Approved: 2-21-94
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairperson Bob Mead at 3:30 p.m.. on February 14, 1994 in Room 423-S of the Capitol.

All members were present except:
Representative George Dean, excused
Representative Joel Rutledge, excused

Committee staff present: Lynne Holt, Legislative Research Department
Bob Nugent, Revisor of Statutes
Ellie Luthye, Committee Secretary

Conferees appearing before the committee:
Dennis Shockley, Department of Commerce and Housing
Karen France, Kansas Association of Realtors
Bill Caton, Kansas Development Finance Authority
Chris McKenzie, Executive Director, League of Kansas Municipalities
Karen Herrman, Governor's Commission on Housing and Homelessness
Kirk McClure, University of Kansas

Others attending: See attached list

The Chair opened hearings on **HB 2725**, concerning the issuance of bonds for certain housing development.

The first conferee to speak in favor of the bill was Dennis Shockley, Undersecretary for Housing, Kansas Department of Commerce and Housing. He encouraged the committee to read the two post audit reports he had enclosed with his testimony which, he continued, made an excellent case as to why Kansas should join the other 49 states in giving the Kansas Development Finance Authority the ability to issue single-family mortgage revenue bonds (MRBs). He concluded since KDFA already has the statutory authority to issue low-income and multi-family housing bonds, it is the logical state agency to issue MRBs. (Attachment 1)

Karen France, Director of Governmental Affairs for the Kansas Association of Realtors, testified in support of HB 2725. She stated the Kansas Association of Realtors believed the proposal would create housing opportunities in the state for a broader base of citizens and make mortgage revenue bond money available for all Kansans. (Attachment 2)

The Chair next called on Bill Caton, President, Kansas Development Finance Authority, who spoke in support of HB 2725. He stated the bill does not duplicate any current efforts of the Department of Commerce and Housing but only enhances the agency's ability to implement programs by providing one financing tool necessary to carry out those policies. He closed by asking that the committee weigh all the benefits of this bill, remembering that it is the State's goal to provide benefits for all Kansans, both rural and urban and the bill is needed to help fulfill statewide housing goals. (Attachment 3)

Chris McKenzie, Executive Director, League of Kansas Municipalities stated the League supported HB 2725 and their endorsement is based on the Convention-adopted policy statement of the 540 member cities of the League which states in part that state administration of the mortgage revenue bond program and mortgage credit certificate program could lower costs to home buyers and lead to wider geographic distribution of mortgage assistance across the state. (Attachment 4)

Karen Herrman, Chairman of the Governor's Commission on Housing and Homelessness, spoke in favor of the bill. She stated a fund for affordable housing in Kansas can be used for programs designed for local conditions, with the necessary support systems to control the benefits, and when other funds brought in for housing, and used in conjunction with federal housing programs, then the needs of Kansas can truly be addressed.

Kirk McClure, School of Architecture and Urban Design of the University of Kansas, supported HB 2725, stating there was a need for a statewide funding agency who would be able to match the funds available to the needs of Kansans. He told the committee the current method of implementing the MRB and MCC programs fail to address the needs in that the disjointed administration of the programs tends to serve some of the metropolitan areas of the State leaving other areas, especially the western part of Kansas, without assistance. (Attachment 5)

Each conferee stood for questions from the committee. Following questions, the Chair closed hearings on HB 2725.

The minutes for the meetings of February 9th and 10th were presented for corrections or approval. Representative Donovan made a motion to accept the minutes as written, seconded by Representative Mollenkamp and the motion carried.

Representative Swall requested introduction of a bill which would reduce the amount of interest paid by the municipal housing authority on rental security deposits. This was seconded by Representative Wempe and the motion carried.

Chairman Mead adjourned the meeting at 5:00 p.m.

The next meeting is scheduled for February 15, 1994.

GUEST LIST

COMMITTEE: Economic Development **DATE:** February 14, 1994

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Jim McBride	Topeka	Oil & [illegible]
Katie Pyle	Topeka	AARP CCTF (State Leg Com)
Noelle St. Clair	Topeka.	KS NAHRO
Gary Reser	Topeka	Governor
KIRK McCLURE	317 MARVIN U. OF KANSAS	URBAN PLANNING PROGRAM
Matthew Logan	PO Box 664 Chanute KS 66720	SE Kansas Regional Planning Commission
Michelle Peterson	Topeka	Ks Gov. Consulting
Whitney Damron	Topeka	McGill & Associates / KSIA
JANET STUBBS	Topeka	Ks. Bldg. IND. ASSN.
Chris McKenzie	"	League of Ks. Municip.
KAREN HERRMAN	HAYS	Gov. Commission on Housing & Homes
Bill Caton	Topeka	KOFA

KANSAS DEPARTMENT OF COMMERCE & HOUSING
DIVISION OF HOUSING

DENNIS SHOCKLEY, UNDERSECRETARY FOR HOUSING
TESTIMONY BEFORE THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

FEBRUARY 14, 1994
ON
HOUSE BILL 2725

The Kansas Department of Commerce & Housing appears today in support of HB2725, which would give the Kansas Development Finance Authority the ability to issue single-family mortgage revenue bonds (MRBs). These bonds, because of their tax-exempt status, allow first-time homebuyers below market interest rates or federal income tax credits.

The state of Kansas is the **only** state of the 50 that does not issue these bonds at the state level. Forty-eight states issue MRBs through a state housing finance agency, and Arizona through its Department of Commerce.

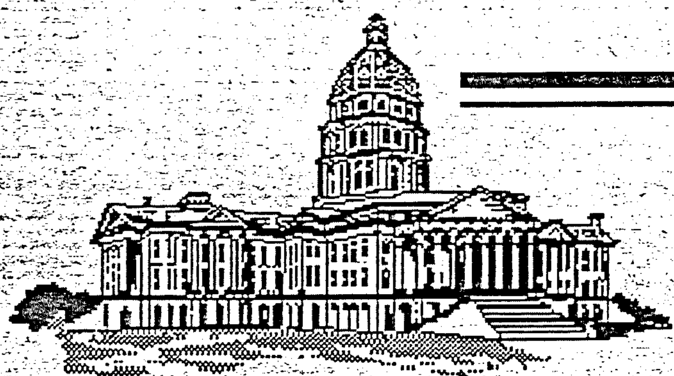
The current system of allocating this bonding authority is thoroughly outlined in two Legislative Post Audit reports of March and December, 1991. The reports conclude that the state: is not well-served by the current structure of having this bonding authority passed through to a few select local units of government; that homebuyers in only a few counties receive most of the loans or tax credits, and that homebuyers pay higher fees than in other states.

Since KDFA already has the statutory authority to issue low-income and multi-family housing bonds, it is the logical state agency to issue MRBs.

In addition, if the state issued MRBs, program fees to homebuyers and/or bond proceeds that might accrue to the issuer could be earmarked for the State Housing Trust Fund and used to leverage other federal housing monies. For example, the new federal HOME program, which means $5.8 million to the state of Kansas next year, requires matching funds at a rate of 25%.

In closing, I would just like to encourage members of the Committee to read the two aforementioned Post Audit reports (I have attached a copy of the most comprehensive one that deals with this issue), which makes an excellent case as to why Kansas should join the other 49 states in issuing MRBs. This will allow us to look at the interests of the whole state as we proceed to aid first-time homebuyers in achieving their piece of the American Dream of homeownership in Kansas.

Economic Development
February 14, 1994
attachment 1



PERFORMANCE AUDIT REPORT

Examining Mortgage Assistance Programs At the Department of Commerce

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 1991

92-35

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Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about $5 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

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LEGISLATIVE DIVISION OF POST AUDIT

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PERFORMANCE AUDIT REPORT

EXAMINING MORTGAGE ASSISTANCE PROGRAMS AT THE DEPARTMENT OF COMMERCE

OBTAINING AUDIT INFORMATION

This audit was conducted by Cindy Lash and Jim Davis, Senior Auditors, and Murlene Priest and Rick Riggs, Auditors, of the Division's staff. If you need any additional information about the audit's findings, please contact Ms. Lash at the Division's offices.

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SUMMARY OF AUDIT FINDINGS

EXAMINING MORTGAGE ASSISTANCE PROGRAMS AT THE DEPARTMENT OF COMMERCE

EXAMINING MORTGAGE ASSISTANCE PROGRAMS AT THE DEPARTMENT OF COMMERCE

Summary of Legislative Post Audit's Findings

Could the mortgage revenue bond program be effectively administered by the State, rather than by bond underwriters? The State could effectively administer the mortgage revenue bond program. In all other states, the program is administered either by a state housing finance authority or by a state agency. In most cases, however, these state programs still contract with bond underwriters, bond counsel, and sometimes loan servicing companies to carry out certain aspects of the program.

A primary reason for considering State administration of the program is the potential for greater Statewide distribution of available bond moneys. In addition, fees homebuyers pay for participating in the program may be reduced, program information would be more readily available, and oversight may be increased.

Would it be more beneficial to homebuyers if the mortgage credit certificate program were operated by the State, rather than by a bond underwriter? It would be more beneficial to homebuyers if the mortgage credit certificate program were operated by the State. Most states we contacted operated the program with in-house staff, and charged homebuyers far lower fees than are charged in Kansas.

As with the mortgage revenue bond program, State operation of the mortgage credit certificate program also could help ensure that certificates are available Statewide, fees are reduced, program information is readily available, and oversight is increased.

During the audit, we encountered difficulty with underwriters or localities who were slow in providing basic information, or who refused to provide identifiable information that would allow us to independently verify data they provided on program participants. With greater State involvement in the administration and operation of the programs, these problems would not arise, and policymakers would have ready access to verifiable information about the programs.

This audit includes recommendations for improving homebuyer access to the programs, reducing fees and increasing oversight through greater State involvement with the programs. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton

Barbara J. Hinton
Legislative Post Auditor

EXAMINING MORTGAGE ASSISTANCE PROGRAMS AT THE DEPARTMENT OF COMMERCE

Questions have been raised about the Department of Commerce's role in the mortgage credit certificate program and its allocation of mortgage revenue bonds. Both programs are designed to assist low- and moderate-income, first-time homebuyers in obtaining affordable housing.

Many issues concerning the bond allocation process were covered in the March 1991 performance audit, Reviewing the Department of Commerce's 1991 Bond Allocations. Of specific concern in this audit is whether the mortgage credit certificate and revenue bond programs could be operated effectively by the State rather than by bond underwriters. Other areas of concern include whether the programs are available to homebuyers Statewide, and whether local units of government are benefiting financially by serving as bond issuers.

Based on these concerns, the Legislative Post Audit Committee directed this office to answer the following questions:

1. **Could the mortgage revenue bond program be effectively administered by the State, rather than by bond underwriters?**

2. **To what extent are local units of government charging families to participate in the mortgage revenue bond program?**

3. **Would it be more beneficial to homebuyers if the mortgage credit certificate program were operated by the State, rather than by a bond underwriter?**

For reporting purposes, all audit work related to the mortgage revenue bond program was treated under question one.

