



House of Representatives

General Assembly

File No. 242

January Session, 2021

Substitute House Bill No. 6494

House of Representatives, April 1, 2021

The Committee on Banking reported through REP. DOUCETTE of the 13th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE DOWN PAYMENT ASSISTANCE PROGRAM AND AFFORDABILITY INCENTIVE ZONES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 8-286 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective from passage*):

3 (a) The authority shall administer, within the resources allocated by
4 the State Bond Commission to the Department of Housing for the
5 purposes of sections 8-283 to 8-289, inclusive, the homeownership loan
6 program established by said sections 8-283 to 8-289. The purpose of the
7 program shall be to provide, through a contract, an eligible family or
8 person based on the financial needs of such family or person, a loan or
9 deferred loan to assist in the purchase of a dwelling or the purchase and
10 rehabilitation of a dwelling containing up to four residential units,
11 provided such family or person shall reside in at least one of such units.
12 In the case of a deferred loan, the contract shall require that payments
13 on interest are due currently but that payments on principal may be
14 made at a later time.

15 (b) Not later than October 1, 2021, the authority shall establish
16 guidelines for issuing loans under the program. Such guidelines shall
17 permit the authority to (1) provide loans to borrowers with a debt-to-
18 income ratio equal to the highest debt-to-income permitted by the
19 Federal Housing Administration, the Federal National Mortgage
20 Association and the Federal Home Loan Mortgage Corporation for
21 residential mortgage loans, as applicable, subject to any other
22 limitations of this chapter, and (2) consider (A) the application of a
23 prospective borrower, regardless of the prospective borrower's credit
24 score, and (B) nontraditional credit references submitted by the
25 prospective borrower including, but not limited to, proof of
26 employment or proof of rental and utility payments.

27 ~~[(b) Such]~~ (c) A loan or deferred loan issued under the program shall
28 include the customary and reasonable closing costs of the purchase of
29 the dwelling, if so requested by the borrower, and to the extent the loan
30 amount inclusive of such closing costs does not exceed the maximum
31 loan amount under the authority's procedures and guidelines, and shall
32 not exceed twenty-five per cent of the cost of acquiring such dwelling or
33 twenty-five per cent of the value of such dwelling after rehabilitation, if
34 greater; except that no such limitation may apply to any loan made to a
35 tenant whose dwelling unit is being converted to a condominium and
36 who is able to obtain a mortgage for the purchase of such dwelling unit.
37 Such value shall be determined from the appraisal, if any, required by
38 the lending institution granting the first mortgage loan on such
39 dwelling, and if no such appraisal has been made at the time that a
40 contract for loan is entered into pursuant to this chapter, the authority
41 shall cause such appraisal to be made.

42 ~~[(c)]~~ (d) Commencing October 1, 1995, the proceeds of the sale of any
43 bonds of the state authorized by any public or special act effective on or
44 after July 1, 1995, that are to be used for the purpose of making loans or
45 deferred loans pursuant to this chapter shall be used by the department
46 to make grants-in-aid to the authority and used by the authority, subject
47 to the purposes and conditions of this chapter, for the purpose of
48 making loans or deferred loans pursuant to this chapter.

49 [(d)] (e) The commissioner shall establish and administer within
50 available funds a residential mortgage guarantee program for eligible
51 persons purchasing a home for owner occupancy. Real property eligible
52 for the program shall be located in public investment communities, as
53 defined in section 7-545, and may contain one to three dwelling units.

54 Sec. 2. (NEW) (*Effective from passage*) The Connecticut Housing
55 Finance Authority may establish affordability incentive zones under the
56 homeownership loan program established pursuant to sections 8-283 to
57 8-289, inclusive, of the general statutes to incentivize the purchase of
58 dwellings situated in municipalities not exempt from the affordable
59 housing appeals procedure under subsection (k) of section 8-30g of the
60 general statutes. The authority may expand access to the program in
61 such zones by utilizing lending guidelines that are different from the
62 guidelines for the purchase of a dwelling not situated in such zones,
63 which may include increasing eligibility limits with respect to the
64 purchase price of the dwelling or the maximum loan amount, or by
65 reducing the rate of interest of the loan. If the authority establishes an
66 affordability incentive zone under this section, any municipality that is
67 not (1) exempt from the affordable housing appeals procedure under
68 subsection (k) of section 8-30g of the general statutes, and (2) designated
69 as an affordability incentive zone may make a request to the authority,
70 in writing, to be considered an affordability incentive zone. The
71 authority may, in its discretion, grant such requests after considering
72 available funding for the program.

