HOUSE BILL REPORT
HB 1808

As Reported by House Committee On:
Housing

Title: An act relating to creating the affordable homeownership revolving loan fund program.

Brief Description: Creating an affordable homeownership revolving loan fund program.

Sponsors: Representatives Zahn, Low, Parshley, Thomas, Scott, Ramel, Gregerson, Doglio, Eslick, Reed, Fosse, Ormsby, Nance, Salahuddin, Macri, Hill, Street and Obras.

Brief History:

Committee Activity:

Housing: 2/13/25, 2/18/25 [DPS].

Brief Summary of Substitute Bill

- Creates the Affordable Homeownership Revolving Loan Fund Program to provide loans to eligible organizations for construction of permanently affordable homeownership for low-income households.

HOUSE COMMITTEE ON HOUSING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Peterson, Chair; Hill, Vice Chair; Richards, Vice Chair; Low, Ranking Minority Member; Barkis, Connors, Entenman, Gregerson, Lekanoff, Reed, Thomas, Timmons and Zahn.

Minority Report: Without recommendation. Signed by 4 members: Representatives Jacobsen, Assistant Ranking Minority Member; Manjarrez, Assistant Ranking Minority Member; Dufault and Engell.

Staff: Audrey Vasek (786-7383).

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.

Background:

Housing Trust Fund.
The Washington Housing Trust Fund (HTF) program, administered by the Department of Commerce (Commerce), provides capital financing through grants or loans to eligible organizations for the acquisition, new construction, rehabilitation, and preservation of affordable housing projects for low-income and special needs populations.

To qualify as "affordable housing" under the HTF, rental housing occupied by low-income households may not require payment of monthly housing costs, including utilities other than telephone, that is more than 30 percent of a low-income household's income. For homeownership housing, Commerce must adopt policies that specify the percentage of a low-income household's income that may be spent on monthly housing costs, including utilities other than telephone, in order for the homeownership housing to qualify as affordable housing under the HTF. A "low-income household" is defined as a household whose adjusted income is less than 80 percent of the median family income (MFI) for the county where the project is located.

Summary of Substitute Bill:

Affordable Homeownership Revolving Loan Fund Program.
The Affordable Homeownership Revolving Loan Fund Program (Program) is created within Commerce to finance affordable homeownership construction for low-income households by providing loans to eligible organizations for development of housing that serves low-income households for at least 99 years. Program creation is subject to the availability of amounts appropriated for the specific purposes of the Program.

Program Account.
A dedicated Program account is created in the State Treasury. Revenues to the Program account must consist of appropriations by the Legislature, loan repayments, and all other sources deposited into the Program account. Moneys in the Program account may be spent only after appropriation. Expenditures from the Program account may be used only for purposes of the Program.

The Program account is added to the list of appropriated accounts in the State Treasury that retain interest earnings.

Selection Criteria for Eligible Organizations.
Program loans must be awarded to eligible organizations based on criteria established by Commerce. This criteria must include readiness to proceed with construction, amount and commitment of capital being leveraged as part of the financing for the project, proposed cost efficiency, development location, the applicant's qualifications and demonstrated capability to develop the proposed project, and any other criteria established by Commerce.

"Eligible organizations" are defined as nonprofit developers building permanently affordable homeownership for sale to low-income households. The income threshold for low-income households is 80 percent of the MFI adjusted for family size for the county where the affordable housing is located, as reported by the United States Department of Housing and Urban Development (HUD), or 80 percent of the MFI adjusted for family size for the metropolitan area where the affordable housing is located, as reported by the HUD, whichever is larger.

"Permanently affordable homeownership" means homeownership that, in addition to meeting the HTF definition of "affordable housing" is:

- sponsored by a nonprofit organization or governmental entity, and the sponsor organization: executes a new ground lease or deed restriction with a duration of at least 99 years at the initial sale and with each successive sale; and supports homeowners and enforces the ground lease or deed restriction; and
- subject to a ground lease or deed restriction that includes: a resale restriction designed to provide affordability for future low-income and moderate-income homebuyers; a right of first refusal for the sponsor organization to purchase the home at resale; and a requirement that the sponsor organization must approve any refinancing, including home equity lines of credit.