To answer these questions, we reviewed federal statutes and regulations regarding the programs, and interviewed officials from the Department of Commerce, bond underwriters and bond counsel, officials of localities issuing mortgage revenue bonds, and the author of a recent report concerning the Kansas mortgage credit certificate program. We also contacted officials in other states to learn how their programs were operated and staffed, and to identify the level of fees charged. We obtained data on location, income, home purchase price, and loan amounts for homebuyers participating in the programs in order to assess geographic distribution of participants, and to determine who the program is benefiting.

In general, we concluded that both programs could be effectively operated by the State, and that participants in the mortgage credit certificate program could be charged significantly lower fees if the State operated that program. It seems likely that fees for the mortgage revenue bond program also could be reduced. Mortgage assistance moneys are not well distributed Statewide under either program; in fact, the mortgage revenue bond program essentially is unavailable to homebuyers in western and extreme northern Kansas. We found no evidence that local units of government were charging homebuyers a fee to participate in the mortgage revenue bond program; however, many localities have benefited from restructuring or refunding old mortgage revenue bond issues.

Finally, we encountered difficulty throughout this audit with underwriters or localities who were slow in providing basic information we needed for this audit, or who refused to provide identifiable information that would allow us to independently verify data they provided on program participants. These and other findings are discussed more fully in the report.

Could the Mortgage Revenue Bond Program Be Effectively Administered By the State, Rather than by Bond Underwriters?

The State could effectively administer the mortgage revenue bond program. In all other states, the program is administered either by a state housing finance authority or by a state agency. In most cases, however, these state programs still contract with bond underwriters, bond counsel, and sometimes loan servicing companies to carry out certain aspects of the program.

A primary reason for considering State administration of the mortgage revenue bond program is the potential for greater Statewide distribution of available bond moneys. In addition, fees homebuyers pay for participating in the program may be reduced, program information would be more readily available, and oversight may be increased. These and other findings are discussed further following an overview of the program.

Overview of the Mortgage Revenue Bond Program

Federal law allows state and local governmental units to issue tax-exempt bonds to provide mortgages at below-market interest rates. Lower interest rates result in a lower monthly mortgage payment for homebuyers who qualify for the program.

In the early years of the program, state and local governments could issue virtually unlimited amounts of mortgage revenue bonds, with the proceeds benefiting any first-time homebuyers. In 1980, Congress limited the volume of these types of bonds a state could issue, and also placed an upper limit on the purchase price of homes that could be financed under the program.

Additional restrictions and limits have been added over the years. Currently, states are allowed to issue a limited amount of what are called private activity bonds. These are tax-exempt bonds issued for a private purpose, and they include such things as mortgage revenue bonds, industrial revenue bonds, and student loans. For example, the private activity bond cap for Kansas is $150 million in new bonds annually, and for the last several years, $100 million of that amount has been reserved for mortgage revenue bonds.

Since the program's inception, federal regulations regarding who can qualify for home loans funded by tax-exempt mortgage revenue bonds, and the types of homes that can be purchased, have been tightened considerably. They now include the following:

Criteria related to homebuyers:

- program participants must be first-time homebuyers, or must not have owned their principal residence during the previous three years (although five percent of the bond proceeds can be used for homebuyers who do not meet this criteria)

- the homebuyer's income cannot exceed 115 percent of the median family income for the area, or 140 percent in a target area—an area with deteriorated housing stock and a high level of economic need
- the homebuyer may have to repay some of the tax benefit received if the home is sold within the first 10 years of ownership

Criteria related to the home:

- the purchase price of the home cannot exceed 90 percent of the average area purchase price, or 110 percent in a target area
- the home must be a single-family residence, and must be the principal residence of the homebuyer
- the home must be within the jurisdiction of the issuing governmental unit
- the home must be financed with a new mortgage

Appendix A shows actual income and purchase-price limits for Kansas localities based on these federal requirements.

Homebuyers generally hear about the program from their real estate agents, who may direct them to a specific lender, or who may provide a list of all lenders in the area who participate in the program. Only lenders who have federal approval to issue Federal Housing Authority (FHA) loans can participate in the program. The primary benefit to lenders comes from the profit they make on standard origination fees and increased volume of mortgages

Once a homebuyer has selected a home, he or she goes to a participating lender and completes an application for an FHA or VA loan. Completing the loan application and providing three years' worth of income tax returns constitutes the homebuyer's application for the program. If the homebuyer meets program criteria and FHA financing guidelines, and the lending institution has not exhausted its allocation of bond money, the homebuyer will receive a low-interest home loan financed by mortgage revenue bond proceeds.

The mortgage revenue bond program must be reauthorized by Congress each year. Concerns about the cost of the program have led Congress to provide only a six-month extension for the program, guaranteeing its viability until June, 1992.

In Kansas, Mortgage Revenue Bonds Are Issued By Localities

The Kansas Department of Commerce decides how much of the private activity bond money the State receives each year will go toward mortgage revenue bonds. The Department also has a bond advisory committee, which is made up of members of the State's financial community, including bond underwriters representing the localities that historically issue mortgage revenue bonds. This advisory committee recommends the amount of the available mortgage revenue bonds each locality should be allowed to issue. The Department makes the final determination. It has no further involvement with the program. (In our earlier audit, Reviewing the Department of Commerce's 1991 Bond Allocations, we were critical of the Department's allocation process because it appeared to exclude localities that might be interested in participating.)

In recent years, six localities have paired-up to offer three mortgage revenue bond programs in Kansas. These six localities issue mortgage revenue bonds as follows:

- Kansas City and Leavenworth County jointly issue bonds to make loans available in Wyandotte and and Leavenworth Counties
- Olathe and Labette County jointly issue bonds to make loans available in southeastern and eastern Kansas
- Shawnee and Sedgwick Counties jointly issue bonds to make loans available in central and western Kansas

As noted earlier, a home being purchased with mortgage revenue bond proceeds must be within the jurisdiction of the issuing governmental unit. Because these six cities and counties issue the bonds in Kansas, other Kansas localities that want to participate in the program must enter into interlocal agreements with them to meet this federal jurisdiction criterion.

Once these localities are authorized to issue mortgage revenue bonds, they work with bond underwriters who determine the interest rate for the bonds and the rate to be charged to homebuyers, analyze revenues and expenditures to ensure the offering is financially viable, and determine the fees homebuyers will pay to cover bond-issuance costs.

Generally, localities work with underwriters on an on-going basis. They do not take competitive bids for underwriting services, and although they may review proposals submitted by other firms, they generally remain with the underwriter who represented them on the Department of Commerce's advisory committee, and who secured their allocation.

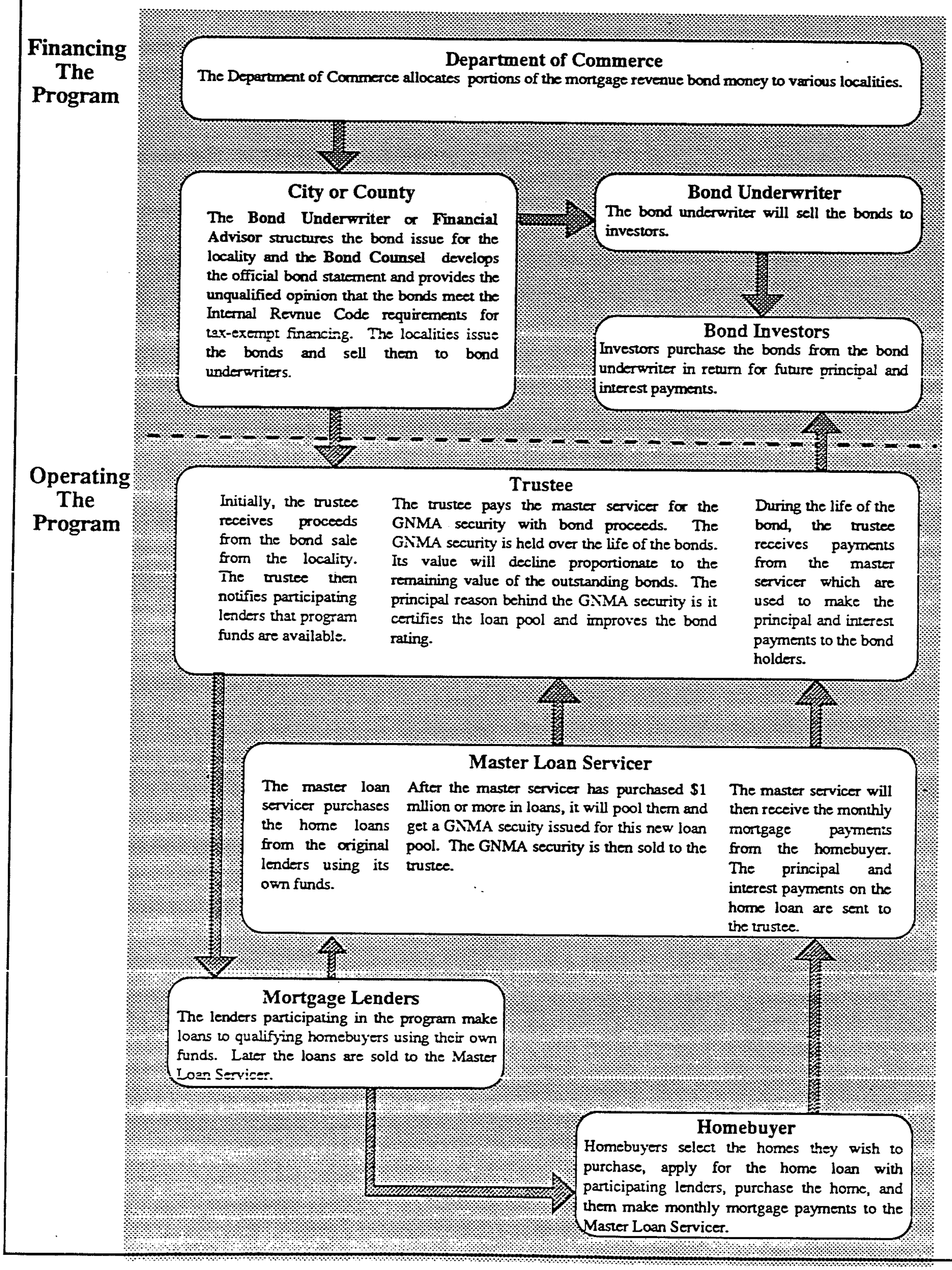
The process for issuing mortgage revenue bonds involves a number of individuals and institutions, including bond underwriters, counsel, and trustees; loan servicers, and lenders. The roles of the various people involved in the process are shown in the flowchart on the following page.

In All Other States Except Arizona, Mortgage Revenue Bonds Are Issued by a State Housing Finance Authority

Arizona issues housing bonds through its Department of Commerce. In the other 48 states, the state housing finance authority issues the bonds. In some states, a large metropolitan area also may have its own housing finance authority, which can issue mortgage revenue bonds within its jurisdiction.

Within Kansas, the Kansas Development Finance Authority can issue bonds for projects authorized by a political subdivision of the State. But in the area of hous-

The Mortgage Revenue Bond Process



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ing, current State law limits the Finance Authority to issuing bonds for low-income families or the elderly. Most people who presently use the mortgage revenue bond program would be classified as having moderate income.

