Approved: 3-31-08
Date

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on February 13, 2008 in Room 123-S of the Capitol.

All members were present.

Committee staff present:
Jennifer Thierer, Kansas Legislative Research Department
Norm Furse, Revisor of Statutes
Jason Long, Revisor of Statutes
Jackie Lunn, Committee Assistant

Conferees appearing before the committee:
Steve Weatherford, KFDA
Paul Johnson, Kansas Catholic Conference
Matt Goddard, Heartland Community bankers Association
Rick Jackson, Capitol Federal Savings
Brad Snapp, Sedgwick County Housing Department
Luke Bell, Kansas Association of Realtors

Others attending:
See attached list.

To read testimony submitted by conferees go to
http://skyways.lib.ks.us/government/KansasSenateCommerceCommittee.

SB 488--Authorization of mortgage revenue bonds

Chairperson Brownlee opened the hearing on **SB 488** and called on Jason Long, Revisors Office, to explain the bill. Mr. Long stated **SB 488** amends provisions regarding the Kansas Development Finance Authority with respect to Home Mortgage loans. New powers are granted to the KDFA regarding loans to moderate and low income families.

Upon the conclusion of Mr. Long's explanation, Chairperson Brownlee introduced Steve Weatherford, KDFA, to give his testimony as a proponent of **SB 488**. Mr. Weatherford presented written testimony (Attachment 1) which can be found in its entirety on the link listed above. In closing, Mr. Weatherford referred the Committee to two additional handouts: *County MRB Program Loan Activity by County* (Attachment 2) and *Loans per 1000 County Residents 2002-2007* (Attachment 3) ***(which cannot be found on the link listed above.)*** Mr. Weatherford stated the *County MRB Program Loan Activity by County* is raw data showing the loans originated and is compiled from information collected on an annual basis by the Department of Commerce on the county program. He also explained that *Loans per 1000 County Residents 2002-2007* represents how many loans were made in the state between the years 2002 through 2007. He stated that these handouts show that the revenue bond program, over a period of time, generates revenue.

Upon the conclusion of Mr. Weatherford's testimony there was a discussion with the Committee on how the program would work and where any money generated would go. It was noted by Mr. Weatherford that all monies generated through a mortgage revenue bond program would go into the State Housing Trust Fund for the purposes of supporting housing activities. Mr. Westherford stated that the loans originated in Shawnee and Sedgwick counties through their revenue bond program, which are also made available in other counties, produce revenue and all that revenue goes into Shawnee and Sedgwick counties. Mr. Weatherford stated the County Commissioners are using these funds as they see fit within Shawnee and Sedgwick counties only. The Committee has concerns that KDFA would be in competition with mortgage lenders in the private sector.

Chairperson Brownlee entered the discussion stating this bill is different from the bill that was in this Committee four to five years ago in that the bill will not disrupt the programs that are existing in Shawnee and Sedgewick counties. The mortgage revenue bond money comes from the feds. It was noted that other counties in Kansas can participate in the Shawnee/Sedgwick county program. The earnings that can be generated by this type of program became the topic of discussion; how much the fees would be and how much would come to the state for the State Housing Trust Fund. The fiscal note was also discussed. It was noted by Mr. Weatherford that Sedgewick and Shawnee counties could continue their existing program. The funds that Sedgewick and Shawnee receive were discussed and the percentage of the split was discussed also.

Chairperson Brownlee made an announcement that the Committee would not be able to work the IMPACT bill today as originally planned and apologized to those that came to the meeting specifically for that purpose. She stated she would get back with all parties involved with a new date.

Chairperson introduced Paul Johnson, Kansas Catholic Conference, to give his testimony as a proponent of **SB 488.** Mr. Johnson presented written testimony (Attachment 4) which can be found in its entirety on the link shown on page 1 of these minutes.

Upon the conclusion of Mr. Johnson's testimony there was a short discussion regarding low income and who would qualify fo these loans.

Chairperson Brownlee introduced Matt Goddard, Heartland Community Bankers Association, to give his testimony as an opponent of **SB 488.** Mr. Goddard presented written testimony (Attachment 5) which can be found in its entirety on the link shown on page 1 of these minutes.

Chairperson Brownlee introduced Rick Jackson, Capitol Federal Savings, to give his testimony as an opponent of **SB 488**. Mr. Jackson presented written testimony (Attachment 6) which can be found in its entirety on the link shown on page 1 of these minutes.

Chairperson Brownlee introduced Brad Snapp, Sedgwick County Housing Department, to give his testimony as an opponent fo the bill. Mr. Snapp presented written testimony (Attachment 7) which can be found in its entirety on the link listed on page 1 of these minutes. Mr. Snapp also presented *Kansas Local Government Statewide Housing Program* for the Committee's review which can be found in the office of the Senate Commerce Committee Assistant.

Upon the conclusion of Mr. Snapp's testimony, Chairperson Brownlee asked if he knew how much Sedgwick County made in fees last year from this program. He stated he did not have that information with him but he would email it to her.

Chairperson Brownlee introduced Luke Bell, Kansas Association of Realtors, to give his testimony as an opponent of the bill. Mr. Luke presented written testimony (Attachment 8) which can be found in its entirety on the link shown on page 1 of these minutes.

Chairperson Brownlee called the Committee's attention to the "written only" proponent testimony of Chris Wilson, Kansas Building Industry Association (KBIA) (Attachment 9) which can be found in its entirety on the link shown on page 1 of these minutes.

Chairperson Brownlee closed the hearing on SB 488 stating the Committee would have time to ask questions of the opponents before working the bill.

**Senator Schodorf made a motion to approve the minutes for the following dates:
January 16, 2008; January 17, 2008; January 22, 2008; January 23, 2008; January 24, 2008.
Senator Reitz seconded. Motion carried.**

Chairperson Brownlee adjourned the meeting at 9:35 a.m. with the next meeting scheduled for February 14, 2008 at 8:30 a.m. in room 1223S.

