

BILL ANALYSIS

Senate Research Center

S.B. 1731
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

S.B. 1731 is designed to address the principal cause of loan default which leads to foreclosures. The bill allows the state housing agency to better assist families in need for affordable housing with a new program that allows the Texas Department of Housing and Community Affairs (TDHCA) to maximize the use of housing funds and better assist participants to avoid foreclosure.

S.B. 1731 establishes and sets forth the method for fiscal oversight and administration of a new home mortgage loan program within TDHCA.

S.B. 1731 seeks to establish a mortgage program under the state's housing agency that maximizes the use of housing funds and is intended to provide qualified, responsible families and individuals the opportunity to purchase a home in the state.

As proposed, S.B. 1731 amends current law relating to the establishment, fiscal oversight and administration of the Texas secure loan pilot program by the Texas Department of Housing and Community Affairs.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the governing board of the Texas Department of Housing and Community Affairs (TDHCA) in SECTION 1 (Section 2306.1083, Government Code) of this bill.

Rulemaking authority is expressly granted to TDHCA in SECTION 1 (Section 2306.1083, Government Code) and SECTION 2 of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Chapter 2306, Government Code, by adding Subchapter OO, as follows:

SUBCHAPTER OO. TEXAS SECURE LOAN PILOT PROGRAM

Sec. 2306.1081. DEFINITION. Defines "program" in this subchapter.

Sec. 2306.1082. TEXAS SECURE LOAN PILOT PROGRAM. (a) Requires the Texas Department of Housing and Community Affairs (TDHCA) to establish the Texas secure loan pilot program (program) to provide first lien single-family mortgage loans to individuals and families of low income.

(b) Authorizes the program to include the provision of down payment and closing cost assistance.

Sec. 2306.1083. ADMINISTRATION OF PROGRAM; RULES. (a) Requires TDHCA to administer the program.

(b) Requires TDHCA to adopt rules governing:

- (1) the administration of the program, including the origination of loans under the program;
- (2) the criteria for approving another entity to service loans originated under the program;
- (3) the use of insurance on the loans and the homes financed under the program, as considered appropriate by the board to provide additional security for the loans;
- (4) the verification of occupancy of the home by the homebuyer as the homebuyer's principal residence; and
- (5) the terms of any memorandum of understanding or contract with another entity for processing, servicing, or administering the loans.

(c) Authorizes TDHCA to adopt rules governing loan modifications, including specific criteria for authorizing the modification of loan terms for homebuyers whose income is adversely affected by circumstances such as unemployment, a reduction of wages or hours of employment, illness, or the death of a spouse or other person contributing to the income of a homebuyer.

Sec. 2306.1084. **ELIGIBILITY.** (a) Requires a homebuyer, to be eligible for a mortgage loan issued by TDHCA under this subchapter, to:

- (1) earn an income, adjusted for family size, of not more than 80 percent of the area median income if the homebuyer lives in a rural area or 60 percent of the area median income if the homebuyer lives in an urban area;
- (2) intend to occupy, as the homebuyer's principal residence, the home for which the mortgage loan is issued; and
- (3) meet any additional eligibility requirements or limitations prescribed by TDHCA.

(b) Authorizes TDHCA to enter into memoranda of understanding with other agencies of the state or to contract with private entities to process, service, or administer all or a portion of the loans issued under this subchapter.

Sec. 2306.1085. **ALLOCATION OF LOANS.** Requires TDHCA to issue at least 50 percent of all loans under this subchapter to homebuyers whose incomes do not exceed 60 percent of area median family income, adjusted for family size.

Sec. 2306.1086. **LOAN TERMS; RECOVERY OF PRINCIPAL.** (a) Requires TDHCA to establish reasonable interest rates for mortgage loans under this subchapter to allow full repayment of those loans by low-income homebuyers.

(b) Requires TDHCA to recover the full amount of the principal of a loan issued under this subchapter.

Sec. 2306.1087. **MODIFICATION OF LOAN TERMS.** Authorizes TDHCA or other servicer of the loan, if a homebuyer meets the criteria adopted by TDHCA under Section 2306.1083(b)(6), to modify the terms of the loan by:

- (1) suspending payments for a specific period;
- (2) extending the term of the loan to reduce the amount of the payments; or
- (3) lowering the interest rate to reduce the amount of the payments.

Sec. 2306.1088. INITIATION OF MODIFIED LOAN TERMS. (a) Authorizes that the modification of loan terms under Section 2306.1089, regardless of whether a loan payment is missed, be requested by the homebuyer or initiated by TDHCA or other servicer of the loan.

(b) Requires TDHCA or other servicer of the loan to contact the homebuyer and determine the reason for the missed payment if a homebuyer misses a scheduled payment for a loan under this subchapter. Authorizes TDHCA or the servicer to modify the terms of the loan under Section 2306.1087 if the payment was missed for a reason meeting the criteria adopted by the board under Section 2306.1083(b)(6).

Sec. 2306.1089. EDUCATION SERVICES FOR HOMEBUYERS. Requires TDHCA to provide homebuyer and homeowner education and counseling services to persons receiving loans under this subchapter.

Sec. 2306.1090. FUNDING. (a) Requires TDHCA to ensure that a loan issued under this subchapter is structured in a way that complies with any requirements associated with the source of the funds used for the loan.

(b) Authorizes TDHCA to solicit and accept gifts and grants for the purposes of this subchapter in addition to funds set aside for the program under Section 1372.023 (Dedication of Portions of State Ceiling to Texas Department of Housing and Community Affairs) and any other available funds, including legislative appropriations.

(c) Authorizes TDHCA to package, securitize, and sell the loans issued under this subchapter and use the proceeds of the sale to issue additional loans.

SECTION 2. Requires TDHCA to adopt the rules required by Subchapter OO, Government Code, as added by this Act, not later than October 1, 2013, and to begin issuing loans under the Texas secure loan pilot program not later than January 1, 2013.

SECTION 3. Effective date: September 1, 2013.