
OLR Bill Analysis

sSB 298

AN ACT ESTABLISHING THE URBAN HOMEOWNERSHIP LOAN FUND.

SUMMARY

This bill establishes an Urban Homeownership Loan Fund (hereafter, "homeownership fund") and requires the quasi-public Connecticut Housing Finance Authority (CHFA) to administer it. In doing so, CHFA must use the homeownership fund to provide financial assistance to federally certified local community development financial institutions (CDFIs; see BACKGROUND) for establishing local revolving loan funds. (The bill does not specify a process CHFA must use to distribute this funding or set limits on the amount of funding it may provide.) For a five-year period beginning October 1, 2022, CHFA may match, through the homeownership fund, any non-state funding committed to a CDFI's local revolving loan fund created under the bill.

The bill requires CDFIs to manage their local revolving loan funds and generally use them to provide home loans in communities containing at least one qualified census tract, as defined under the federal Low-Income Housing Tax Credit program (i.e., federally designated tracts in which (1) at least 50% of the households have incomes below 60% of the area median gross income or (2) the federal poverty rate is at least 25%).

Under the bill, the homeownership fund may be funded with (1) any moneys available to the Department of Housing (DOH) commissioner and (2) public or private gifts, grants, or donations that CHFA applies for to carry out the fund's objectives. Finally, it allows any state or DOH funding to be used to forgive certain redevelopment costs and sets related owner-occupancy restrictions and penalties for violating them.

EFFECTIVE DATE: October 1, 2022

REQUIREMENTS FOR LOCAL REVOLVING LOAN FUNDS

The bill requires CDFIs to allocate from these loan funds on a revolving basis for residential home purchases or projects located within qualified census tracts by either (1) residents of these census tracts or (2) community development corporations in a municipality containing these census tracts. (The bill does not define "community development corporations," which, presumably, include community housing development corporations (CHDCs; see BACKGROUND).)

STATE FUNDED FORGIVABLE LOANS

Conditions for Forgiveness

Under the bill, any funding DOH or the state contributes to the homeownership fund can be used to issue forgivable loans covering redevelopment costs that exceed the fair market sale price of a home that meets the following conditions:

1. was purchased by a homeowner with funding made available through a CDFI's local revolving loan fund established with assistance from the homeownership fund and
2. is encumbered by a written instrument (e.g., deed restriction) requiring owner-occupancy for at least five years.

(It is unclear if (1) the authority to forgive loans rests with CHFA or CDFIs and (2) community development organizations are eligible for loan forgiveness.)

Violations of Owner-Occupancy Restriction

A violation of the bill's owner-occupancy restriction within five years after a forgivable loan's issuance results in a one-time penalty payable to the issuing CDFI (see Table 1).

Table 1: Penalties for Violating Owner-Occupancy Restriction

<i>Year Violation Occurs After Loan Issuance</i>	<i>Percentage of Forgiven Portion of Loan Owed to CDFI</i>
Within year one	100%
Within year two	80%

Within year three	60%
Within year four	40%
Within year five	20%

BACKGROUND

Community Development Financial Institution (CDFI) Certification

The U.S. Department of the Treasury's Community Development Financial Institutions Fund operates a program to invest, support, and train CDFIs assisting underserved populations and communities. To be eligible for assistance under this program, a CDFI must apply to the fund for certification and show that it meets the following requirements:

1. be a legal non-governmental financing entity at the time of application, and not under the control of a governmental entity (excluding Tribal governments);
2. have a primary mission of promoting community development;
3. primarily serve one or more target markets and maintain accountability to its target market; and
4. provide development services along with its financing activities.

According to the most recently available program data, Connecticut currently has 11 certified CDFIs (located in Greenwich, Hartford (2), Meriden, New Haven (3), North Haven, Rocky Hill, Stamford, and Wallingford).

Community Housing Development Corporation (CHDC) Revolving Loan Funds

By law, the state can provide CHDCs with loans or deferred loans to establish and administer revolving loan funds for the construction, rehabilitation, and renovation of existing or planned low- and moderate-income housing (CGS § 8-218(b)).

COMMITTEE ACTION

Housing Committee

Joint Favorable Change of Reference - FIN
Yea 15 Nay 0 (03/15/2022)

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 46 Nay 5 (04/06/2022)