We contacted housing finance authority officials from eight states to determine more specifically how their mortgage revenue bond programs were operated.

The states we talked with all administered their mortgage revenue bond programs in-house, but contracted out most of the activities involved with issuing bonds. These states operated their mortgage revenue bond programs in a variety of ways. In general, a state agency, development finance authority, or the governor was responsible for determining how much of the states' private activity bond moneys would be allocated to the housing finance authorities for mortgage revenue bonds. The finance authorities then issued bonds, the proceeds of which were used to make low-interest loans available statewide.

The accompanying table shows staffing and loan activities for the housing finance authorities in the states we contacted.

Staffing and Loan Activity for Mortgage Revenue Bond Programs in 1990

State	Number of State Staff	Number of Loans	Amount of Loans Issued
Colorado	13 (a)	1,804	$ 96,694,400
Indiana	14	2,136	103,672,896
Iowa	3 (b)	1,309	55,015,961
Kansas	—	2,468	124,241,801
Maine	9 (a)	1,195	72,814,935
Missouri	9	1,880	88,352,480
Nebraska	3-4	3,018	137,017,200
Oklahoma	6	6,501	253,896,555
Wisconsin	30 (a)	6,938	317,073,538

(a) Includes everyone in the single family home ownership areas of the housing finance authorities (i.e. the number of staff shown work on more than just mortgage revenue bonds).
(b) Number of staff shown work on mortgage revenue bond and mortgage credit certificate programs.

As the table shows, the number and amount of loans these states issued varied, as did the number of in-house staff administering the program. Part of the staffing variation occurred because some states were unable to separate out staff who worked just with the mortgage revenue bond program. In addition, the number of staff involved was affected by how much work was done in-house, and how much work was left up to lenders or contracted out.

For example, in Nebraska, officials allocate bond proceeds to lenders, work with master loan servicers, answer questions from lenders and the general public, and spot-check loans for compliance with program requirements. In Wisconsin, officials not only carry out the functions described above, but also are responsible for the final approval of all loan applications and for servicing nearly 20 percent of the loans made under the program.

All the states contract with private bond underwriters and bond counsel and use existing mortgage lenders to originate the loans. Officials indicated it was necessary to use outside firms to gain the required levels of expertise and reputation to obtain attractive ratings for their bonds.

The Primary Reasons for Considering State Administration Of the Mortgage Revenue Bond Program in Kansas Include the Potential for Greater Statewide Distribution of Bond Proceeds, Lower Fees for Homebuyers, and Better Oversight

Part of our review in this area was limited because we did not receive some basic information we requested about one of the mortgage revenue programs being operated in Kansas. When we compared the information we did receive for various aspects of Kansas' mortgage revenue bond program with other states' programs, we identified a number of potential advantages to administering the program at the State level relating to distribution, fees, program objectives, and oversight. Although other states and Kansas issuers also have used the program to generate excess revenues in the past, changes in federal law have severely diminished this option. These and other findings are discussed in the sections that follow.

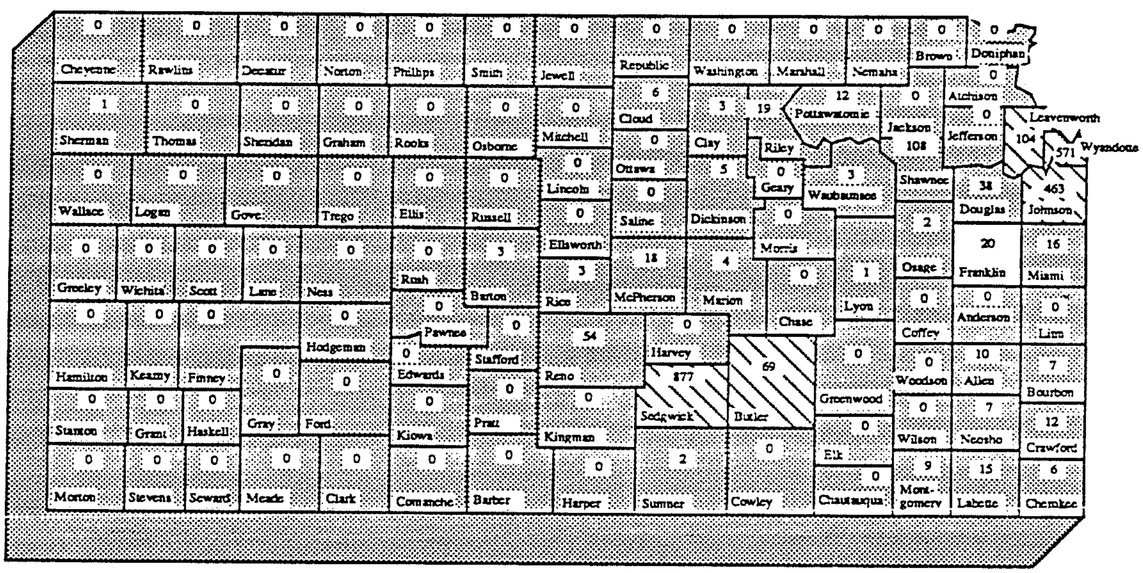
We ran into difficulties trying to obtain and verify information about the distribution of mortgage revenue bond loans in Kansas. Legislative concerns have been expressed that residents in some parts of the State—particularly western Kansas—are not able to obtain low-interest loans funded by mortgage revenue bonds. The Department of Commerce does not have any information on the distribution of loans made under the program, so we attempted to obtain data from the individual bond underwriters for the State's three programs. We asked for information showing the county of residence for the homebuyer, purchase price of the home, homebuyer income, and loan amount. We also asked for the names and addresses of homebuyers and lenders to independently verify a sample of the data with the lender that originated the loan.

Two underwriters readily provided the information we requested, and we were able to use it to determine where these loans have been issued, and to independently verify the accuracy of that information. For mortgage revenue bonds issued by Kansas City and Leavenworth County, however, the underwriter indicated it needed to obtain permission from the issuers to release the information. Leavenworth County agreed to release the data. Kansas City agreed to provide only the <u>non-identifiable</u> information we had requested, not the names of individual homebuyers or lenders. (Even the non-identifiable was not received for more than six weeks after the City agreed to provide it.) The City raised questions about the potential confidentiality of the identifiable data, and about this office's access to confidential information. We are pursuing this issue with the Attorney General's Office.

Currently, loans funded with mortgage revenue bond proceeds are not being distributed across the State. The accompanying map shows the number of homeowners in each county who received a loan through the mortgage revenue bond programs. As noted earlier, Olathe and Labette County jointly issue mortgage revenue bonds to make loans available in southeastern and eastern Kansas, and Shawnee and Sedgwick Counties jointly issue mortgage revenue bonds to make loans available in central and western Kansas. Kansas City and Leavenworth County issue bonds only for loans in their own counties.

Because loans may be made only to households that fall within certain income limits and meet other program guidelines, we compared the number of loans in each county to the number of loans that might be awarded based on the number of households in each county with incomes that fit within program guidelines. This comparison was meant only as a general indication of how the loans were distributed relative to the number of households that might have been eligible to receive them.

Distribution of Mortgage Revenue Bond Loans Based on Number of Households Meeting the Income Guidelines



County received fewer mortgage revenue bond loans than the number of households with income that fit within program guidelines would suggest.

County received more mortgage revenue bond loans than the number of households with income that fit within program guidelines would suggest.

County received about the number of mortgage revenue bond loans that the number of households with income that fit within program guidelines would suggest.

As the map shows, virtually no loans were made in western and northernmost Kansas, and most of the loans were made in the issuers' home counties. In fact, the

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counties of the six issuers received nearly 87 percent of the 2,468 loans, but have only 43 percent of the households Statewide which meet program income guidelines.

To help get an indication of why no loans were made under the mortgage revenue bond program in large areas of the State, we contacted six of the 12 FHA-approved lenders in western Kansas. The responses we got were mixed. Three lenders said they were unaware, or only vaguely aware, of the program. The three other lenders said they were aware of the program, but two said their own rates were competitive with the bond-financed loans. The other lender said it had participated in the past, but thought it was currently excluded from the pool of eligible participants.

If Kansas issued and promoted a Statewide mortgage revenue bond program rather than having several localities perform these functions, loans under the program may be more available to eligible homebuyers across the State. A Statewide program also would allow the State issuer to set targets or limits for particular areas of the State, if such action were desirable.

Fees for homebuyers are higher in Kansas than in the other states we surveyed. Unlike many types of bonds where the proceeds are used to pay bond-issuance costs, the costs of issuing mortgage revenue bonds are paid for with fees charged to participating homebuyers or, in some cases, home sellers. Bond-issuance costs may include the cost of bond counsel, underwriter, and trustee services, as well as bond rating fees, printing costs, freight, and the like. The largest single expense is for bond underwriters.

The following table shows the amount of fees charged in Kansas and the other states we contacted, as well as the bond-issuance costs reported to us by those states, where available. (Although we attempted to ensure that states reported comparable issuance costs, we did not attempt to verify the information we received.)

Fees for Selected Mortgage Revenue Bond Programs in 1990

State	Fees Charged to Homebuyers	Bond Issuance Costs/$1000
Colorado	3%	$15.00 (approx.)
Indiana	3.375%	12.60 (avg.)
Iowa	3% (a)	(d)
Kansas	4-4.5% (b)	19.50 (approx.)
Maine	3%	6.90
Missouri	3%	17.50 (avg.)
Nebraska	3.25%	13.85 (avg.)
Oklahoma	3%	na
Wisconsin	0-2% (c)	na

(a) Fees vary with each issue. The amount shown was charged in a September 1991 bond issue. Iowa did not have a mortgage revenue bond issue in 1990.
(b) Fees varied for the different programs that were operated in Kansas in 1990.
(c) Fees are charged on a sliding scale, with low income families charged nothing and moderate income families charged up to two percent.
(d) Iowa did not have a mortgage revenue bond issue in 1990.

As the table shows, the fees charged in most of the states we contacted were about three percent. In Kansas, those fees were 4-4.5 percent for the 1990 bond issues. The table also shows that Kansas had the highest reported bond-issuance costs for mortgage revenue bonds issued in 1990.

One possible reason why other states' fees and bond-issuance costs may be lower is that those states administer their own programs, so profits are not built into their administrative costs. In addition, Kansas' bond-issuance costs may be high because those bonds are not competitively bid.

We found that three states with relatively high bond-issuance costs—Colorado, Kansas, and Nebraska—had long-standing relationships with particular underwriting firms that they used on an on-going basis. Officials in Missouri and Indiana indicated they selected underwriters based on a review of proposals solicited from many different firms. Bond issuance costs were lowest in Maine, which selects bond underwriters on a competitive-bid basis.

Given that all the other states we contacted administered their mortgage revenue bond programs in-house, had lower bond-issuance costs, and charged lower fees, it seems likely that a State-administered program in Kansas could be operated with lower fees as well.

In a related area, legislative concerns were expressed that the local units of government in Kansas that issue mortgage revenue bonds might be charging homebuyers a separate fee to participate in the program. We reviewed the budgets of the six localities that issue mortgage revenue bonds, but found nothing we could identify as fees from homebuyers in the program. Officials of the local units and their bond counsel also reported that the localities did not receive a fee from homebuyers.