Senate Commerce Committee
Guest List
Date: February 13, 2008

Dan Korber	Kansas Inc
Brad Smoot	Sedgwick County KS
Whitney Damron	George E Barnes
Jay Kramer	Carter Group
MARK BORANYAK	CAPITOL STRATEGIES
Christy Caldwell	Topeka Chamber
Ryan Vincent	KHRC
Lindsey Douglas	Hein Law Firm
Keith [illegible]	GK Baum & Co
[illegible]	KMHA

TESTIMONY TO THE SENATE COMMERCE COMMITTEE
PRESENTED BY KDFA & KHRC PRESIDENT STEPHEN R. WEATHERFORD
REGARDING SENATE BILL NO. 488

FEBRUARY 13, 2008

KANSAS STATEWIDE HOMEOWNERSHIP PROGRAM

Chairpersons Brownlee & Jordan and Honorable Members of the Committee, thank you for the opportunity to present testimony concerning Senate Bill No 488:

Last year's tornados and floods elevated Kansas' existing housing problems into a crisis, revealing a desperate statewide need for affordable and decent housing. As President of Kansas Development Finance Authority (KDFA) and Kansas Housing Resources Corporation (KHRC), I appreciate this opportunity to discuss Senate Bill No. 488 (Bill), which provides a sorely needed tool to address some of these needs.

As you know, several legislative measures are currently under consideration at this time. A good deal of debate over those measures has been related to the availability of continued General Fund appropriations and the impact of those expenditures upon other State programs and services. Senate Bill No 488 creates a means for the financing of statewide housing initiatives without a commitment of taxpayer funds.

A state sponsored mortgage revenue bond program similar to that offered by Sedgwick and Shawnee Counties will provide sorely needed resources for statewide housing programs as offered in other states. Kansas remains the only state in the nation without a true statewide homeownership program.

Although we may not agree on every aspect of the Sedgwick and Shawnee County program operations, we do generally support the program goals and its continued success. Our primary concerns with the County program are first; the geographic clustering of their loans and second; the manner in which earnings of the program are utilized. As you can see from the provided charts and graphs, utilization of the program is clustered primarily around Sedgwick and

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Shawnee counties. While Sedgwick and Shawnee counties together enjoy 23.2% of the state's population, 61% of all loans are from those two counties. In comparison, Johnson and Wyandotte counties with a nearly identical population (22.7%) have received less than 5% of the loans.

Our second concern is how the earnings generated by the program are utilized. When the Federal Government created the Mortgage Revenue Bond (MRB) program, it was with the intention that States use the program to earn profits to support other statewide housing initiatives. While neither the State nor the Legislature has been provided with earnings information from the County program, other states generate substantial earnings from operation of their MRB programs. Earnings in the County program remain under the control of the county commissioners.

This Bill would give KDFA the authority to issue MRBs creating a Statewide Homeownership Program (Program) that would be administered by KHRC. An MRB program generates funds from private sector bond investments. The funds are then used to purchase loans made by hometown banks and mortgage companies. Utilization of this process provides first time homebuyers with access to lower mortgage rates and down payment assistance while generating earnings to support statewide affordable housing programs.

Implementation of this Program need not disrupt Sedgwick and Shawnee Counties' authority to issue their own MRB's through the Local Residential Housing Act. Instead, KHRC would complement the county program to ensure a true statewide focus. No longer would two counties with 25% of the State's population enjoy over 60% of the MRB loan activity, as well as the majority of the fees generated from that activity.

Indeed, while the State has earned some issuance fees under the county MRB programs, SB No. 488 represents a real opportunity for the State to generate revenues to address both disasters and the widespread and ongoing housing problem while reducing costs to the State general fund. This Bill represents a win for homebuyers and a win for taxpayers.

A final key point is that the Program would in no way compete with private lenders. The Bill prohibits KDFA and KHRC from directly originating mortgage loans. Instead, KHRC will utilize and expand its established network of hometown lenders across Kansas to initiate a truly statewide MRB program. Hometown lenders will benefit not only on earnings from originating the loans, but also from an expanded base of homeowners in their communities.

Again, thank you for this opportunity to address this Bill. I respectfully urge you to support a true statewide MRB program, which is a win for homebuyers, taxpayers, hometown lenders, and all Kansas communities. I welcome any questions you may have.

County MRB Program
Loan Activity by County

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	County Population	County % of State Population	2002	2003	2004	2005	2006	2007	Total Loans
Allen	14,385	0.54%	3	12	5	9	9	16	54
Anderson	8,110	0.30%	1	1	1	1	5	2	11
Atchison	16,774	0.62%	0	0	1	2	1	2	6
Barber	5,307	0.20%	0	0	-	-	-	1	1
Barton	28,205	1.05%	0	2	-	2	12	19	35
Bourbon	15,379	0.57%	6	6	6	13	17	18	66
Brown	10,724	0.40%	0	0	-	-	-	1	1
Butler	59,482	2.21%	28	39	33	24	77	110	311
Chase	3,030	0.11%	2	0	-	-	1	1	4
Chautauqua	4,359	0.16%	0	1	-	1	-	-	2
Cherokee	22,605	0.84%	0	0	-	1	3	7	11
Cheyenne	3,165	0.12%	0	0	-	-	-	-	-
Clark	2,390	0.09%	0	1	-	-	4	5	10
Clay	8,822	0.33%	3	4	7	10	1	3	28
Cloud	10,268	0.38%	0	0	1	-	1	-	2
Coffey	8,865	0.33%	2	0	-	1	3	2	8
Comanche	1,967	0.07%	0	0	-	-	-	-	-
Cowley	36,291	1.35%	9	9	18	20	34	33	123
Crawford	38,242	1.42%	2	0	1	2	7	5	17
Decatur	3,472	0.13%	0	0	-	-	-	-	-
Dickinson	19,344	0.72%	1	0	3	-	2	8	14
Doniphan	8,249	0.31%	0	0	-	-	-	-	-
Douglas	99,962	3.72%	0	2	15	12	30	70	129
Edwards	3,449	0.13%	0	1	-	-	2	-	3
Elk	3,261	0.12%	0	0	-	-	-	1	1
Ellis	27,507	1.02%	0	0	-	1	13	19	33
Ellsworth	6,525	0.24%	0	0	-	-	-	3	3
Finney	40,523	1.51%	13	34	45	66	141	147	446
Ford	32,458	1.21%	19	34	37	39	57	72	258
Franklin	24,784	0.92%	0	0	-	4	1	11	16
Geary	27,947	1.04%	4	13	-	5	3	8	33
Gove	3,068	0.11%	0	0	-	-	-	-	-
Graham	2,946	0.11%	0	0	-	-	-	-	-
Grant	7,909	0.29%	0	3	1	4	7	15	30
Gray	5,904	0.22%	2	2	3	5	14	12	38
Greeley	1,534	0.06%	0	0	-	-	-	-	-
Greenwood	7,673	0.29%	0	0	-	1	1	2	4