73 Sec. 3. Section 8-286b of the general statutes is repealed and the
74 following is substituted in lieu thereof (*Effective from passage*):

75 (a) Mortgage loan guarantees issued by the commissioner under
76 subsection [(d)] (e) of section 8-286, as amended by this act, shall be in
77 the form of a guarantee from the commissioner to an approved
78 mortgagee. Mortgagees may participate in the program by entering into
79 a mortgage guarantee agreement with the commissioner. Mortgagees
80 participating in the program shall process and underwrite loan
81 guarantees in accordance with the provisions of said subsection [(d)] (e),

82 this section and sections 8-286c, as amended by this act, and 8-286d and
83 any regulations adopted by the commissioner pursuant to section 8-289.

84 (b) Any mortgagee seeking a loan guarantee and any mortgagor
85 seeking to have a loan guaranteed shall provide such information to the
86 commissioner as the commissioner deems necessary. The information
87 shall be provided on a form prescribed by the commissioner. Any
88 information required by the commissioner in connection with an
89 application for a mortgage loan guarantee shall be provided subject to
90 the penalty for false statement under section 53a-157b. No guarantee
91 shall be valid until approved by the commissioner.

92 (c) No loan shall be eligible for a guarantee under the program
93 established pursuant to section 8-286, as amended by this act, unless the
94 commissioner determines that the terms and conditions of the loan are
95 acceptable to the commissioner.

96 Sec. 4. Section 8-286c of the general statutes is repealed and the
97 following is substituted in lieu thereof (*Effective from passage*):

98 (a) The maximum amount of any guarantee issued by the
99 commissioner under the provisions of subsection [(d)] (e) of section 8-
100 286, as amended by this act, section 8-289 and sections 8-286b to 8-286d,
101 inclusive, as amended by this act, shall be in an amount equal to twenty
102 per cent of the mortgage on the real property.

103 (b) The guarantee shall secure the mortgagee up to the amount of the
104 guarantee for any loss incurred by the mortgagee because of default of
105 the mortgagor, including losses in principal balance, interest and fees
106 and expenses due to foreclosure.

107 (c) The commissioner shall maintain a record of payments made to
108 honor loan guarantees issued under the provisions of sections 8-286, as
109 amended by this act, 8-289 and 8-286b to 8-286d, inclusive, as amended
110 by this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	8-286
Sec. 2	<i>from passage</i>	New section
Sec. 3	<i>from passage</i>	8-286b
Sec. 4	<i>from passage</i>	8-286c

Statement of Legislative Commissioners:

In Section 2, "authority" was changed to "Connecticut Housing Finance Authority" for clarity and "by sections 8-283 to 8-289" was changed to "pursuant to sections 8-283 to 8-289" for consistency with standard drafting conventions.

BA *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 22 \$	FY 23 \$
CHFA	Other - Potential Cost	See Below	See Below
Treasurer, Debt Serv.	GF - Potential Cost	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill makes changes to the down payment assistance program (DAP), administered by the Connecticut Housing Finance Authority (CHFA) in conjunction with its first-time homebuyer mortgage loans, which may result in greater DAP costs.¹ The program is administered as a revolving loan fund but has required state bond funds to recapitalize it in recent years. The additional DAP costs would be in the form of more or larger loans under the program, not greater administration costs for CHFA.

First, the bill requires CHFA to include closing costs in the loan amount, when requested by the buyer, if the total loan amount is within the program's guidelines. Currently, CHFA's guidelines allow the inclusion of closing costs in such a case but do not require it.