State issuance of mortgage revenue bonds in Kansas would allow the State to set targets or limits that are more restrictive than federal requirements, as some other states have done. The federal maximum income levels for Kansas localities range from $34,000 to $56,280 depending on family size and the part of Kansas the homebuyer lives in. Maximum home purchase prices can range from $53,370 to $134,310, depending on whether the home is existing or new, and where it is located.

The six Kansas localities that currently issue mortgage revenue bonds have not acted to establish limits on the program beyond those set by the federal government. As shown in the accompanying table, the program continues to be targeted towards both low-income families and moderate-income families.

As the table shows, the vast majority of homebuyers in these programs had incomes in the $20,000-$40,000 range. About 14 percent of the homebuyers had incomes of less than $20,000, and 10 percent had incomes of more than $40,000. Regarding purchase price, more than 60 percent of the homes purchased were in the

$30,000-$59,000 range, 10 percent were purchased for less than $30,000, and 28 percent were purchased for more than $60,000.

Distribution of Mortgage Revenue Bond Loans By Income and Purchase Price in Kansas During 1990

Income Level	Number of Mortgage Revenue Bond Loans: Non-Target Area	Target Area(a)	Both Areas' % of Total
$0 - 9,999	1	0	less than 1 %
$10,000 - 19,999	307	22	13
$20,000 - 29,999	926	39	39
$30,000 - 39,999	899	21	37
$40,000 - 49,999	226	6	9
$50,000 - 59,999	20	1	less than 1
Total	2,379	89	100 %

Average income: $29,554

Purchase Price	Number of Mortgage Revenue Bond Loans: Non-Target Area	Target Area(a	Both Areas' % of Total
$0 - 9,999	0	0	0 %
$10,000 - 19,999	33	2	1
$20,000 - 29,999	193	20	9
$30,000 - 39,999	431	25	19
$40,000 - 49,999	531	22	22
$50,000 - 59,999	513	8	21
$60,000 - 69,999	433	6	18
$70,000 - 79,999	137	4	6
More than $80,000	108	2	4
Total	2,379	89	100 %

Average purchase price: $50,642

(a) Information on target area loans was not available for the Kansas City/Leavenworth County program.

Four of the eight states we contacted had established stricter limits than those set by the federal government. Officials in two states reported that they had established lower income restrictions than allowed by federal law. Officials in two other states said they changed the restrictions from bond issue to bond issue, depending on the circumstances. For example, they might have a program with a very low interest rate and target it to low-income families by setting exceptionally low income limits.

If the State administered the mortgage revenue bond program and issued those bonds, it would be able to adjust federal eligibility requirements to target the program to particular groups of people, if it chose to do so.

Currently, the State does not have uniform summary program data for policy, management, and oversight purposes. The mortgage revenue bond program in Kansas is really three programs, which are under the control of six localities. Data from the programs are not routinely or uniformly provided to the Department of Commerce, nor is there any Statewide summary of program activity. In other words, Statewide no one knows such basic information as how many loans have been made, where those loans have been made, borrowers' income levels, or home purchase prices. Our experience suggests that this information is not readily available to anyone. Further, because bond underwriters indicated they were unable to break out their costs for administering the programs and issuing the bonds, program cost data are not available, as well.

Under a State-administered program, State policymakers in the legislative and executive branch should have this type of information available to them on a regular basis. Such information could be used to help set State housing policies, target or limit particular geographic areas or program participants, if desirable, and show how effectively the program was meeting its objectives.

In addition, a State-administered program could have procedures for routine monitoring of the program. Although not required by federal law, some form of oversight is necessary to ensure the program is functioning in the manner intended, serving the populations it is designed to serve, and not being abused or misused.

Although other states, and possibly Kansas issuers, have used the program to generate excess revenues in the past, changes in federal law have severely diminished this option. Many of the housing finance agencies we contacted in other states were in operation before 1980. Before 1980, it is our understanding that federal law did not restrict the spread between interest rates paid to bondholders and interest rates charged to homebuyers. Thus, if a bond's interest rate was 8 percent and the mortgage rate charged to homebuyers was 12 percent, the issuers could generate revenues at a rate of 4 percent of the bond money.

In 1980, the federal Mortgage Subsidy Tax Act limited the spread between the mortgage interest rate and the bond interest rate to one percent (1 and 1/8 percent after 1981). This change significantly reduced the income-generating potential of mortgage revenue bond programs. One official we spoke with in another state said that any housing finance agency beginning operation now—after the changes in federal law—would be a break-even proposition, at best.

In Kansas, cities or counties that issued mortgage revenue bonds in 1980 or earlier may have earned additional revenues from the program in this manner as well, but that information would not be readily available.

Another way states may have freed up or generated additional moneys to subsidize other housing programs in recent years was to refinance or restructure their bonds. These processes work as follows:

- Restructuring. Bonds that were issued from 1979 to 1981 were required to have large reserve funds to help ensure that bondholders would be paid in the event homebuyers defaulted on their loans. Federal changes in the mid-1980s substantially lowered reserve requirements. Many issuers took advantage of this change by drawing out excess funds from the reserve account, and supplementing the reserve with an insurance policy.

- Refunding. When interest rates drop markedly, it may be to an issuer's advantage to reissue the bonds. In some instances, refunding a bond issue may allow the issuer to make a gain on the transaction.

Information about specific programs and "excess" moneys spent on them was not readily available from other states. The table below shows the amount of moneys the six current issuers in Kansas have realized by restructuring and refunding bonds. In addition, we were told that several other counties that issued mortgage revenue bonds in the past also have received funds from restructuring or refunding those issues. Those counties and the net proceeds they received are listed in Appendix B.

Restructuring and Refunding Activities
Of Current Issuers of Mortgage Revenue Bonds in Kansas

Current Issuer	Type of Transaction	Year of Transaction	Net Proceeds
Kansas City	Restructure	1987	$ 2,928,017
Labette County	Restructure	1986	848,542
Sedgwick County	Restructure	1986	2,363,794
Shawnee County	Restructure	1987	2,778,622
Sedgwick County	Refunding	1989	563,217
	Total restructured or refunded:		$ 9,482,192

Local officials told us that most of these funds were placed in the city's or counties' general funds to be used for a variety of public purposes; only $3.1 million was reportedly used for housing. However, Kansas City, which claimed nearly $2 million of the $3.1 million housing-related expenses, had not provided documentation of its expenditures by the time this audit was released. Officials we spoke with in other states said that any "excess" revenues they generated, or proceeds they realized early, remained within the agencies to be used for housing-related programs. Such revenues were not used to fund other aspects of state government.

Bond counsel and underwriters for the Kansas mortgage revenue bond programs told us that they advised cities and counties that the funds generated by restructuring bonds that were issued before the federal Mortgage Subsidy Tax Act of 1980 took effect could be used for any lawful public purpose. In reviewing applicable sections of the act, we could not tell whether this was allowable. We attempted to verify this assertion with the Internal Revenue Service, but officials there told us they would have to research the issue to determine if these were allowable uses of the money.

It Appears the State Could Effectively Administer the Mortgage Assistance Program, But If It Does It Should Consider Contracting Out Many of the Activities

A State-administered program could be housed within either the Department of Commerce or the Kansas Development Finance Authority. Staff at the Finance Authority have extensive experience issuing bonds for many types of State projects, and probably would be best prepared to assume the responsibility.

In either case, State law would have to be changed. For the Department of Commerce to administer the program, extensive changes would be necessary, because the Department does not have the authority to issue bonds. For the Finance Authority to administer the program, the definition of housing developments found in K.S.A. 74-8902(l), "dwelling accommodations for elderly persons and families of low income in need of housing," would need to be expanded to include persons of moderate income. If the Finance Authority administered the program, officials would need to coordinate with the Department of Commerce to ensure that program requirements were consistent with State housing policy.

As noted earlier, officials in other states indicated they contracted with outside bond counsel and underwriters because the reputation of these professionals can influence the rating awarded to the bonds. A 1989 U.S. General Accounting Office briefing report, Tax-Exempt Bond Issuance Costs, appeared to support this position. It said, in part:

> it may cost more to have in-house staff do bond issuance work than to have outside specialists do the same job. Interest costs may also increase if more work is done in-house. For example, investors value an independent assessment of the legal form of the bond issue. Increased use of in-house legal staff rather than outside bond counsel could lead to increased interest costs as buyers may perceive the bonds as a riskier investment.

If the State administered the mortgage revenue bond program, and contracted for such services as bond counsel, bond underwriting, bond trustee, loan origination and servicing, we estimate an in-house staff of four could administer the program, at a cost of about $219,000 in the first year. After the first year start-up costs, we estimated that annual costs would be about $190,000. Fees charged to homebuyers could be set at a level to make the program self-supporting.

We based our estimates on information provided by other states and from interviews with officials with the Finance Authority. Our costs include staff compensation, office equipment, supplies, travel, and office space. Our estimates are on the high side, because in-house staff may need to make significant efforts to promote the program and improve Statewide distribution. This would require extensive travel and communication expenses, at least initially.

Would It Be More Beneficial to Homebuyers If The Mortgage Credit Certificate Program Were Operated By The State, Rather Than By A Bond Underwriter?

Our findings for the mortgage credit certificate program were very similar to our findings for the mortgage revenue bond program. We concluded that it would be more beneficial to homebuyers if the mortgage credit certificate program were operated by the State. Most states we contacted operated the program with in-house staff, and charged homebuyers far lower fees than are charged in Kansas. A State-operated program also could help ensure that certificates are available Statewide. In addition, control and monitoring of the program could be significantly improved. These and other findings are discussed following an overview of the program.

Overview of the Mortgage Credit Certificate Program

The mortgage credit certificate program was authorized by Congress in the 1984 Tax Reform Act as a new means of providing assistance to low- and moderate-income homebuyers.

Under the program, qualified homebuyers receive a credit against their annual federal income tax liability. Unlike the mortgage revenue bond program, this program does not directly provide lower mortgage interest rates or lower monthly payments. Instead, homebuyers receive the once-a-year benefit of a tax credit. However, homebuyers <u>can</u> elect to decrease the amount of federal tax withheld from their paychecks, based on the tax credit they will receive, which would increase the funds available to them to make mortgage payments.

The amount of the tax credit is based on a percentage of the mortgage interest paid during the tax year, but it cannot exceed $2,000, nor can it exceed the total federal tax liability after all other tax credits and deductions are taken into account. Program participants are eligible for the tax credit each year they continue to live in the home and pay interest on the original mortgage.

Federal regulations regarding who can qualify for the program are essentially the same as for the mortgage revenue bond program. A few additional restrictions apply only to the mortgage credit certificate program, as follows:

- all participants must be first-time homebuyers, or must not have owned their principal residence during the previous three years (except in target areas—areas with deteriorated housing stock and a high level of economic need)
- the home cannot be financed with qualified veteran's bond moneys or mortgage revenue bond moneys
- the program cannot be limited to specific lenders
- interest on the mortgage cannot be paid to a person related to the homebuyer
- if the home is sold or the homebuyer quits living in the home, the certificate must be revoked

Appendix A shows the actual income and purchase price limits for Kansas localities based on the federal requirements. These limits are the same for both mortgage assistance programs.