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County MRB Program
Loan Activity by County

	County Population	County % of State Population	2002	2003	2004	2005	2006	2007	Total Loans
Hamilton	2,670	0.10%	1	1	1	-	-	1	4
Harper	6,536	0.24%	0	0	1	-	3	5	9
Harvey	32,869	1.22%	23	25	13	21	35	42	159
Haskell	4,307	0.16%	0	5	3	1	5	7	21
Hodgeman	2,085	0.08%	0	0	-	1	1	-	2
Jackson	12,657	0.47%	2	2	4	6	5	4	23
Jefferson	18,426	0.69%	0	3	4	9	7	14	37
Jewell	3,791	0.14%	0	0	-	1	-	-	1
Johnson	451,086	16.78%	7	7	10	23	73	152	272
Kearny	4,531	0.17%	1	1	-	3	1	4	10
Kingman	8,673	0.32%	2	0	3	3	1	6	15
Kiowa	3,278	0.12%	0	0	-	-	-	-	-
Labette	22,835	0.85%	1	5	4	9	10	13	42
Lane	2,155	0.08%	0	0	-	-	-	1	1
Leavenworth	68,691	2.56%	3	2	5	3	53	86	152
Lincoln	3,578	0.13%	0	0	-	-	-	-	-
Linn	9,570	0.36%	0	0	1	1	2	4	8
Logan	3,046	0.11%	0	1	1	-	-	-	2
Lyon	35,935	1.34%	0	1	2	8	34	31	76
Marion	13,361	0.50%	0	1	-	-	1	5	7
Marshall	10,965	0.41%	0	0	-	-	-	-	-
McPherson	29,554	1.10%	1	1	2	3	14	48	69
Meade	4,631	0.17%	0	1	-	2	6	4	13
Miami	28,351	1.05%	2	0	-	3	1	9	15
Mitchell	6,932	0.26%	0	0	-	-	-	-	-
Montgomery	36,252	1.35%	4	5	2	8	17	12	48
Morris	6,104	0.23%	0	0	-	-	-	-	-
Morton	3,496	0.13%	0	1	1	2	1	7	12
Nemaha	10,717	0.40%	0	2	-	-	1	-	3
Neosho	16,997	0.63%	7	16	9	5	15	11	63
Ness	3,454	0.13%	0	0	-	-	-	-	-
Norton	5,953	0.22%	0	0	-	-	-	-	-
Osage	16,712	0.62%	5	12	15	11	21	26	90
Osborne	4,452	0.17%	0	0	-	-	-	1	1
Ottawa	6,163	0.23%	0	0	1	1	6	8	16
Pawnee	7,233	0.27%	0	0	-	-	-	1	1
Phillips	6,001	0.22%	0	0	-	-	2	-	2

County MRB Program
Loan Activity by County

	County Population	County % of State Population	2002	2003	2004	2005	2006	2007	Total Loans
Pottawatomie	18,209	0.68%	0	0	3	4	9	12	28
Pratt	9,647	0.36%	0	0	1	-	-	4	5
Rawlins	2,966	0.11%	0	0	-	-	-	-	-
Reno	64,790	2.41%	19	40	32	20	11	29	151
Republic	5,835	0.22%	0	0	-	-	-	-	-
Rice	10,761	0.40%	0	0	2	-	-	3	5
Riley	62,843	2.34%	0	1	1	2	6	6	16
Rooks	5,685	0.21%	0	0	-	-	-	2	2
Rush	3,551	0.13%	0	0	-	-	-	-	-
Russell	7,370	0.27%	0	0	-	-	2	2	4
Saline	53,597	1.99%	4	4	18	19	56	114	215
Scott	5,120	0.19%	0	0	-	-	3	11	14
Sedgwick	452,869	16.85%	612	537	461	388	912	1,311	4,221
Seward	22,510	0.84%	5	17	24	30	49	79	204
Shawnee	169,871	6.32%	284	371	296	261	397	390	1,999
Sheridan	2,813	0.10%	0	0	-	-	-	-	-
Sherman	6,760	0.25%	0	0	-	-	1	-	1
Smith	4,536	0.17%	0	0	-	-	-	-	-
Stafford	4,789	0.18%	1	0	-	-	1	1	3
Stanton	2,406	0.09%	0	0	-	-	1	1	2
Stevens	5,463	0.20%	4	4	4	6	4	15	37
Sumner	25,946	0.97%	16	9	18	15	39	29	126
Thomas	8,180	0.30%	0	0	-	-	-	-	-
Trego	3,319	0.12%	0	0	-	-	-	2	2
Wabaunsee	6,885	0.26%	2	0	1	4	5	9	21
Wallace	1,749	0.07%	0	0	-	-	-	-	-
Washington	6,483	0.24%	0	0	-	-	-	-	-
Wichita	2,531	0.09%	0	0	-	-	-	1	1
Wilson	10,332	0.38%	3	4	1	2	1	2	13
Woodson	3,788	0.14%	1	2	-	3	1	-	7
Wyandotte	157,882	5.87%	28	21	14	25	56	85	229
		Number of Loans	**1,133**	**1,266**	**1,135**	**1,126**	**2,315**	**3,203**	**10,178**
		Millions of Dollars	**$71.4M**	**$83.7M**	**$87.3M**	**$85.7M**	**$195.2M**	**$284.3M**	**$807M**

