



# MHP Capitol Update

Volume 3, Issue 19 May 13, 2008



*We invite you to forward, quote, or cite anything within **The MHP Capitol Update** as long as you reference it as the source. Thank you!*

## State Update

- **Minnesota Subprime Borrower Relief Act Passes Senate**
- **Tax Conference Committee Report Contains Housing Items**
- **Manufactured Homeowners Receive Protection**
- **Supplemental Budget Efforts Fail to Identify Compromise**
- **Mortgage Lending Practices Receive Tighter Scrutiny**
- **Tax Conferees Discuss Affordable Housing Crisis**
- **Foreclosure Bill Update**
- **Join Us for a Conference Call with Congresswoman Betty McCollum's Office**
- **Bits and Bytes**

## Federal Update

- **Join Us for a Conference Call with Congresswoman Betty McCollum's Office**

## State Update

### **Minnesota Subprime Borrower Relief Act Passes Senate**

The Senate approved Senator Ellen Anderson's (**SF 3396**) bill aimed at assisting 15,000 Minnesota homeowners to avoid foreclosure. The legislation requires homeowners to enroll in a counseling program, provides incentive for lender-borrower negotiations, and defers a portion of eligible homeowners' mortgage payments for one year. Eligibility for the program is extremely targeted and the homeowner can only get a deferment if lenders refuse to come to the table and negotiate the terms of the mortgage.

Homeowners that want to participate must prove via affidavit that they were sold now-illegal subprime ARMs (adjustable rate mortgage) or negative amortizing loans between January 2001 and August 2007. The owners also agree to continue to live in the home for at least the one-year deferment period and make monthly payments equal to either 65 percent of their payments due when the homeowner defaulted or the minimum monthly payment when the mortgage was first created. However, the homeowner loses their deferment right upon a late or missed payment, allowing the lender to proceed with the foreclosure.

The bill was strongly opposed by the banking and mortgage industry. Supporters of the bill are flummoxed by the lender opposition because the bill exempts Minnesota banks and credit unions, most of which didn't participate in the subprime or predatory lending game to begin with. The opposition's contends that the new regulation would dry up mortgages for everyone. History has demonstrated that this is not true. For instance, government intervention during the farm mortgage crisis in the 1980s did not stymie other real estate lending.

Opponents have also decided to trumpet the "why bail out people who made bad decisions" tag line. Again, their argument does not hold a lot of water. The bill solely deals with loans that are

now illegal in Minnesota. Furthermore, the economy has proven that we're all in the same boat, regardless of who created this mess.

The House will take up the bill early this week. The chance of it being signed into law remains questionable, as the administration is still opposed to the proposal. Show your support by contacting your Representative today! [Click here to learn how you can take action.](#)

### **Tax Conference Committee Report Contains Housing Items**

Despite the long and arduous process, MHP and housing advocates got a few items into the tax bill. It is still not known whether the bill will be signed by the governor. The good news is legislators and administration officials are communicating daily. The two largest roadblocks to an agreement are the governor's insistence on levy limits for local units of government and the Legislature's property tax relief proposal. It is expected that the bill will be finalized very soon. Insiders hope that agreements will be reached in advance because there is little time remaining to redo a vetoed tax bill.

#### *Construction Sales Tax Exemption*

This technical fix was added to the tax bill after a heated discussion about levy limits. Supporters on the conference committee made multiple pitches to the other committee members before it was adopted. The exemptions would cost the state approximately \$600,000 annually—making it one of largest exemptions in bill—and assist in the development of about 250 units of affordable housing a year.

#### *Foreclosure Grants to Cities*

This provision would set aside \$1 million in grants for cities experiencing high concentrations of foreclosures to do foreclosure inspections, remediation activities, and address public safety issues associated with the surging numbers of vacant homes. Each grant would have a \$250,000 maximum.

#### *HRA Levy Increase*

This proposal allows HRA's to increase their levy ability by approximately 20 percent. It is one response to the foreclosure/vacant property issues many municipalities are experiencing. (Per the early discussion about the governor's dislike of levy increases, HRAs are usually exempt from levy limits.)