Second, the bill allows CHFA to establish affordability incentive

¹ CHFA is a quasi-public authority that issues its own federally tax-exempt mortgage revenue bonds. The authority pays its operating expenses using funds derived from the excess of interest income from loans over bond interest expenses.

zones under DAP with alternative lending guidelines, such as a higher total loan amount than the \$20,000 currently permitted per homebuyer. To the extent that CHFA establishes such zones with more generous terms and municipalities participate, CHFA would loan more funds per year and draw down the pool of existing capital more quickly.

DAP is partially funded through General Obligation (GO) bond funds. As of March 1, 2021, unallocated bond balance available to the program is \$9 million. The bill does not change GO bond authorizations relevant to the program. Future General Fund debt service costs may be incurred sooner under the bill to the degree that it causes authorized GO bond funds to be expended more rapidly than they otherwise would have been.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to CHFA lending guidelines and the terms of any bonds issued.

Sources: Connecticut Housing Finance Authority

OLR Bill Analysis**sHB 6494*****AN ACT CONCERNING THE DOWN PAYMENT ASSISTANCE PROGRAM AND AFFORDABILITY INCENTIVE ZONES.*****SUMMARY**

This bill requires the Connecticut Housing Finance Authority (CHFA), by October 1, 2021, to establish certain guidelines for issuing loans under its homeownership loan program (also called the “Downpayment Assistance Program,” see BACKGROUND).

The bill requires the guidelines to allow CHFA, subject to existing limitations, to provide loans to borrowers with a debt-to-income ratio up to the highest ratio allowed for residential mortgage loans by the Federal Housing Administration, Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac). The guidelines must also allow CHFA to consider (1) an application regardless of the borrower’s credit score and (2) nontraditional credit references, such as proof of employment or rental and utility payments.

The bill requires loans under the program to include customary and reasonable closing costs if the (1) borrower requests it and (2) loan amount, including the closing costs, does not exceed the maximum allowed loan amount under CHFA’s procedures and guidelines. By law and excluding loans for condominium conversions, the total loan amount generally cannot exceed 25% of the home’s acquisition cost or value after rehabilitation, if greater.

The bill also allows CHFA to establish affordability incentive zones under the homeownership loan program to incentivize home purchases in municipalities that are subject to the affordable housing appeals procedure (see BACKGROUND).

Lastly, the bill makes technical and conforming changes.

EFFECTIVE DATE: Upon passage

AFFORDABILITY INCENTIVE ZONES

The bill authorizes CHFA to expand access to the homeownership loan program in affordability incentive zones by using different lending guidelines than those that are used for buying homes in other areas. This may include (1) increasing eligibility limits for a home's purchase price or the maximum loan amount or (2) decreasing the loan's interest rate.

If CHFA decides to establish zones, the bill allows a municipality that is subject to the affordable housing appeals procedure and not already designated as an affordability incentive zone to ask CHFA, in writing, to be considered one. At its discretion, CHFA may grant a request after considering available program funding.

BACKGROUND

Affordable Housing

By law, the Department of Housing (DOH) annually publishes a list of housing stock in each municipality that qualifies as affordable housing under the Affordable Housing Land Use Appeals Procedure (CGS §§ 8-30g(k) & 8-37qqq(a)(2)(D)). Under CGS § 8-30g, municipalities where at least 10% of housing is deemed affordable are generally exempt from the law's appeals procedure.

Affordable housing stock that counts toward the 10% includes: (1) certain types of government-assisted housing, (2) housing currently financed by CHFA mortgages, (3) housing subject to deeds and conditions restricting its sale or rental to low- and moderate-income people, and (4) mobile homes or accessory apartments subject to certain deed restrictions.

Homeownership Loan Program

CHFA administers the Downpayment Assistance Program to provide, based on financial need, a low-interest loan or deferred loan to help purchase a home or rehabilitate a one-to-four-family home,

provided the loan recipient lives in one of the units. The program uses resources allocated by the State Bond Commission to DOH.

COMMITTEE ACTION

Banking Committee

Joint Favorable Substitute

Yea 18 Nay 0 (03/17/2021)