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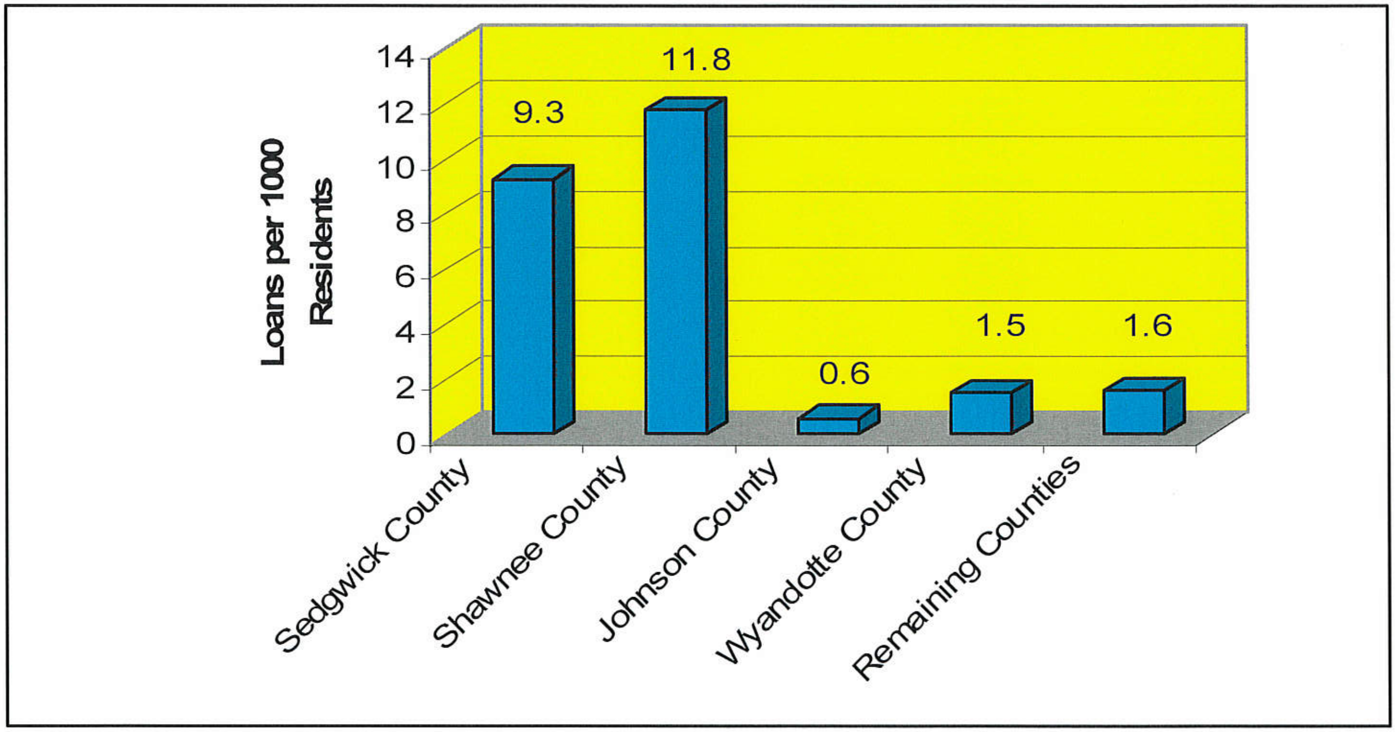
Loans per 1000 County Residents

2002-2007



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KANSAS SENATE COMMERCE COMMITTEE
SENATE BILL 488 TESTIMONY– FEBRUARY 13, 2008
PAUL JOHNSON – KANSAS CATHOLIC CONFERENCE

The Kansas Catholic Conference supports the changes in Senate Bill 488 that would create a comprehensive statewide first time homebuyer program with the use of revenue mortgage bonds. The fees gained from the issuance and re-issuance of private activity bonds for first time homebuyers should be directed to the State Housing Trust Fund. The Kansas Catholic Conference supports the development and funding of a statewide affordable housing plan. Senate Bill 417 is one part of the affordable housing plan by creating a competitive grant program to disaster areas and eventually to all rural Kansas. The Governor's budget recommendation of $3 million for the State Housing Trust Fund should be enacted to immediately start a dedicated revenue source for the Trust Fund. The fees from SB 488 would take longer to develop to help fund the Trust Fund.

According to the 2000 United State Census, Kansas has 1,043,808 housing units. 128,783 renters (40% of all Kansas' renters) and 122,941 homeowners (17% of all homeowners) were cost burdened in 2000 by paying over 30% of their income for housing costs. All told this represents 1 in every 4th household in Kansas. (Today this rate would be higher as natural gas prices have tripled from $2/mcf to over $6/mcf.)

The revenue mortgage bond issuance report for year 2006 showed there were 2,138 first-time homebuyer home loans in 19 counties across Kansas. In 2007, there were 3,201 loans involving $284 million in revenue mortgage bonds. With the 'energy conservation measure' expertise at the Kansas Development Finance Authority, this expertise should be utilized in the first time homebuyer program through energy audits and supplemental financing to implement the most cost effective energy conservation improvements. Such energy conservation improvements are now being used in the re-building of Greensburg.

Has there been an accounting of the fees gained by Sedgwick County and the bond underwriters for the revenue mortgage bonds issued over the last 10 years? Might it be possible to assign such a review to Legislative Post Audit to give all policy makers a clear idea of the fees procured and the potential revenue source to the State Housing Trust Fund?

In light of re-building 2,000 affordable housing units in the disaster areas and the general shortage of affordable housing for many Kansas' families, enacting SB 488 would be one economic development tool for the entire state of Kansas to fund workforce housing.

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HEARTLAND COMMUNITY BANKERS ASSOCIATION

Matthew S. Goddard, Vice President

700 S. Kansas Ave., Suite 512
Topeka, Kansas 66603
Office (785) 232-8215 · Fax (785) 232-9320
mgoddard@hcbankers.com

To: Senate Committee on Commerce

From: Matt Goddard
Heartland Community Bankers Association

Date: February 13, 2008

Re: Senate Bill 488

The Heartland Community Bankers Association appreciates the opportunity to appear before the Senate Committee on Commerce to express our opposition to Senate Bill 488.

The Heartland Community Bankers Association represents thrifts in Kansas, Colorado, Nebraska, Oklahoma and other Midwest states. Our members specialize in residential mortgage lending. In 2006, Kansas thrifts made more than $1.6 billion in residential mortgage loans. For the first six months of 2007, Kansas savings associations made more than $826 million in residential mortgage loans.