#### *Vacant Property Liens*

This provision would allow municipalities that have vacant property registration programs to collect registration and inspection fees through the property tax process. Thus, municipalities could place a lien against the vacant property, allowing them to collect the lost revenue when the property is sold.

#### *Mortgage Bond Authorization*

This provision, offered by Minnesota Housing, was not previously heard in either body. It would authorize the state to use and distribute \$170 million in additional mortgage revenue bonds, pending a federal temporary increase, to address the mortgage foreclosure crisis. These bonds could be used for the refinancing of approximately 1000 mortgages statewide. One month ago, MHP drafted a letter for House and Senate leadership to Minnesota's congresspeople and senators supporting federal MRB increase initiatives.

### **Manufactured Homeowners Receive Protection**

Last week, with little fanfare, Governor Pawlenty signed a bill that provides manufactured homeowners foreclosure protections. The bill increases the time an owner has to catch up on late payments from 30 to 60 days before the home can be repossessed by the lender. The law also prohibits certain predatory lending practices, such as churning. The law also states that the notice of default must include contact information for foreclosure prevention organizations. The law becomes effective on August 1, 2008.

The low-key debut of this law does no justice to its importance. Approximately 68,000 households in Minnesota live in manufactured homes. Most of these homes are not considered real property, but rather personal property. Because of this, manufactured homeowners are not given the same protections as owners of site-built homes provided under Minnesota predatory lending laws passed in 2007. This new law helps rectify that difference.

### **Supplemental Budget Efforts Fail to Identify Compromise**

Even though work on this bill was completed last week, the committee chairs didn't rule out the necessity of meeting again. This proved to be insightful. No budget agreement was reached by legislative leadership and the governor last week, so the committee met Mother's Day evening to do more nipping and tucking. We continue to monitor negotiations for impact on affordable housing as they will definitely meet again. One of the biggest hang ups to a global agreement continues to be levy limits on cities and how, or if, surpluses in the Health Care Access Fund should be used to balance the budget.

### **Mortgage Lending Practices Receive Tighter Scrutiny**

A proposal associated with last year's predatory lending legislation has been signed into law. This new provision forces mortgage lenders to make certain that borrowers have the ability to pay before the mortgage lender signs off on the loan. It requires that the borrower's income, cash flow, net worth, financial obligations, property taxes, assessments on the property, employment status, credit history, debt-to-income ratio, credit scores, tax returns, pension statements, and employment payment records are considered when authorizing a mortgage.

### **Tax Conferees Discuss Affordable Housing Crisis**

During a discussion of foreclosure items, Senator Mee Moua engaged tax conferees in a discussion about the need to address the *affordable housing crisis* in Minnesota. Senator Moua said that Minnesota's lack of affordable housing remains a bigger issue than, and is exacerbated by, the foreclosure crisis. The ensuing discussion had legislators from urban, suburban, and rural areas agreeing that all of their communities are struggling to provide housing opportunities for a wide range of folks. Capitol watchers were commenting that it is quite unusual for conferees to focus on policy matters outside the realm of taxes. A number of the legislators challenged the agency and housing advocates to step up by offering recommendations and solutions.

### **Foreclosure Bill Update**

[H.F. 3428\(Gunther\)/S.F. 2909\(Olseen\)](#): This bill gives tenants the right to take over utilities payment when a landlord is in default. It was passed by both legislative bodies as of May 8, 2008.

[H.F. 3612\(Davnie\)/S.F. 3396\(Anderson\)](#): This bill was formerly known as the Minnesota Subprime Foreclosure Deferment Act of 2008 is now the Subprime Foreclosure Borrower Relief Act because of some technical changes to the bill. It was narrowly passed by the Senate and is currently being considered by the House. (See first article for details on bill.)

## **Bits and Bytes**

### **Allowing Unallotment: An All-Round Bad Idea**

If the governor and the Legislature cannot come to an agreement on the supplemental budget, the governor may be able to “unallot.” Unallotment allows the governor and finance commissioner, in consultation with a legislative advisory commission of six high ranking legislators, to de-fund programs that have already been awarded money by the Legislature.