To issue mortgage credit certificates, a governmental unit must trade its mortgage revenue bond authority for the authority to issue mortgage credit certificates. The trade is made at a rate of $4 in mortgage revenue bond authority for $1 in mortgage credit certificate authority. The box below shows how this trade and the credit rate chosen by the issuer affect the program.

The Tax Credit Rate's Effect on the Homebuyer's Tax Liability and Mortgage Volume

The example below demonstrates how the credit rate chosen by the issuer affects the tax credit that can be claimed by the homebuyer and the volume of mortgages that can benefit from the program. The credit rate, which by law can range from 10 percent to 50 percent, is the percentage of the homebuyer's mortgage interest, up to a maximum of $2,000, which can be claimed as a tax credit.

The Tax Benefit for the Homebuyer

Under this program, homebuyers will receive a credit against their annual federal income tax liability each year they continue to reside in their home and pay interest on the original mortgage. The amount of the tax credit is based on a percentage of the mortgage interest paid during the tax year, but cannot exceed $2,000.

In this example, we assume the homebuyer paid $5,000 in mortgage interest during the tax year. Depending on the credit rate chosen by the issuer, the homebuyer may claim a credit ranging from as little as $500 to the maximum allowable of $2,000.

At this credit rate. . .	the homebuyer would receive this amount of credit against his taxes. . .
10%	$ 500
20%	1,000
25%	1,250
30%	1,500
40%	2,000
50%	2,000 (a)

(a) The program limits the annual tax benefit to a maximum of $2,000.

Volume of Mortgages that Can Benefit From the Program

To issue mortgage credit certificates, a governmental unit must trade its mortgage revenue bond authority for authority to issue mortgage credit certificates. The trade is made at a rate of $4 in mortgage bond authority for $1 in mortgage credit certificate authority.

In this example, we assume the issuing governmental unit elects to trade $20 million in mortgage bond authority for mortgage credit certificates. According to the conversion formula, this would equal $5 million in mortgage credit certificate authority. Depending on the credit rate chosen by the issuer, certificates could be issued for as little as $10 million in mortgages, or as much as $50 million.

At this credit rate. . .	the program could issue certificates for this amount of mortgages. . .
10%	$50.0 million
20%	25.0 million
25%	20.0 million
30%	16.7 million
40%	12.5 million
50%	10.0 million

Thus, if the issuer selects a lower credit rate, the program can benefit more people, but the tax credit <u>each</u> homebuyer receives is smaller and few, if any, of the homebuyers would reach the $2,000 cap. If the issuer selects a higher credit rate, the program will benefit fewer people, but <u>each</u> homebuyer would receive a bigger tax credit. Selecting the higher credit rate also will cause a greater number of the homebuyers to hit the $2,000 cap on their annual tax credit.

In Kansas, Mortgage Credit Certificates Are Issued by Geary and Riley Counties, But the Program Is Administered By a Private Investment Banking Firm

Since 1987, the Department of Commerce also has authorized Geary and Riley Counties to issue mortgage revenue bonds. However, these two counties have elected to convert that authority to issue mortgage credit certificates. Rather than developing and administering a mortgage credit certificate program themselves, the counties have contracted with a private investment banking firm, George K. Baum and Company, to carry out all program activities. In return, the private firm receives all fees collected through the program. The chart on the facing page shows how the program operates in Kansas.

Staff at George K. Baum and Company are responsible for promoting the program, as well as for administrative functions such as filing federal reports, maintaining a database on program participants, and operating a toll-free telephone number to answer questions about the program. The company contracts with two banks to serve as regional administrators for the program. Homebuyers submit their applications for the program to the banks, which are responsible for reviewing all elements of the application and accompanying material, contacting applicants to get additional information or secure missing information, determining whether the applicant meets all program criteria, and awarding certificates.

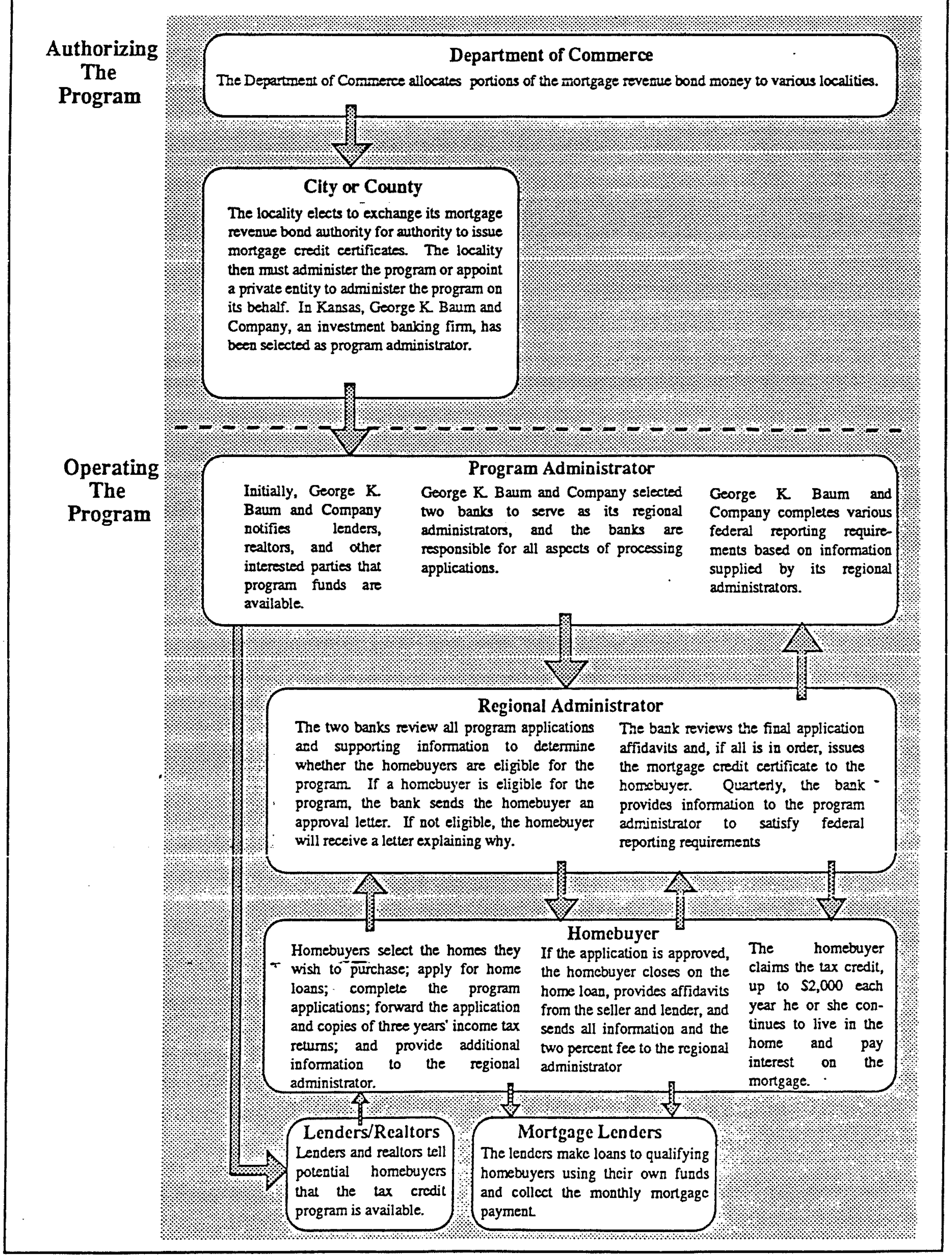
Lenders have a very limited role. They can inform homebuyers of the availability of the program and supply them with applications, but this function is often performed by the realtor. Lenders also may help the homebuyer complete an application for the program, but they are not required to do so. The lender is required to submit one form, which indicates that the lender is not related to the borrower and did not charge the homebuyer any additional fees for the loan.

Many States Operate Their Mortgage Credit Certificate Programs With In-House Staff

During this audit we contacted 12 states to determine if they currently operate, or have ever operated, a mortgage credit certificate program. The states we contacted include the four surrounding states and Alabama, Indiana, Iowa, Maine, Ohio, Oregon, Washington, and Wisconsin. Of the 12 states, six currently operate a program, four never have offered a program, and two have discontinued the program.

Of the six states that currently have a mortgage credit certificate program, five operate the program with in-house staff. Oklahoma contracts with a private company, and we were unable to obtain much information regarding that program. For the other states, the table below highlights some of the data from our interviews and shows comparable information for the Kansas program.

The Mortgage Credit Certificate Process



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Mortgage Credit Certificate Activity
For a Sample of Other States in 1990

State	No. of Certificates Issued	Sum of Mortgages	Average Loan Amount	Credit Rate	FTE Staff
In-House Operation					
Alabama	488	$29,519,322	$ 60,490	20%	1
Colorado	540	30,289,034	56,091	20%	5 (a)
Indiana	526	33,257,346	63,227	25%	7-9 (a)
Iowa	1,558	65,767,743	42,213	25%	1
Oregon	1,604	47,643,455	29,703	20%	1
Private Contractor Operation					
Kansas	722	36,788,131	50,953	25%	4-7

(a)All staff also assist with the mortgage revenue bond program. Officials could not estimate the full-time-equivalent staff associated with the mortgage credit certificate program alone.

As the table shows, Iowa and Oregon issued the largest number of certificates in 1990 for the greatest amount of mortgages. The average loan amount handled under the program ranged from about $30,000 in Oregon to slightly more than $63,000 in Indiana.

We found that the program was not always well-liked among the other states. Two states no longer operate it. Officials in Ohio indicated the program was stopped because it was difficult to administer and monitor. Washington opted to allocate all its bond authority to mortgage revenue bonds after the state's private activity bond allocation was lowered. Officials in several other states indicated they have never attempted to offer the program because they thought it would be cumbersome to administer and monitor, or was less effective at serving low- and moderate-income families than mortgage revenue bonds.

The Primary Reasons For State Operation
Of the Mortgage Credit Certificate Program Include the
Potential for Greater Statewide Distribution of Certificates,
Lower Fees for Homebuyers, and Better Oversight

When we compared the information we had concerning various aspects of the mortgage credit certificate program in Kansas with other states' programs, we identified a number of potential advantages to State operation of the program relating to distribution, fees, program objectives, and oversight. Some of our findings in these areas are based on data we were unable to verify because of difficulty getting certain information from the program administrator.

We were unable to verify data on program participants because George K. Baum and Company delayed providing us with complete information. As with the mortgage revenue bond program, we were not able to obtain all the data we

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needed for this program. George K. Baum and Company provided us with non-identifiable information on 1990 program participants, but initially refused to provide identifying information about homebuyers' names and lenders which would allow us to verify the accuracy of the data.

Although the firm subsequently agreed to provide names and addresses for a sample of homebuyers and lenders, we did not receive this information until December 5th, which was too late for us verify the data used to develop the map on the following page, and the tables on page 24.