Senate Bill 488 authorizes the Kansas Development Finance Authority to issue bonds for acquiring mortgage loans. HCBA is concerned that this expansion of power will put KDFA and the State of Kansas in the position of competing with taxpaying mortgage lenders. For example, KDFA would use its ability to issue tax-free bonds to establish artificially low pricing for mortgage products that taxpaying businesses will be unable to match.

Other than a requirement that the mortgages be on homes that are owner-occupied, Senate Bill 488 puts no other restrictions or limits on the mortgages that KDFA may purchase. Although much of today's discussion will center on tax-exempt mortgage revenue bonds, nothing in SB 488 actually limits KDFA to issuing this type of bond. There would be no federal income or purchase price restrictions on money derived from taxable bonds. Although Senate Bill 488 requires that a mortgagor be a person of "low or moderate income," KDFA would be allowed to draft its own definitions for those terms.

Changing Times

The mortgage industry is quite different today than it was most of the nation's other state-run mortgage revenue bond programs were created. HCBA is concerned that the public policy rationales for bond programs lack the same validity today that they did when they were first created. Then, interest rates were high, the secondary market was limited and funding for mortgage loans was hard to find. With mortgage rates still relatively low and a bustling secondary market providing funding, the historical arguments for bond programs lack validity in the current mortgage marketplace.

The financing mechanisms available to the public for home buying are also much different today than they were when most state bond programs were created. Commercial banks were not allowed

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to become members of the Federal Home Loan Bank system until 1990. As members, institutions are eligible for advances that provide an affordable source of funding for lenders to make loans. The Topeka bank currently has **billions** of dollars in outstanding advances to Kansas lenders. In addition, Freddie Mac and Fannie Mae, government-sponsored enterprises involved with the secondary mortgage market, each fund **billions** of dollars in mortgage loans to Kansas. The major national banking trade groups – American Bankers Association and Independent Community Bankers Association – both have secondary market programs that help low-volume lenders sell mortgage loans on the secondary market.

Are Moderate-Income Kansans Underserved?

HCBA does not believe that moderate-income Kansans are currently being underserved by mortgage lenders. According to 2005 data, mortgage lenders subject to the Home Mortgage Disclosure Act made over $5.9 **billion** in purchase money mortgages were made in Kansas. Of that $5.9 billion, $2.7 **billion**, or 46 percent, went to loan applicants making 115 percent or less of the area median income. During 2005 Kansans making 80 percent or less of the area median income, generally defined as low income, received over $1.3 billion in mortgage loans from HMDA lenders. Mortgage money is available now and loans are being made to low and moderate income households.

Competition

There is nothing in SB 488 to suggest that the KDFA program will target anyone beyond those customers already being served by the private sector. Since the bonds must be repaid, homebuyers under the KDFA program have to meet underwriting standards similar to those already used by traditional mortgage lenders. This will create a preference within the program for moderate-income applicants who will more easily meet those standards.

A "partnership" with KDFA and KHRC will cannibalize much of the business already done by taxpaying private businesses. This is the historical pattern in other states, including Georgia. Although somewhat dated, an excerpt from a 1998 study of the Georgia Housing and Finance Authority, conducted by that state's Department of Audits, summarized this concern:

> *"According to GHFA staff, GHFA is not the lender of last resort for most GHFA loan recipients since they tend to make enough money and have good enough credit to get loans from commercial lenders, although at higher interest rates."*

Regulations from the Internal Revenue Service require that the proceeds of a mortgage bond program be used on individuals or families making no more than 115 percent of the area median income and who have not owned their place of residence within the past three years. In 2007, depending on the applicant's location, for a one or two person household the maximum eligibility amount would range from $59,300 to $68,400. For a household of three or more, the maximum income limit would range from $71,160 to $82,080. In a targeted area, the maximum income limit is 140 percent of the area median income.

An article in the Spring 2007 issue of the *Municipal Finance Journal* examined how state housing agencies allocated their mortgage revenue bond subsidies and found that there is considerable room for improvement in serving lower-income borrowers. The article's authors observed that some states "have favored home buyers who might have qualified on their own but who had income slightly below the program's threshold." They called for Congress to lower the income eligibility standards for a mortgage revenue bond program and better "target" the most needing recipients.

Loan Servicing

HCBA is also concerned that KDFA has maintained in the past that it must use a master-servicer to service all mortgage loans made with bond proceeds. In fact, Senate Bill 488 expressly allows KDFA to use a master mortgage servicer and would permit such a servicer to be an out-of-state company. Many savings and loans, as well as some commercial banks and manufactured home lenders, are still portfolio lenders. This means that when the institution makes a loan they service the loan themselves and do not sell the servicing rights on the secondary market. Even when they do sell the actual loan, like many commercial banks, they retain the servicing rights. This ensures that the mortgage is handled locally and the local lender is there to help if the borrower needs assistance. If KDFA and KHRC use a master servicer, however, Kansans may be forced to call XYZ Mortgage Company in New York or Florida to ask questions about their monthly mortgage payment.

Some savings and loans, as well as other mortgage lenders, purchase and service mortgage loans from other originators. As the subprime meltdown has impacted large mortgage buyers and servicers, we have reports that some of the national mortgage companies have increased their investments in traditional mortgages in places such as Kansas. This means that competition for mortgages on the secondary market is actually increasing and the sudden insertion of KDFA into that market will add another competitor for Kansas lenders. Although we do not object to the competition, in a tight marketplace we question the appropriateness of the State being one of those competitors.

HCBA fails to see the need for Senate Bill 488. Down payment assistance is already available without a new state program. The Federal Housing Administration offers zero down payment loans. Some private lenders are currently offering 103 percent loan-to-value mortgage products that not only don't require a down payment, but also finance three percent worth of mortgage insurance or closing costs. Kansas also already has a program in place that utilizes mortgage revenue bonds for those who think they're needed. Known as the Local Government Statewide Housing Program, the program is jointly administered by Shawnee and Sedgwick counties and is available to the other 103 counties. Senate Bill 488 will not bring anything new to the table that the current mortgage market doesn't provide.

Rather than dedicating itself to serving those Kansans who are currently unable to qualify for mortgage financing, the need to payback the mortgage revenue bonds means KDFA will compete for customers who are already being served by private, tax paying businesses. The Heartland Community Bankers Association appreciates the opportunity to share our opposition regarding Senate Bill 488 with the Senate Committee on Commerce.