Loan Requirements.
Loans awarded under the Program:

- may not exceed 50 percent of the total project costs of the housing to be developed; however, Commerce may exceed this maximum allowable loan amount for cause;
- may be used in combination with private sector loans or any other source of capital, as recognized by Commerce;
- must be structured with an interest rate above 1 percent, but not exceeding 2.5 percent; and
- must be assumable under terms and conditions established by Commerce.

Loan Repayment.
Loan repayment is due after all of the homes included in the financed project are sold, except as required by rules established by Commerce. Upon receipt and repayment, any interest earnings and repaid loan funds must be tracked separately from other revenue and must be reloaned to qualifying applicants to finance additional permanently affordable homeownership under the Program. All receipts from repayment of Program loans must be deposited into the Program account.

Loan Recipient Requirements.
Loan recipients must:

- commit to beginning construction within 180 days of contracting the loan;
- adhere to the Evergreen Sustainable Development Standard;
- file an annual compliance report containing information specified by Commerce; and

- restrict use of awarded loan funding to eligible costs of housing as defined in the Washington State Housing Finance Commission (Commission) statute, which defines "costs of housing" as all costs related to the development, design, acquisition, construction, reconstruction, leasing, rehabilitation, and other improvements of housing, as determined by the Commission.

Duties of the Department of Commerce.
Commerce must:
- establish criteria and procedures for long-term monitoring of housing affordability and compliance under the Program, for which Commerce may charge monitoring fees;
- establish annual reporting requirements for loan recipients; and
- adopt policies necessary to administer the Program.

Commerce's general funds may not be expended to implement the Program; however, Commerce may use up to 3 percent of the biennial appropriation from the Program account for administrative costs related to the Program..

Other Provisions.
The Program is created as a new chapter in Title 43 RCW.

Substitute Bill Compared to Original Bill:

The substitute bill requires Commerce, instead of the Commission, to administer the Program. The substitute bill creates a dedicated account for the Program and adds the account to the list of appropriated accounts in the State Treasury that retain interest earnings. The substitute bill also specifies that loan repayments must be deposited into the Program account, and that Commerce may use up to 3 percent of the biennial appropriation from the Program account for administrative costs.

Appropriation: None.

Fiscal Note: Requested on February 19, 2025.

Effective Date of Substitute Bill: The bill contains multiple effective dates. Please see the bill.

Staff Summary of Public Testimony:

(In support) This bill creates a revolving loan program that will open up the possibility of more affordable housing development. There are many challenges with financing affordable housing projects. One of the greatest barriers is securing construction financing. Traditional construction loans are notoriously difficult for nonprofit developers to obtain, and the interest rates are often as high as 10 percent. These high interest rates add a significant cost to housing projects and make it difficult to keep housing truly affordable.

With high interest rates, inflation, and material costs going up, sometimes affordable housing developments do not pencil out. This loan program gives nonprofit developers an opportunity to access funds at a lower interest rate to create more homeownership opportunities. The savings from a lower interest rate could be used to build more homes, improve construction quality, lower the price of homes, reduce homeownership costs for families, or make it possible for the homes to be affordable to people at lower incomes, such as nonprofit caseworkers, janitors, or lab techs.

This bill creates a passive subsidy. The program is self-sustaining, leverages public and private dollars, and has the potential to grow on its own without ongoing subsidy. A passive subsidy for building more permanently affordable homes will benefit everyone and can help reduce the costs of senior living. For example, one retired family lost the pension they had earned after working for 35 years. They were forced to sell their home but were able to use the funds from that sale to purchase an affordable home on a community land trust near their children and grandchildren to live out the rest of their years.

This bill is a vital investment in Washington's future. Many young people today cannot afford to purchase homes. The path to intergenerational wealth is through homeownership. This bill will not just create more homes; it will also create more homeowners. Communities are stronger when families live in homes that they own.

Housing affordability is essential to the state's economic vitality. Members of the business community support efforts to build housing of all kinds. When workers cannot afford to live near their jobs, businesses struggle to attract and retain talent. This impacts productivity and potential for growth.

(Opposed) None.

Persons Testifying: Representative Janice Zahn, prime sponsor; Scott Slater, Habitat for Humanity Seattle-King and Kittitas Counties; Lilly Hayward, Seattle Metropolitan Chamber of Commerce; and Kimberly Toskey, Homes and Hope Community Land Trust.

Persons Signed In To Testify But Not Testifying: None.