State Update
Bonding Bill Signed with Line-Item Vetoes, Housing Fairs Well
On Monday, Governor Pawlenty line item vetoed $208 million dollars worth of projects from the Legislature’s bonding bill. Line items cut by the red pen include Central Corridor LRT and other transportation projects, parks, and Met Council funding. The four housing initiatives included in the bill, however, were not cut.

The agency’s authorization to sell $30 million in 501(c)(3) revenue bonds was one housing initiative included in the bonding bill. The $2.4 million in annual debt service for Minnesota Housing’s revenue bond sales was also included in the bill. The bonding bill’s third housing item is $1 million in general obligation bonds for publicly owned emergency shelters, transitional, and permanent supportive housing. The last item included in the bonding bill is language instructing Minnesota Housing to establish a study group of stakeholders to examine the future use of 501(c)(3) bonds, investigate alternative tax classifications for land trusts, and recommends mortgage foreclosure prevention and vacated properties remediation strategies.

Possible Inclusion of Sales Tax Exemption in Tax Bill Two
Legislators in both the House and Senate are currently working on their second tax bill of the session. MHP and other housing advocates are working to include the Sales Tax Exemption Extension for Affordable Housing Construction Materials (H.F. 1204/ S.F. 800) in this bill.

Minnesota already offers a sales tax exemption for affordable housing construction materials to non-profit developers to reduce the cost of developing low-income housing. However, while non-profit developers are eligible for the exemption, affordable housing projects that involve a limited partnership where the general partner is a nonprofit are not eligible for the tax exemption. Yet, to utilize federal resources for developing affordable housing, nonprofit
developers frequently form limited partnerships with investors. Under this circumstance, the nonprofit or public agency serves as the general partner of the limited partnership and retains management and financial control over the property. The sales tax exemption change would benefit about 600 units of affordable housing a year.

Last year, the bill was successfully included in the Omnibus Tax Bill. Unfortunately, the governor vetoed the final Omnibus Tax Bill because of his opposition to factoring inflation into state budget forecasts.

**Foreclosure Deferment Act Facing Opposition**
The Minnesota Subprime Foreclosure Deferment Act of 2008 [H.F. 3612(Davnie)/S.F. 3396(Anderson)] is positioned on the floor of both the House and Senate for passage but is running into significant opposition from the banking and mortgage industry. These bills provide a one year deferment on foreclosure for individuals who can prove their eligibility via affidavit. According to the Act, deferment-eligible property owners still must make payments on their mortgages. The Act proposes that the property owner’s deferment-period mortgage payment amount be either the monthly payment of principal and interest on the date the loan was originated or 65 percent of the monthly payment of principal and interest at the time the borrower defaulted prior to foreclosure. Banking and mortgage industry representatives say that the bill will undermine underwriting and secondary markets in the state. Passage of these bills would provide a temporary reprieve for approximately 15,000 people who purchased questionable mortgage products.

**Foreclosure Bills Move Forward**
The dozens of foreclosure bills moving through Minnesota’s Legislature currently fall into three categories: still being worked on by Legislature, but experiencing significant opposition; still being worked on by Legislature, but generally well received; and recently received and signed by governor. Most foreclosure bills reside in the second category.

**Foreclosure Bills Signed by Governor:**

- **H.F. 3474(Hilstrom)/S.F. 2918(Higgins):** establishes property abandonment criteria so lenders can implement five week redemption period option.

- **H.F. 3476(Kohls)/S.F. 2908(Higgins):** sets up landlord and tenant foreclosure notice requirements and contract cancellation proceedings for properties under foreclosure.

- **H.F. 3517(Davnie)/S.F. 2910(Higgins):** requires expungement of eviction records for tenants of foreclosed rental properties.

**Foreclosure Bills with Recent and Significant Movement:**

- **H.F. 3516(Davnie)/S.F. 2914(Rest):** sets up foreclosure data practices requirements, statewide foreclosure data collection and a reporting system study. Passed in both bodies & awaits governor’s signature.
• **H.F. 3428(Gunther)/S.F. 2909(Olseen):** gives tenants the right to take over utilities payment when a landlord is in default. Currently, bills are being conferenced.

• **H.F. 3477(Gardner)/S.F. 2917(Marty):** regulates manufactured home lending practices and amends default regulation provisions. Passed in House on 4/1, currently in Senate.

• **H.F. 3478(Peterson)/S.F. 2915(Moua):** lifts the cap of $8,500 for collecting punitive damages and gives the state the right to punish persons guilty of residential mortgage fraud. Passed in Senate on 3/31, Senate File in House.