Capitol Federal Savings

700 SOUTH KANSAS AVENUE
P.O. BOX 3505
TOPEKA, KANSAS 66601-3505
PHONE (785) 235-1341

JOHN C. DICUS, CHAIRMAN
HOME OFFICE, TOPEKA, KANSAS

February 12, 2008
"Capitol Federal's 110th Year
of True Blue Service"

To: Senate Committee on Commerce

From: Rick Jackson
Capitol Federal Saving Bank

Date: February 13, 2008

Re: SENATE BILL No. 488

Capitol Federal Savings Bank appreciates the opportunity to appear before you regarding Senate Bill 488.

Capitol Federal Savings Bank offers a range of deposit products, such as savings accounts, money market accounts, interest-bearing and non-interest bearing checking accounts, and certificates of deposits. Its lending products include consumer loans, construction loans secured by residential properties, commercial properties and multi-family real estate loans secured by multi-family dwellings or commercial properties, loans secured by first mortgages on one-to-four-family residential real estate loans, home equity loans, and automobile loans. The company principally serves metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia, and Salina, as well as a portion of the metropolitan area of greater Kansas City. As of September 30, 2007, Capitol Federal Financial operated 29 traditional and 9 in-store banking offices. The company was founded in 1893 and is headquartered in Topeka, Kansas. Capitol Federal Financial is a subsidiary of Capitol Federal Savings Bank MHC.

As the Community Development Director for Capitol Federal Savings Bank, my responsibilities are to Promote Capitol Federal services and products to community groups, city and state officials and non-profit organizations to determine and assess their representative needs. I develop new markets for Capitol Federal lending products and services through extensive community involvement. I coordinate the assessment of community credit needs and train loan staff on special loan programs and products.

I am here today to express to the committee Capitol Federal failure to see the need for legislation such as SB 488. As committed mortgage lenders, we do not believe the same problems in the mortgage industry that may have originally spurred the development of mortgage revenue bond programs in the 1960's and 1970's still exist today.

In the 1960's, the problem of "redlining" became the focus of many political and social activist groups. Areas were red-lined if it was believed they carried a high risk of loss and if loans were even available in these areas they were plagued by onerous lending conditions. Banks and savings and loan associations were specific targets of these groups because these institutions were soliciting and retaining deposits from people who lived in redlined areas but not making loans to them. While much of the mortgage industry landscape has changed dramatically since then, of primary importance to today's discussion is the commitment of mortgage lenders to low and moderate income borrowers.

In 1977 Congress passed the Community Reinvestment Act (CRA) to ensure that banks and savings and loans met the credit needs of their communities. The CRA requires federal financial supervisory agencies, when examining financial institutions, to encourage the institutions to help meet the credit needs of their communities, including low- and moderate-income areas. These loans must be consistent with the safe and sound operation of these institutions.

In addition to CRA, the Home Mortgage Disclosure Act (HMDA) was enacted in 1975 to require financial institutions to compile data on residential mortgage loan activity. Congress believed that this system of data compilation would provide an early warning to neighborhoods of disinvestment by financial institutions. Congress also believed that the data could additionally be used as evidence to support claims of violations of federal fair lending laws.

Between CRA and HMDA, mortgage lenders closely monitor their lending practices to make sure they're serving all facets of their community. Many banks and thrifts meet with community groups, city and state officials, as well as non-profit organizations, to determine and assess the credit needs of their communities. Out of these assessments, programs can be created and targeted to create additional jobs and housing. Due to rigid government oversight, lenders will often compete for CRA loans and view them as a valuable commodity.

Today, credit is in ample supply for mortgage borrowers. The primary unmet need that exists today is with potential borrowers whose credit history makes them unable to meet underwriting standards designed to ensure compliance with safety and soundness regulations. We do not ignore these potential customers, but we do say, "Not today." We then put our charitable resources to use by assisting non-profit housing organizations that help prepare future borrowers. These nonprofits offer home buying classes, budget classes, and maintenance classes to better prepare individuals and families for homeownership.

The only thing worse than failing to provide a potential borrower with the resources to purchase a home is giving a nonqualified borrower access to credit they can not repay. Despite having a house, the homeowner may then be unable to maintain the home in a safe manner. Under Senate Bill 488, KDFA could even be put in a position of foreclosing on the home and destroying that dream of homeownership.

Because of laws like CRA, HMDA, and Fair Lending, the dream of homeownership is a very real possibility for all Kansans. Within our communities, if an individual or family wants to own a home there are adequate resources available now through public and private partnership to make that dream become reality.

Sedgwick County
Housing Department
Brad Snapp – Director

604 N. Main, Suite E Wichita, Kansas 67203 T 316-660-7270 F 316-383-8271

Good Morning Madam Chair Brownlee and members of the Senate Commerce Committee. My name is Brad Snapp. I am the Sedgwick County Housing Director and I'm here on behalf of the Sedgwick County Board of County Commissioners in opposition to SB 488. It's been almost five years since I testified before this committee on this same topic. I want to update you on the Kansas Local Government Statewide Housing Program – the Program that will be laid to rest if SB 488 becomes law.

Sedgwick and Shawnee Counties co-issue this Program funded with single family mortgage revenue bonds. This program provides eligible low and moderate income Kansas families, who wish to buy their first home anywhere in the state, with down payment assistance and below market rate loans.

In 2007 - 3,162 Kansas families living in 67 counties used this program to buy their first home using nearly $281,000,000 in safe, fixed rate, low interest 30-year mortgages. The average home loan was $88,790.

Currently 337 cities in 104 counties participate in the Program. The most recent city to join was Grainfield in Gove County. The estimated population of Grainfield in 2003 was 313 people. We are so excited about them becoming a participating city. We couldn't find a Realtor in their community to contact about housing interests, but someone there knew the KLGSHP is the most successful housing program in the state. We will celebrate with them when the first loan closes!

Please let me draw your attention to the booklets and palm cards I provided for you. They were printed in August 2007 so all numbers have increased. You will see an overview of the program's value to first time homebuyers specifically and the state of Kansas in general, maps showing utilization in the last two years, participating cities and counties, participating lenders by area, and support letters from partners and one homebuyer.