Although the program is available Statewide, most mortgage credit certificates are awarded in the metropolitan areas of the State. In 1990, 722 certificates were awarded to homebuyers in Kansas, predominantly in the eastern and central portions of the State. Because certificates are awarded only to households that fall within certain income limits and meet other program guidelines, we compared the number of certificates awarded in each county to the number of certificates that might be awarded based on the number of households in each county with incomes that fit within program guidelines. This comparison was meant only as a general indication of how the certificates were distributed relative to the number of households that might have been eligible to use them.

The location of the certificates that were awarded and the results of our comparison are depicted in the map on the following page.

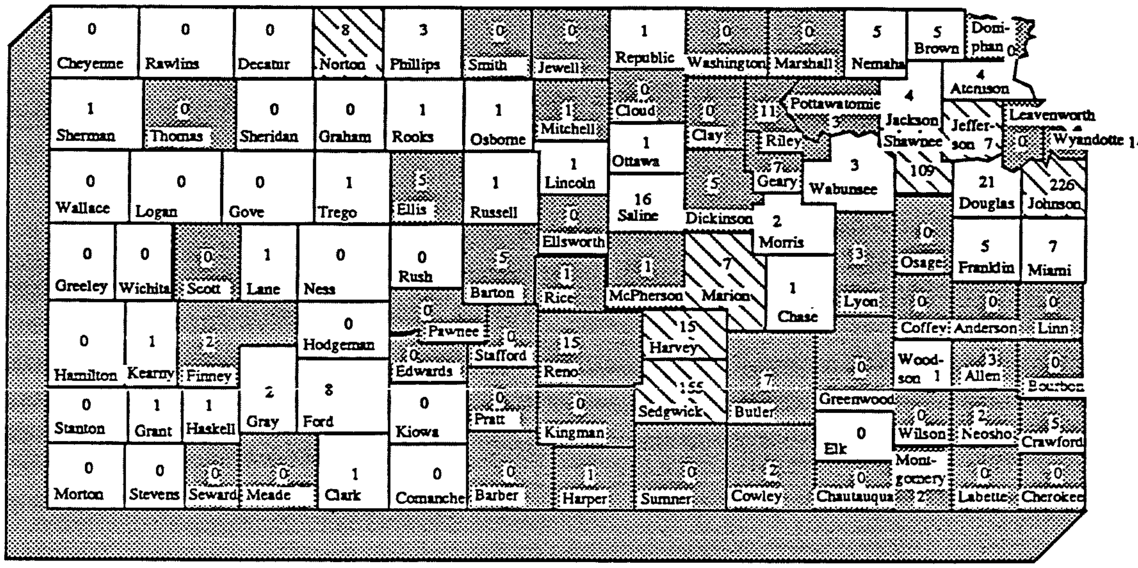
As the map shows, the majority of the mortgage credit certificates were issued to homebuyers in Sedgwick, Shawnee, and Johnson Counties. These three counties got nearly 68 percent of the certificates issued in 1990, but accounted for less than 33 percent of the households meeting the income guidelines across the State.

Although few certificates were issued in western Kansas counties, those counties received approximately the same number of certificates as suggested by our comparison. Counties that may be underserved were generally in southeast and southcentral Kansas.

It is impossible to know exactly how many households in a county are potential users of the program because, in addition to meeting income limits, the households must be in the market to buy a new home and must be first-time homebuyers or must not have owned a home within the past three years. The number of households that could potentially use the program is also affected by the economic health and level of real estate activity in the area.

If the State operated the mortgage credit certificate program in-house, it could take actions to encourage wider distribution of certificates across the State. A Statewide program also would allow the State to set targets or limits for particular areas, if such actions were desirable.

Distribution of Mortgage Credit Certificates Based on Number of Households Meeting the Income Guidelines



County received fewer mortgage credit certificates than the number of households with income that fit within program guidelines would suggest.

County received more mortgage credit certificates than the number of households with income that fit within program guidelines would support.

County received about the number of mortgage credit certificates that the number of households with income that fit within program guidelines would suggest.

Fees for homebuyers participating in the program are notably higher than in other states. Federal regulations allow fees that "are reasonably necessary to cover any administrative costs incurred by the issuer or its agent in issuing mortgage credit certificates." As the table on page 23 shows for the five states we contacted that operate the program in-house, homebuyers' fees ranged from $50 to $325. All the states indicated their program was self-supporting.

By comparison, the program fee in Kansas is two percent of the loan amount, or $400, whichever is greater. With an average loan amount of $50,000, the average fee is about $1,000 per homebuyer. In 1990, when 722 certificates were issued covering total loans of $36,788,131, George K. Baum and Company would have received a minimum of $735,000 in fees. Company officials indicated they were unable to provide us figures showing the actual cost of operating the program.

Borrower Fees for the Mortgage Credit Certificate Program In Kansas and a Sample of Other States, 1990

State	Borrower Fees
Alabama	$ 300
Colorado	325
Indiana	275
Iowa	200
Oregon	50
Kansas	**$1,020** (a)

(a) Based on the 1990 average loan amount of $51,000

Information from other states suggests the State could operate the program for far less than the current administrator receives, largely because the State would not expect to make a profit on the program. Rather, it could charge fees that would allow the program to be self-supporting, and pass the cost-savings on to the homebuyer.

Operating the program in-house would allow the State to set targets or limits that are more restrictive than federal requirements. Questions have been raised about who is benefiting from the program. Federal statutes set upper limits on the income of homebuyers who can participate in the program, and on the cost of the home that can be purchased, but allow issuers to impose more stringent limits to ensure that only those individuals who otherwise could not purchase a residence will benefit from the credit.

As with the mortgage revenue bond program, maximum homebuyer income in Kansas ranges from $34,000 to $56,280, depending on family size and where the home is located. Maximum home purchase price ranges from $53,370 to $134,310, depending on whether the home is new or existing and where it is located. As noted on page 24, we were unable to independently verify the data on which these tables are based.

As the table shows, most of the homebuyers who received certificates in 1990 had income in the $20,000 to $40,000 range (85 percent) and purchased homes in the $30,000 to $70,000 range (80 percent). At the two extremes, 51 homes (seven percent) had a purchase price of less than $30,000, and 90 homes (12 percent) had a purchase price exceeding $70,000.

Some Homebuyers Appear to be Financing Program Fees

Legislative questions were raised about whether homebuyers could finance program fees along with the home mortgage, rather than paying the fees out-of-pocket. Officials with George K. Baum and Company told us that if the appraised value of the home was higher than the purchase price, banks generally would finance the fees.

Comparing the loan amount to the purchase price for all homebuyers in the program in 1990, we found that 425 of the 722 homebuyers (59 percent) received a loan equal to, or more than, the price of the home they purchased. The average loan was $2,700 more than the average purchase price. This suggests that many homebuyers have been able to finance such things as program fees, repairs, or the like.

Distribution of Mortgage Credit Certificates Awarded by Income and Purchase Price in Kansas During 1990

Income Level	No. of Mortgage Credit Certificates Issued: Non-Target Area	Target Area	Both Areas' % of Total
$0 - 9,999	2	0	less than 1 %
$10,000 - 19,999	58	2	8
$20,000 - 29,999	295	9	42
$30,000 - 39,999	304	5	43
$40,000 - 49,999	42	2	6
$50,000 - 59,999	0	3	less than 1
Total	701	21	100 %

Average income: $29,615

Purchase Price	No. of Mortgage Credit Certificates Issued: Non-Target Area	Target Area	Both Areas' % of Total
$0 - 9,999	1	0	less than 1 %
$10,000 - 19,999	13	0	2
$20,000 - 29,999	35	2	5
$30,000 - 39,999	109	2	15
$40,000 - 49,999	139	6	20
$50,000 - 59,999	158	3	22
$60,000 - 69,999	160	4	23
$70,000 - 79,999	35	1	5
More than $80,000	51	3	7
Total	701	21	100 %

Average purchase price: $53,609

If the mortgage credit certificate program were operated by the State, adjustments could be made to the income and purchase price limits, if desired, to target the program to particular groups of people. Other types of adjustments could be made as well. For example, one county requested George K. Baum and Company to limit the program to the purchase of existing housing within the county. Such adjustments could be made to reflect Statewide housing priorities as well.

Monitoring and oversight of the program are limited. Federal regulations do not set out specific monitoring requirements for this program. Neither the Department of Commerce nor Geary and Riley Counties monitor the activities of George K. Baum and Company as program administrator. The Counties, and sometimes the Department, receive summary reports from the firm showing such things as the number of homebuyers participating, the cities and counties where certificates have been awarded, and income and purchase price distribution of homebuyers, but they have not attempted to verify the information, nor have they taken any actions to ensure that the program is operating properly.

If the State operated the program, it could set up procedures for routine monitoring of the program. Although it is not required by the federal government, some form of oversight would be necessary to ensure the program is functioning in the manner intended, serving the populations it was designed to serve, and not being abused or misused.

In addition, a State-operated program should systematically maintain basic program data that would allow for greater oversight by the legislative and executive branches of government. This data could be used to help set State housing policies, target or limit particular geographic areas or program participants, if desirable, and show how effectively the program was meeting its objectives.

Kansas Could Operate the Mortgage Credit Certificate Program With a Limited Number of Staff

A recent report by a University of Kansas professor entitled Mortgage Credit Certificates as an Aid to Affordable Housing suggested that the mortgage credit certificate program in Kansas could be run by less than one full-time person. Officials at George K. Baum and Company reported that the equivalent of 1-2 people from that office work with the program full-time. In addition, they stated that each of the two banks appointed as regional administrators has one person assigned to the program full-time, with other staff assisting if there is a large volume of applications.

Based on our interviews with other states, the University professor, and officials of George K. Baum and Company, we concluded that the State could effectively administer the mortgage credit certificate program. To keep staffing levels down, the program could be structured as it is in other states, where lenders are responsible for collecting and submitting all application materials to the program administrator, and for following up with questions about the application. Lenders receive compensation out of homebuyer fees for these efforts. In Kansas, lenders currently have a much more limited role.

With this assumption, we estimated that an in-house staff of three full-time equivalent staff could operate the mortgage credit certificate program at a cost of about $201,800 in the first year of the program. After the first year start-up costs, we estimated that the program could be operated with two full-time-equivalent staff, and that annual costs would drop to about $147,200. Fees charged to homebuyers could be set at a level to make the program self-supporting.

Our estimated costs include salaries and benefits, office equipment, supplies, travel, and office space. As we did with the mortgage revenue bond program, we estimated costs on the high side for this program because in-house staff may need to make significant efforts to promote the program, work with lenders regarding their new role, and improve Statewide distribution. These tasks could require extensive travel and communication expenses, at least initially.

We were unable to compare our estimates to the current cost of operating the program. Officials of George K. Baum and Company declined to provide information specifying their cost of operating the program.

Conclusion

The State as a whole does not appear to be well-served by the current structure of the mortgage revenue bond and mortgage credit certificate programs. Homebuyers in only a few counties receive most of the loans and certificates issued under the programs. For both programs, homebuyers pay higher fees than in other states. Because many other states administer their mortgage revenue bond and morgage credit certificate programs in-house, there is no reason to think that Kansas could not effectively administer these programs as well. If the programs were administered by the State, they could be used to improve the availability of affordable housing in certain areas of the State, potentially at less cost to homebuyers. For these reasons, it appears that State administration of the mortgage assistance programs should be considered.