• **H.F. 3346(Davnie)/S.F. 3073(Higgins):** a bill that increases the per-recipient cap on mortgage foreclosure assistance. Passed in House. House bill introduced in Senate on 4/1.

• **H.F. 3774(Dominguez)/S.F. 3214(Higgins):** clarifies the application of the Minnesota Residential Mortgage Originator and Servicer Licensing Act, and clarifies the investment authority of certain insurers. Passed in Senate on 4/3. Senate bill introduced in House on 4/7.

• **H.F. 3839(Lillie)/S.F. 3154(Scheid):** regulates residential mortgage originators and services verification of borrower’s ability to pay. Passed in Senate on 3/6. Senate bill introduced in House on 3/6. No recent movement.

**Thanks You Notes Are Encouraged and Always Welcome**
A number of our legislative friends worked hard to include housing items in the bonding bill. If you contacted any legislators encouraging their support, please send them a thank you note. Special notice should be given to Representatives Benson, Hausman, Clark, Lanning, Solberg, and Carlson, and Senators Tomassoni, Cohen, Langseth, Pappas, and Koering.

Thank you notes do not need to be fancy—just a card with a short personal message. Thanks are highly appreciated by legislators and they carry advocates a long way on future requests.

**Bits and Bytes**
**Supplemental Bills Pass House and Senate**
This week, the House and Senate passed their respective budget-balancing bills—both of which, thankfully, left Minnesota Housing’s budget intact. The bills’ next stop is conference committee where the proposals’ differences will be worked out.

**Federal Update**

**Flurry of Federal Foreclosure Bills Continues**
Earlier this year, staff members at the National Low Income Housing Coalition shared with MHP an interesting problem: they were (and probably still are) having difficulties keeping up with all the new housing legislation introduced in Congress over the past year. Not a bad problem to have considering the multi-year, federal housing bill drought we weathered previous to 2007. It's
not a surprise that much of the newly-introduced legislation relates to foreclosures and predatory lending. Here’s a review of some recent foreclosure proposals at the federal level.

- **S. 2636 (Reid):** Originally, this was going to be the Senate’s primary foreclosure remediation bill. However, it was defeated because of a section that allowed bankruptcy judges to renegotiate mortgages.

- **Dodd-Shelby Proposal** (no number yet): This is the Senate’s bi-partisan “take-two” after the Reid bill’s defeat (above). The legislation includes support for foreclosure counseling, $4 billion in supplemental CDBG funding to deal with vacant homes and neighborhood stabilization, enhanced mortgage disclosure regulation, veterans assistance, property tax relief in the form of a standard deduction for all homeowners, increased mortgage revenue bond limits for housing authorities, homebuilder tax breaks, and a tax credit for the purchase of foreclosed homes. Notably, the proposal *does not* contain Dodd’s proposal to require Freddie Mac and Fannie Mae to purchase certain loans and help write down the cost of the loans to help keep at-risk families in their homes. The National Low Income Housing Coalition reports that Dodd will continue to work on this issue.

- **FHA Housing Stabilization & Homeownership Retention Act (Frank—no number yet):** This draft bill allows FHA-insured refinancing of distressed, lender-discounted mortgages and provides $10 billion in loans and $5 billion in grants to purchase and rehabilitate vacant, foreclosed homes. Advocates have been urging Frank to include deeper income targeting in the legislation.

- **H.R. 5678 (Waters):** This proposal provides $10 billion in CDBG funding for vacant, foreclosed property remediation with deep income targeting (25 percent of funds must benefit extremely low income households). The National Low Income Housing Coalition supports this bill.

- **H.R. 5679 (Waters):** This bill requires mortgage services to engage in “a reasonable effort to keep a borrower in delinquency in his or her home,” Rep. Waters said in a press statement.

- **S. 2801 (Clinton):** Senator Clinton’s Web site describes this bill as “Legislation [that] would encourage mortgage modifications that would provide immediate relief for homeowners facing foreclosures while protecting families and investors.” In essence, the bill encourages mortgage modification while providing lenders protection from legal retribution. It also waives excessive fees, and specifies only owner-occupied properties can benefit.

### Important Dates

**April 9-10**  
League of Minnesota Cities Legislative Conference and Day at the Capitol, go to the League’s Web site, [www.lmc.org](http://www.lmc.org), for more information.
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Minnesota Housing Partnership’s mission is to promote homes for all Minnesotans and to assist Minnesota communities in the creation and preservation of housing affordable to low- and moderate-income people.