In the last 30 years, only three governors have used unallotment: \$195.1 million by Governor Quie in 1980; \$109.8 million by Governor Perpich in 1986; and \$281 million by Governor Pawlenty in 2003. In recent years, unallotment occurred when there was a budget deficit in a biennium where income to the state falls short of legislative appropriations and the governor and legislature don't reach an agreement on how to make the reductions.

Law requires that before the governor can unallot he must spend down balance of budget surplus. If this happens, there will be no financial cushion to deal with next year's projected \$2 billion deficit.

### **Long Hours, Persistence, and Skillfully Read Tea Leaves Produce Results**

Conference committees require advocates to be patient, persistent, and collaborative while reading the political play at hand. The construction sales tax exemption is a case in point. By the end of last week the tax conference committee was meeting on average of 12 hours a day. Committee members were tired.

Fortunately, both the House and Senate bill authors and other supporters were on the conference committee. They knew that timing, scorekeeping, and trade offs were going to be key for getting the provision into the final bill since the proposal was only in the House's bill and it cost money.

Early on, the effort to include this measure was met with opposition from the Senate Tax Chair due to its fiscal component. The authors advised advocates to take a “wait until we deal with revenue items” approach. This gave advocates time to organize. Key legislators received calls from housing supporters in their districts expressing the need to close the loophole. A few folks with personal relationships with conferees visited the committee. Then, after the committee found a little money and a major Senate position (Mall of America) was agreed to, our House author brought forth the little-proposal-that-could to the table and found unanimous support.

### **Affordable Housing Lecture or Challenge? An Opportunity**

The Tax Committee affordable housing discussion was a bit of a challenge and a bit of a lecture and it was directed at both the agency and advocates. A few of the legislators made it very clear that they were not happy with either the lack of responsiveness to legislators' requests for recommendations to address affordable housing needs in their communities or statewide.

One of the biggest challenges this session was the budget deficit and it is expected to be an even bigger problem in 2009. Solutions that cost money or diverge from the administration's policies will not be forth coming. Our housing supporters in the Legislature are few. Responding

to them is critical because in their own words “there are plenty of other issues that we can focus on.” Advocates must take advantage of the Tax Committee’s invitation to engage if they want to be successful in future sessions. To find out how you can become more involved, please contact Julie Johnson at [jjohnson@mhponline.org](mailto:jjohnson@mhponline.org).

### **Bill Tracking**

The Minnesota Housing Partnership will be tracking the status of housing legislation this session and will do our best to keep you updated. Tracking information will be updated weekly. Please [click here](#) for a list of the bills we are tracking. The page also links to committee schedules and other useful information. If there are any bills that you think should be added to the list, please email Julie Johnson at [jjohnson@mhponline.org](mailto:jjohnson@mhponline.org).

## Federal Update

### **Join Us for a Conference Call with Congresswoman Betty McCollum’s Office**

The MN Federal Housing Action Coalition will be hosting a **District 4 Conference Call Friday, May 16** from **9-10 CST** with Lina Choudhry, the new housing staff person from Representative McCollum's office. We welcome all individuals and organizations who live and/or work in District 4 to participate. This call is an opportunity for you to speak directly with a representative from your Congressional office about the housing issues that are most important to you. Please RSVP as soon as possible to Linda Harris at 612-728-5770 x 106.

Distributed weekly during the Minnesota legislative session and monthly outside of session, the **MHP Capitol Update** provides information about state and national housing policy and politics that affect Minnesota. **MHP Capitol Update** is published by Minnesota Housing Partnership. To share ideas for future issues, to ask questions, or to unsubscribe, please contact Barb Jacobs at [bjacobs@mhponline.org](mailto:bjacobs@mhponline.org) or 651-649-1710 ext. 117.

Minnesota Housing Partnership also publishes **The MHP Bulletin**. **The Bulletin** is distributed monthly, and includes affordable housing news and trend information, new research, publications, and upcoming events. Please contact Barb Jacobs at (651) 649-1710 ext. 117, email [bjacobs@mhponline.org](mailto:bjacobs@mhponline.org), to subscribe to **The Bulletin**.

Minnesota Housing Partnership’s mission is to promote homes for all Minnesotans and to assist Minnesota communities in the creation and preservation of housing affordable to low- and moderate-income people.