In addition to the social and economic benefits of encouraging homeownership in communities the Program pays a private activity bond allocation fee to the Kansas Department of Commerce based on every mortgage originated. Since 2001 KLGSHP has sent $4,037,042 in allocation fees to the state. In 2007 alone we sent $1,534,553. In 2006 we closed some old mortgage revenue bond issues and used 2.3 million dollars to buy the interest rates down an average of 25 basis points or ¼ percent.

Senate Commerce Committee
February 13, 2008
Attachment 7-1

The KLGSHP provides below market, 30 year fixed rate mortgage loan financing for homebuyers statewide. Qualified homebuyers are eligible to receive up front cash of 4% of the loan amount which can be used for down payment, closing costs and other prepaid items. The Program's 4% cash assistance is a grant and does not have to be repaid.

The mortgage loans and 4% cash assistance are funded from tax-exempt revenue bonds issued by Sedgwick and Shawnee Counties. Periodically, new bonds are issued and a new mortgage interest is set. The State of Kansas is not obligated in any manner for the payment of the bonds.

Sedgwick and Shawnee Counties have jointly issued mortgage revenue bonds for nearly 20 years. KLGSHP was the first local government sponsored housing program in the nation to provide 4% cash assistance in the form of a grant to first-time homebuyers.

In order to qualify borrowers must be 'first time' homebuyers – meaning

- they have not had ownership interest in a primary residence in the last three years;
- Must occupy the home within 60 days of loan closing;
- At the time of closing, are not permitted to have an ownership interest in another residential property.

The first time requirement is waived if the house being purchased is in a Target Area. These areas are designated census tracts where 70% or more of the families have incomes at or below 80% of the statewide median income, or are in areas in need of economic development or revitalization as defined by the US Department of Housing and Urban Development.

Target areas may be found in parts of Douglas County (Lawrence), Geary County, Montgomery County, Reno County (Hutchinson), Riley County (Fort Riley and Manhattan), Saline County, Sedgwick County (Wichita), Shawnee County (Topeka), and Wyandotte County (Kansas City). All Target Maps are on our website at www.sedgwickcounty.org/housing/klgshp_maps.html.

Up to $3,000,000 has been set aside for disaster relief – for homeowners to rebuild their houses that were lost in the Greensburg tornado and Coffeyville flood.

At the beginning of every issue we send invitations to all mortgage lenders in the state. Most new lenders join because one of their clients wants to buy a house and tells them about the Program. Actual lender documents are on our web page. Currently we have 51 participating lenders that operate from 195 neighborhood branch locations.

We are on ground level with homebuyers and lenders. Just as new homebuyers have pride of ownership – we have pride of administration. We've worked hard to improve and grow the program. We provide a valuable resource to Kansas first time homebuyers.

This is a successful Program that continues to draw new lenders and cities and families – families who want to realize the dream of homeownership. One criticism we had four years ago was more loans being made in the eastern part of the state than the west. We have to agree, but it's because the population is denser in the eastern half of the state. This is a consumer driven Program – the Administrators do not dictate where families have to buy houses nor do we allocate funding to particular areas.

The Internal Revenue Service establishes the income and purchase price limits. The issuers follow their rules and regulations.

If SB 488 passes and becomes law giving Kansas Housing Resource Corporation authority to issue mortgage revenue bonds it is likely that the existing bond program will go away. How will low income Kansas families be assisted more effectively from a state operated program? Why would you consider dismantling an effective program with more than 20 years of successful operation to create a new state entity? It just doesn't make sense.

12/31/2007

Sedgwick County Kansas and Shawnee County, Kansas
Single Family Mortgage Revenue Bonds
(Mortgage-Backed Securites Program)

Allocation Fees Paid to Kansas Department of Commerce and Housing

Series	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007
2000 A	30,709.62						
2001 A	154,867.70	25,490.91					
2001 B	45,052.12	143,660.29					
2002 A-1		50,360.56					
2002 A-2		25,229.57					
2002 A-3		38,299.82					
2002 A-4		45,418.51	1,313.02				
2002 A-5		35,423.94	10,604.48				
2002 B-1			7,350.54				
2002 B-2			50,915.03	255.59			
2002 B-3			51,285.74	1,289.25			
2002 B-4			73,800.28	1,207.06			
2002 B-5			44,463.62	2,692.77			
2003 A-1			43,241.25	1,469.56			
2003 A-2			14,317.84	21,513.38			
2003 A-3				23,300.07	196.81		
2003 A-4				39,465.27	1,174.20		
2003 A-5				43,055.25	430.64		
2004 A-1				40,573.93			
2004 A-2				76,228.57			
2004 A-3				38,359.67	10,696.18		
2004 A-4				4,024.61	47,324.27		
2004 A-5					50,457.26		
2004 A-6					75,502.97		
2005 A-1					45,992.58		
2005 A-2					102,632.46		
2005 A-3					60,235.95	15,261.47	
2005 A-4					4,415.61	46,570.58	435.22
2005 A-5						75,364.07	2,719.00
2006 A-1						50,979.77	1,693.50
2006 A-2						60,456.93	2,174.97
2006 A-3						99,662.96	3,249.96
2006 A-4						139,259.71	2,675.23
2006 A-5						146,751.56	2,382.37
2006 A-6						117,281.43	2,550.08
2006 B-1						150,748.77	49,470.32
2006 B-2						15,853.35	184,750.41
2006 B-3							152,517.97
2006 B-4							203,128.20
2006 B-5							124,842.43
2007 A-1							205,323.65
2007 A-2							204,158.20
2007 A-3							203,124.62
2007 A-4							161,607.86
2007 A-5							27,748.58
	$ 230,629.44	$ 363,883.60	$ 297,291.80	$ 293,434.98	$ 399,058.93	$ 918,190.60	$ 1,534,552.57

7-4

Fee Allocation % varies for each issue

KANSAS Association of REALTORS®
SOLD on Service

To: Senate Commerce Committee

From: Luke Bell, KAR Director of Governmental Relations

Date: February 13, 2008

Subject: SB 488 – Authorizing the Kansas Development Finance Authority to Issue Mortgage Revenue Bonds

Chairperson Brownlee and members of the Senate Commerce Committee, thank you for the opportunity to appear today on behalf of the Kansas Association of REALTORS® (KAR) to offer testimony in opposition to **SB 488**. KAR has faithfully represented the interests of the 10,000 real estate professionals and over 700,000 homeowners in the State of Kansas for over 85 years.

