayment, including loan forgivability. This bill will also help fill a spot on the Program oversight committee that currently has not been able to be filled.

Purchasing a home in Washington is extremely difficult. Median home prices are so high that the income needed to purchase homes in some areas is more than double the AMI. This means that if someone has an income at 100 percent of the AMI, they are not able to purchase a home. Expanding income eligibility allows more working families to qualify for assistance. Raising the AMI limit to 140 percent only serves to help more people in need.

Since July 2024 the Program has been able to give 250 participants zero-interest down payment assistance loans with an average loan size of \$110,000. More than 200 families have been able to access homeownership opportunities that would not otherwise have been possible. Organizations that help potential homebuyers are receiving multiple calls a day from people hoping they are eligible. Some organizations have had hundreds of interested people come to homeowner classes.

There is a racialized homeownership gap due to redlining. If a person's grandparents and parents could not afford to purchase a home, then that person probably needs assistance to purchase a home today due to the connection between homeownership and intergenerational wealth. Homeownership is an entry point to the American dream and a gateway to intergenerational wealth. The Program helps make up for past harm and provides the current generation with an opportunity to close the homeownership gap for their children.

Loan forgiveness can also help build intergenerational wealth by giving families more wealth to pass along to the next several generations. This will provide stability of place for these families and create stronger neighborhoods.

(Opposed) None.

Persons Testifying: Representative Jamila Taylor, prime sponsor; LaKeisha Davis, Habitat

for Humanity Spokane; Darryl Smith, HomeSight; Lisa DeBrock, WA State Housing Finance Commission; Patience M Malaba, HDC; Denise Rodriguez, Washington Homeownership Resource Center; Ethan Robinson, Habitat for Humanity Seattle-King & Kittitas Counties; Adria Buchanan, Fair Housing Center of Washington; Sarah Clark, Seattle Metro Chamber; Bryan LaFlamme; Kimberly Richardson, Global Unspoken Truths, LLC; and Steve Walker, Washington State Housing Finance Commission.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON APPROPRIATIONS

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 Housing. Signed by 18 members: Representatives Ormsby, Chair; Gregerson, Vice Chair; Macri, Vice Chair; Berg, Bergquist, Cortes, Doglio, Fitzgibbon, Leavitt, Lekanoff, Peterson, Pollet, Ryu, Springer, Stonier, Street, Thai and Tharinger.

Minority Report: Do not pass. Signed by 12 members: Representatives Couture, Ranking Minority Member; Connors, Assistant Ranking Minority Member; Penner, Assistant Ranking Minority Member; Schmick, Assistant Ranking Minority Member; Burnett, Caldier, Corry, Dye, Keaton, Manjarrez, Marshall and Rude.

Staff: Jessica Van Horne (786-7288).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Housing:

The second substitute bill raises the area median income threshold for eligibility for the Covenant Homeownership Program to 120 percent of the area median income, rather than 140 percent.

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) There are many individuals who wish to become homeowners but face barriers to acquiring a home. The Covenant Homeownership Program (Program) helps break down those barriers. The Program has been very successful thus far in helping hundreds of families in over 20 counties. This bill will build on that success while providing greater

flexibility. The most impactful part of the bill is providing loan forgiveness, because it will prevent homeowners from becoming debt-burdened. Homeownership should be a path to building wealth, not creating hardship. Increasing the area median income threshold will allow more families to receive assistance.

(Opposed) None.

Persons Testifying: Dana Le Roy, Habitat for Humanity Spokane; and Harpreet Kaur, Washington Build Back Black Alliance (WBBA).

Persons Signed In To Testify But Not Testifying: None.