Recommendations

1. To improve homebuyer access to mortgage revenue bond loans and mortgage credit certificates, reduce homebuyer fees, and provide increased accountability over the program, the Legislature should consider directing one or more State entities to take over administration or operation of the programs.

2. In its deliberations, the Legislature should consider whether the programs should be located in the Department of Commerce, the Kansas Development Finance Authority, or some other entity. The Finance Authority seems best suited to administer the mortgage revenue bond program at this time, because of its experience with issuing bonds. However, it would need to consult with housing officials at the Department of Commerce to ensure that the program reflected State housing policy. Cost savings might occur by having both the mortgage revenue bond program and the mortgage credit certificate program housed within the same agency. That way, promotion of the programs and coordination with lenders could be accomplished at the same time for both programs.

3. If the Legislature decides to have one or more State agencies administer or operate the mortgage assistance programs, it should require the appropriate officials to submit plans to the Legislature showing how the programs would function, including staffing, fees needed to be self-supporting, ideas for improving Statewide distribution of benefits, targeting the program to particular groups of homebuyers, and adequate program monitoring.

APPENDIX A

Federal Income and Purchase Price Guidelines for the 1990 Kansas Mortgage Revenue Bond and Mortgage Credit Certificate Programs

	Maximum Income Number of People in the Household		Maximum Purchase Price	
	1 or 2	3 or More	Existing Home	New Home
General State Limits	$ 34,000	$ 39,100	$ 53,370	$ 59,040
Areas with higher limits:				
Junction City	34,000	39,100	53,370	59,040
Junction City Target Area	40,800	47,600	65,230	72,160
Kansas City Metro Area (includes all homes located in Wyandotte, Johnson, Leavenworth and Miami Counties)	38,800	44,620	69,750	98,640
Kansas City Target Area	46,560	54,320	85,250	120,560
Lawrence Metro Area (includes all homes located in Douglas County)	34,300	39,445	71,280	59,040
Lawrence Target Area	41,160	48,020	87,120	72,160
Wichita Metro Area (includes all homes located in Sedgwick, Butler and Harvey Counties)	40,200	46,230	74,430	109,890
Wichita Target Area	48,240	56,280	90,970	134,310
Lyon County	35,400	40,710	53,370	59,040
Seward County	34,100	39,215	53,370	59,040
Topeka Metro Area (includes all homes located in Shawnee County)	37,300	42,895	59,310	89,730

APPENDIX B

Other Kansas Counties That Have Restructured Or Refunded Mortgage Revenue Bonds

In addition to current issuers of mortgage revenue bonds, the counties listed below also have restructured or refunded mortgage revenue bonds. This list was obtained from the underwriter who carried out these activities for the counties, and may not cover all previous Kansas issuers. Because of time constraints, we did not contact the counties listed below to determine whether any of the proceeds were used for housing-related programs.

Issuer	Type of Transaction	Year of Transaction	Net Proceeds
Cowley County	Refunding	1989	$ 566,231
Johnson County	Residual Bond	1987	3,951,044
Reno County	Residual Bond	1987	545,245
	Refunding	1991	463,174
Riley/Geary Counties	Restructure	1986	714,616
Saline County	Restructure	1986	417,666
	Refunding	1991	286,148

APPENDIX C

Agency Responses

On December 2, 1991, we provided copies of the draft audit report to the Department of Commerce and the Kansas Development Finance Authority. Their responses are included as this Appendix.

KANSAS
DEPARTMENT OF COMMERCE

Joan Finney
Governor

Laura E. Nicholl
Secretary

December 9, 1991

Ms. Barbara Hinton
Legislative Post Auditor
Legislative Division of Post Audit
1200 Merchants Bank Tower
8th & Jackson
Topeka KS 66612-2212

RE: Mortgage Assistance Programs Audit Report

Dear Ms. Hinton:

We generally agree with the findings of the Post Audit regarding the present administration of mortgage revenue bond and mortgage credit certificate programs. Following are our comments concerning the various issues identified in the report.

ISSUE 1: <u>A State Administered Mortgage Revenue Bond and Mortgage Credit Certificate Program</u>

It is a fact that all of the other 49 states issue mortgage revenue bonds at the state level. That is just one reason why the Governor has proposed that the Kansas Development Finance Authority be given statutory authority to do likewise. The Department of Commerce would have no objection to KDFA's issuance of such bonds as long as its role remains purely financial and that the role of setting housing policy, such as structuring the program and targeting certain income groups, home price limits, or areas of the state, remains vested in the Department of Commerce. We concur with the conclusion of the Post Audit that if the programs were administered by the State, the availability of the programs could be improved statewide and, in addition, centralized reporting of mortgage data would allow us to more accurately assess the housing needs of the state and properly monitor the programs. For example, data could be collected statewide on participant income, household size, home prices, etc. However, it must be noted that if the State does administer the mortgage bond program, it will still be necessary to contract with bond underwriters in order to properly design and market the bonds. Insofar as the MCC program is concerned, it could be administered with relative ease. We likewise concur with the staffing estimates for the programs administered at the state level.

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ISSUE 2: Costs Associated with the Programs.

There is no question that "economies of scale" could be realized by the state administeri mortgage revenue bond and mortgage credit certificate programs at the state level. C program run by the State, rather than several run by localities, would require less staff ti and unnecessary duplication would be eliminated. The table on page 10 of the Post Au is very compelling in regard to MRB's. It shows an average of about 1% lower costs in other states surveyed. In addition, the comparison on page 23 on MCC's tells a similar stor It is our opinion that if the state administered either or both programs, costs could b reduced to the homebuyer and more realistic fees could accrue to the State to administe the program and to leverage federal funding for other housing programs which require sta matching funds.

Thank you for collecting the information in the Audit and allowing us to respond.

Sincerely,

Laura E. Nicholl

Laura E. Nicholl
Secretary

LEN:DMS:jlb

DEC 9 1991

KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Joan Finney
Governor

Terence J. Scanlon
President

December 10, 1991

Ms. Barbara Hinton
Legislative Post Auditor
Legislative Division of Post Audit
1200 Merchants Bank Tower
8th and Jackson
Topeka, Kansas 66612-2212

RE: Mortgage Assistance Programs Audit Report

Dear Ms. Hinton:

We have received the Mortgage Assistance Program Audit report and generally agree with the conclusions and recommendations. We also complement the thoroughness of the research.

The Kansas Development Finance Authority is a financial service unit established to assist state agencies, local governments when needed and requested, multifamily low-income housing and certain economic growth progress such as the Beginning Farmer assistance in acquiring their first land and equipment, with long term financing.

KDFA has concentrated its efforts in facilitating these programs access to capital at the most reasonable rates and in accordance with sound fiscal management of debt.

KDFA is not involved in any programs where we offer services directly to the public or other clients. Our role is one of finance only and we are not geared to conduct policy formulation and carrying out of state programs. For this reason, if authorized to do so for housing, KDFA would restrict its role to facilitating the Housing office with access to capital.

KDFA is geared and backgrounded in the roles it would play in issuing Mortgage Revenue Bonds and conduct the Mortgage Credit Certificates financial structures. We also agree that from our research with other states, that these programs can be carried out within the costs estimated in the report.

The costs associated with the MRB and MCC would be covered by the cost of issuing the bonds and certificates so the program would be self supported and require no State General Fund appropriations.

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Conclusion:

While there are many reason we could support the findings of the post audit report from a sound public policy point of view, our comments here are restricted to being able to respond to the bonding and issuing of certificates only.

If the state adopts this central management of MRB's and MCC's, KDFA can respond in a timely and professional manner.

Very truly yours,

Terence J. Scanlon

Terence J. Scanlon
President

TJS:dc

REALTOR®

KANSAS ASSOCIATION OF REALTORS

Executive Offices:
3644 S. W. Burlingame Road
Topeka, Kansas 66611-2098
Telephone 913/267-3610
Fax 913/267-1867

TO: THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

FROM: KAREN FRANCE, DIRECTOR, GOVERNMENTAL AFFAIRS

DATE: FEBRUARY 14, 1994

SUBJECT: HB 2725, MRB AUTHORITY FOR KDFA

Thank you for this opportunity to testify. On behalf of the Kansas Association of REALTORS® I appear today to support the measure before you.

We believe this proposal will create housing opportunities in the state for a broader base of citizens. This legislation will make mortgage revenue bond money available for all Kansans, rather than those fortunate to live in counties or cities which have the ability to finance a mortgage revenue bond program.

We have visited with REALTORS® in some of the surrounding states which have had this program for many years. They feel it has helped fill many gaps in the mortgage money market, while preserving local lender participation.

During these rare times of low interest rates, it is easy to forget how valuable mortgage revenue bond programs can be to homebuyers. However, we need to plan ahead and lay the groundwork for solutions when interest rates start climbing again.

We feel this legislation is narrowly drawn to meet a very important need. We urge you to give positive consideration to this bill.

Economic Development
February 14, 1994
Attachment 2

KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Joan Finney
Governor

Wm. F. Caton
President

TESTIMONY
H.B. 2725
February 14, 1994
Wm. F. Caton

Thank you for the opportunity to testify before you today on H.B. 2725. The concept in this bill has been presented to you for the past several years, and is presented again this year because of the important subject it contains. Similar versions of this bill have been overwhelmingly approved by the House of Representatives in the past. The House passed a version of this bill in the 1992 session by a vote of 117 to 7. The idea was presented again in House Bill 2344 which was introduced to this Committee in the 1993 session, but never received a hearing. The House attached amendments to a Senate bill in the 1993 session that addressed this subject, but they were removed by a conference committee with the understanding that hearings would be held on a bill introduced in the 1994 session.

H.B. 2725 gives Kansas Development Finance Authority ("KDFA") the authority to issue single family mortgage revenue bonds ("MRBs") and mortgage credit certificates ("MCCs") on a statewide basis. Kansas is the ONLY state that does not issue MRBs and MCCs on a statewide basis. Private activity bond allocations presently issued to Kansas by the Federal government are passed on to local issuers (cities and counties) to issue MRBs and MCCs. These private activity bond allocations represent federal tax abatements earned by permitting states to issue tax-exempt bonds for normally taxable purposes, mainly single family housing and industrial real estate development. Kansas receives allocations of $150 million annually, and has historically used approximately half of that figure for single family housing mortgage revenue bonds for first time homebuyers.

There are two fundamental questions which need to be answered to determine if this legislation is necessary. First - Is the present system working? Second - Is housing a local issue or a statewide issue?

On the first question - Is the present system working? The answer is "yes", if you are a local issuer who has been successful in issuing MRBs. Also, the answer is "yes" if you are a local issuer who has utilized benefits derived from these Federal tax abatements (which were directed specifically for housing) for other general government purposes. Is that bad? Maybe not for the local issuer, but it is not beneficial and, in fact, is probably detrimental to the housing needs of Kansas.