SB 488 would authorize the Kansas Development Finance Authority (KDFA) to issue mortgage revenue bonds for financing, acquiring and originating residential mortgage loans. While KAR strongly supports providing additional affordable housing opportunities for the citizens of Kansas, this legislation will unfortunately not solve any problems currently facing the state.

<u>Kansas Already Has an Existing Statewide Mortgage Revenue Bond Program; Program's Distribution Rates Are Similar to Other States of Similar Size and Demographics</u>

Proponents of this legislation will assert that Kansas does not currently have a mortgage revenue bond program that services the entire state. Instead, these proponents have no doubt alleged that the administrators of the existing Kansas Local Government Statewide Housing Program (hereinafter "statewide housing program") have failed to distribute loans across the state in an equitable manner. However, those statements are misleading and inaccurate.

The existing statewide housing program administered by Sedgwick and Shawnee counties currently operates and has approved private industry lender partners in nearly every single county across the state. Over the last two years, the statewide housing program has provided nearly 4,300 low- and moderate-income Kansas families living in 67 counties with the funds to pay for downpayment assistance, closing cost assistance and below-market rate residential mortgages.

Based on an analysis of the statewide housing program's lending distribution rates over the last two years, it is clear that the statewide housing program does not currently make loans in every area of the state. However, these trends are not that uncommon when you compare the statewide housing program in Kansas to existing statewide mortgage revenue bond programs in other states of similar size and urban versus rural demographics.

3644 SW Burlingame Rd

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February 13, 2008
Attachment 8-1

As a basic rule of thumb, urban areas experiencing relatively high rates of population growth are much more likely to have significantly larger numbers of first-time homebuyers than a rural county with low or even negative rates of population growth. When you overlay a map of the statewide housing program's loan disbursements in 2007 on a map detailing the population loss of many rural counties in rural parts of the state from 1970 to 2000, you will see that the program is generally not as active in areas of the state experiencing low or negative rates of population growth.

Rural Kansas Does Need New Affordable Housing Opportunities; However, Transferring Control of the Statewide Housing Program Will Not Create New Affordable Housing Opportunities in Rural Kansas

The Kansas Legislature does have a legitimate role in promoting the development of new affordable housing opportunities in rural Kansas. However, simply transferring the administration of the statewide housing program from Sedgwick and Shawnee counties to KDFA will not create new demand for a first-time homebuyers program in areas of the state with limited or negative population growth.

The major problem inhibiting the construction and development of new residential housing in rural Kansas is the high cost of new home construction. For the most part, it typically costs more to build a new home in rural Kansas than the home is worth in terms of the appraised value. When the cost of the new home substantially exceeds the appraised value, it is very difficult to obtain mortgage financing and property insurance for the new home.

No matter what cost-cutting steps are taken by the developer of a new home, it is generally impossible to build a new home for less than $100 per square foot. A basic new 1,200 square-foot new construction home built in rural Kansas will generally cost around $115,000 to $125,000 to build. However, that same home may only have an appraised value of $80,000 to $90,000.

As a result, the only proven way to increase the supply of affordable housing is to decrease the cost of construction for new homes whereby the cost of the new home does not exceed its appraised value. Fortunately, the Kansas Senate has already passed legislation that would take a substantial step in alleviating this valuation gap problem.

SB 417, which passed the Senate on a vote of 35 to 5, would establish a new housing development block grant program to be administered by the Kansas Housing Resources Corporation (KHRC). This development block grant program would allow cities in rural Kansas to request grant funding to provide public infrastructure to new residential development.

In our opinion, the development block grant program that would be created under **SB 417** has the potential to be the most innovative new tool for the development of new affordable residential housing in the history of the public policy of this state. Providing adequate public infrastructure (sewer, water, arterial streets, etc.) to new residential developments is a daunting (and extremely expensive) obstacle to the creation of new affordable housing opportunities.

When public infrastructure is provided to a new residential development, the developer or homebuilder is able to pass significant cost savings along to the eventual buyers of the new homes in the development. In turn, this has the potential to reduce the cost of building a new home by an estimated $25,000 to $35,000, which would decrease the difference between the cost and appraised value of the new home. Passage of **SB 417** by the Kansas Legislature would be a substantial step to address this valuation gap problem in rural Kansas.

KBIA

KANSAS BUILDING INDUSTRY ASSOCIATION, INC.

Statement of the Kansas Building Industry Association
To the
Senate Commerce Committee
Senator Karin Brownlee, Co-Chairperson
Senator Nick Jordan, Co-Chairperson
Regarding S.B. 488
February 12, 2008

Dear Chairmen and Members of the Committee:

I apologize that meetings of the National Association of Home Builders prevent me from being in Topeka today and appreciate the opportunity to provide this written statement. I am Chris Wilson, Executive Director of the Kansas Building Industry Association. KBIA has over 2300 member companies statewide. We have 8 regional associations throughout the state. Our member companies are involved in the residential housing industry.

KBIA supports the Kansas Local Government Statewide Housing Program as it exists in its current structure. This resource provides eligible low and moderate income Kansas families, who wish to buy their first home anywhere in the state, with down payment assistance and below market rate loans. This statewide program is administered on behalf of the state through Sedgwick and Shawnee Counties, which co-issue this Program funded with single family mortgage revenue bonds.

Our members throughout the state believe that this is a very effective program. Currently 337 cities in 104 counties participate in the Program. It has worked well for homebuyers, lenders and other partners, and is very responsive to the needs throughout the state.

The Statewide Housing Program pays a private activity bond allocation fee to the Kansas Department of Commerce based on every mortgage originated, which since 2001 has provided $4,037,042 in allocation fees to the state.

The KLGSHP provides below market, 30 year fixed rate mortgage loan financing for homebuyers statewide. The existing program has done a great job in every area of the state and is well-administered. We don't see a need or reason to change that by in effect transferring the administration of the program, which is what S.B. 488 would accomplish.

Therefore, KS Building Industry Association opposes S.B. 488 and respectfully requests the Committee to not report it favorably for passage.