The answer is "no" if you believe that there are statewide housing policy issues. The answer is "no" if you believe any and all benefits derived from these programs should be funneled back into housing needs. The present system is lender driven. The benefactors of the present program are those borrowers who are the easiest to qualify (highest qualifying income bracket) in urban areas where financial institutions have access to accurate assessments of their local housing markets. Past Legislative Post Audit reports have indicated that Kansas has had one of the most costly MRB and MCC programs in the Nation. Although some reforms have taken place to address the cost issues, there is still need to revamp these programs to provide utilization throughout the state, rather than having the utilization kept to only the urban areas.

Economic Development
February 14, 1994
Attachment 3

700 S.W. JACKSON, SUITE 1000 / TOPEKA, KANSAS 66603-3758 (913) 296-6747 FAX (913) 296-6810

This brings us to the second question - is housing a local issue or statewide issue? In 1992, Governor Finney, through executive reorganization, created the Division of Housing as a section of the Kansas Department of Commerce and renamed it the Kansas Department of Commerce and Housing ("KDOC&H"). The Legislature's affirmation of this Executive Order would attest Kansas lawmakers agree there is a need to fulfill statewide housing needs with statewide policies and programs. Why limit the effectiveness of KDOC&H, the State policy making body, by denying it the financial tools it needs to be most effective.

The contents of H.B 2725 provide for policies regarding housing to be established by the Secretary of KDOC&H. This bill does <u>not</u> duplicate any current efforts of KDOC&H; it only enhances that agency's ability to implement programs by providing one financing tool necessary to carry out those policies. The Federal Housing and Urban Development agency ("HUD") gives state housing agencies many priorities over local housing authorities and local issuers.

Because of recent policy revisions, a multitude of HUD's programs require implementation at the State level. As one example, local issuers have not been able to participate in any savings sharing on federally subsidized, multifamily, Section 8 refinancings. Since KDFA is a statewide issuer with <u>very limited</u> housing powers, HUD permitted Kansas to participate in this shared savings program. Believe me, it was a very difficult task to convince HUD to allow Kansas to participate in any savings generated. It finally took the assistance of Senator Bob Dole. Through KDFA, participating with KDOC&H, Kansas is able to provide $3.8 million to the Housing Trust Fund over the next ten years by refinancing ten Section 8 housing projects throughout the State. This savings is generated because HUD's subsidy to the projects remains the same, and we were able to obtain considerably lower interest rates on the new bonds issued in 1992 and 1993. Since the mortgage interest rates on the project loans remain the same as before, considerable cash is generated. A local housing agency could not participate in this savings program, because HUD would lower its subsidy on the project; the mortgage rates would also be lowered proportionately, and there would be no savings generated. There have been a few of these types of Section 8 housing bonds refinanced locally, and who benefitted? The underwriters, attorneys and trustees did. Who lost? Kansas lost a Federal subsidy already funded with Federal income taxes paid by Kansas taxpayers.

Many of our neighboring states have successfully created large war chests for housing in part by successfully issuing MRBs and MCCs. Although the Tax Reform Act of 1986 removed many of the benefits, there are still opportunities the State can take advantage of through these programs.

Let us look briefly to our neighbors, to see what they have accomplished in housing on a statewide basis:

- <u>Missouri Housing Development Commission</u> - created in 1970, has financed 60,000 housing units, and has a $171 million housing fund balance.

- <u>Colorado Housing and Finance Authority</u> - created in 1973, has financed 45,000 housing units, and has a $34 million in housing fund balance.

- <u>Nebraska Investment Finance Authority</u> - created in 1983, has $79 million in fund balance (not all allocated to housing).

- <u>Oklahoma Housing Finance Agency</u> - created in 1975, has $26 million in housing fund balance.

- <u>Iowa Finance Authority</u> - created in 1975, has financed 25,000 housing units, and has $44 million in housing fund balance.

•Arkansas Development Finance Authority - created in 1985 (the successor to their housing agency created in 1978), has financed 33,000 housing units, and has $35 million in housing fund balance.

Our neighboring states have had the financial ability to provide millions of dollars in grants and aid to homeless people and shelters, and continue to do so. I report the successes of our neighbors with envy and regret. While our neighbors have enjoyed financial success, Kansas has not even had the opportunity to duplicate what these other Midwestern States have accomplished. At this point, questions should be occurring to each of you. What happened to Kansas? How much money and how many housing units would Kansas have financed if it had created a finance agency in the 1970's or even the 1980's?

There is a very basic concept that we must understand: a local project or program is an individual, stand-alone project or program. The financing and the outcomes are driven by the bond underwriters, bond attorneys, local lenders and individual developers. When financed by a State housing finance agency, individual projects and programs become part of the overall portfolio of the agency, and that portfolio is actively managed to provide maximum benefits for Statewide policy issues. Most of the housing funds of our neighboring states were generated by interactive management of policy and program driven financings, not by individual financings done by a variety of different local issuers without common goals or objectives. Those financings stand alone, and little or no financial management is provided to them, except by profit-oriented bond underwriters and financial advisors who track those issues for possible refundings. And if local housing issues are refunded, local issuers do not usually reinvest the revenues generated back into housing; they are used for general operations. Kansas has suffered economically by not having a state housing finance agency.

The subject of home rule is elementary to this concept. I am for home rule; however, our governmental system can not realistically have everything done at the local level. If our 13 colonies had not banded their state militia together, we would never have defeated the English, and we might have Whigs and Torries today instead of Republicans and Democrats. Although this is a somewhat dramatic example, it does point out there is a need to have federal, state and local government with their respective roles to provide services with the tax dollars collected. There is no reason federal, state and local governments cannot work together to provide these services to meet local needs. An excellent example of intergovernmental cooperation is KDFA's State Revolving Loan Program for waste water treatment. To maximize Environmental Protection Agency ("EPA") Wastewater Treatment Grants, the Kansas Department of Health and Environment, as the policy making body, and KDFA, as the financial tool, have created a revolving loan fund to lend money to local public wastewater treatment projects at below market rates to meet local environmental needs. This fund has a $130 million capacity and has loans to local entities from $400,000 to $50 million.

I would not be in favor of the State issuing debt for local school districts, cities or counties for their own governmental purposes. The financial strength of Kansas is enhanced by the public debt issuance performed at the local level, with bond underwriters and attorneys being knowledgeable and specializing in the needs of those local entities. Issuing MRBs and MCCs at a statewide level will still need the expertise of bond underwriters and attorneys to provide the same level of sophistication. All 49 other states have determined there are sufficient benefits to issue MRBs and MCCs on at the state level. The only difference is statewide policy issues will be considered for the goals and outcomes of these financings, and they will be managed accordingly.

In closing, I ask that you consider weighing all the benefits of this bill, remembering that it is the State's goal to provide benefits for all Kansans, both rural and urban. This bill is needed to help fulfill statewide housing goals.

I will be glad to answer any questions or provide any additional information you might request.

League of Kansas Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 S.W. 7TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

TO: House Economic Development Committee

FROM: Chris McKenzie, Executive Director

DATE: February 14, 1994

RE: Support for House Bill No. 2725

Thank you for the opportunity to appear today in support of HB 2725. This endorsement is based on the Convention-adopted policy statement of the 540 member cities of the League of Kansas Municipalities which provides in pertinent part as follows:

> **Mortgage Assistance Programs.** The 1992 State performance audit of the mortgage revenue bond program and mortgage credit certificate program indicates partial or full state administration of these programs could lower costs to home buyers and lead to wider geographic distribution of mortgage assistance across the state. We support such legislation provided that after a reasonable period of time each year that any unused bond or certificate authority is allocated to other areas of the state in which demand may be greater and such authority may be used by cities and counties.

We appreciate the chance to appear in support of this legislation. Thank you.

Economic Development
February 14, 1994
attachment 4

THE UNIVERSITY OF KANSAS
Graduate Program in Urban Planning

Testimony

of

Kirk McClure
Associate Professor

on

House Bill 2725
A Bill to Expand the Powers of
The Kansas Development Finance Authority
to Issue Mortgage Revenue Bonds

before

The Committee on Economic Development
Kansas House of Representatives

February 14, 1994

Mr. Chairman and Members of the Committee on Economic Development, thank you for the opportunity to speak to the Committee on this piece of legislation.

Background

I served as principle author of the Kansas Comprehensive Housing Affordability Strategy (CHAS) prepared in 1992. The CHAS analyzed the housing market conditions throughout the State in order to assess the types of housing programs that should be employed by the State in order to rectify its housing problems.

In addition, I have performed research on the use of the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs both here in Kansas and elsewhere. This research has been published in academic journals and books dealing with the implementation of housing programs.

Findings from the Research

The State of Kansas now has an unusual set of circumstances existing in its housing markets providing a unique opportunity to help many low- and moderate-income renter households become home owners. To make the best use of this opportunity, the administration of the Mortgage Revenue Bond program should be placed under the supervision of the Kansas Development Finance Authority (KDFA).

Economic Development
February 14, 1994
attachment 5

SCHOOL OF ARCHITECTURE AND URBAN DESIGN · 317 MARVIN HALL, LAWRENCE, KANSAS 66045-2250 · TEL. 913-864-4184 · FAX: 913-864-5393

The Need for Home Buyer Assistance is Found Statewide

The households that are eligible for the use of MRB proceeds are low- and moderate-income renters. While these households are disproportionately found in the metropolitan areas of the State, no county in Kansas is without significant numbers of such households. This suggests that the MRB program can, and should, serve all parts of Kansas.

The Prices of Homes are Generally Low

The prices of owner-occupied homes in Kansas have stayed relatively low. Over the last decade, home prices have risen by less than the rate of inflation; in many areas of the State, the growth of home prices have lagged well behind inflation. This makes homes more affordable, especially to low- and moderate-income households looking to purchase their first home.

Interest Rates on Home Mortgage Loans are Low

Currently, the interest rates on home mortgage loans are at a two-decade low. This helps to keep the monthly payments required to purchase a home very low, making it easier for a household to purchase a home.

Kansas Should Take Advantage of these Circumstances

Given the low prices of homes and the low interest rates on home purchase loans, the State has an excellent opportunity to help many Kansas households become home owners that would otherwise not be able to enter into home ownership. Properly administered, the MRB program and its companion MCC program can be the tools that can help low- and moderate-income households become owners in this market.

The Current Method of Implementing the MRB and MCC Programs Fails to Address Needs

The MRB and MCC Programs are Now Administered by Inter-Local Agreement

The MRB and MCC programs are administered in a disjointed manner through a variety of local efforts. These jurisdictions design their programs to serve their own jurisdictions. In many cases, this means that the households being assisted are not the most needy households in the State. It also means that, in many cases, excessive and unfair fees are being charged to program participants.

Geographic Areas of the State are Unserved

The disjointed administration of the programs tends to serve some of the metropolitan areas of the State leaving other areas, especially the western part of Kansas, without assistance. Such administration does not match the scarce housing assistance resources to the needs.

State Administration Would Permit Targeting of Funds

If KDFA could administer the MRB and MCC programs on a Statewide basis, this scarce resource for assisting low- and moderate-income households could:

- Direct the funds to all communities throughout Kansas based upon the need for these resources in each community,

- Implement the programs in such a manner that the resources would go only to the most needy who could not become home owners without this assistance, and

- Design the home buyer assistance to meet the particular needs of the low- and moderate-income home buyers such as minimizing the down payments and closing costs.