

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2333

2007 SENATE POLITICAL SUBDIVISIONS

SB 2333

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2333**

Senate Political Subdivisions Committee

Check here for Conference Committee

Hearing Date: **January 25, 2007**

Recorder Job Number: **1879**

Committee Clerk Signature

Shirley Borg

Minutes:

Chairman Cook called the committee to order. All members (5) present.

Chairman Cook opened the hearing on SB 2333 relating to a housing finance agency program to bridge the financing gap of new residential construction in rural communities.

Senator Nick Hacker, District 42, Grand Forks, ND. introduced SB 2333. This bill addresses an issue which we are seeing in certain rural areas through out the state of North Dakota.

There is a gap between the constructed value or cost of a house and the appraisal value. This would help assist local entities as well as the individuals that want to build a new house in rural North Dakota. The bill works in a few different ways. It addresses cities of 20,000 people or fewer and it excludes the big four plus West Fargo. It would only apply to cities that have a housing gap, which is a gap between the constructed value and appraised value. It excludes mobile homes but does not exclude manufactured housing. The state will only commit up to 45% of the gap. It provides flexibility to the housing finance authority which is on the industrial commission. It is a pilot program which is only good for four years.

Representative Monson, District 10, Northeastern ND, appeared in support of SB 2333. I think the bill is something our small towns could use and it makes some sense.

Representative Onstad, District 4, Parshall, ND, testified in support of SB 2333. This bill addresses a need that has been a problem in rural areas. I built a home in 1997 and when the appraisal came in it was 65% of what it cost me actually to build my home. I believe this bill has a lot of merit and is functional the way it is.

Michael Anderson, Executive Director, ND Housing Finance Agency, testified in support of SB 2333 and offered some amendments to be addressed. (See attachment #1) I would like to answer some questions about the 20,000 population. The position of ND Housing is that by definition of the financial gap, it is self limiting. Whether that community is 20,000 or 10,000 if there is a gap that is what you are trying to address.

Chairman Cook asked how the gap exists and who determines the gap.

Michael Anderson said he would envision that it would be done with the appraisal process.

That is typically where you identify the gap. The biggest need will be in cities where the land cost is not going to be that great.

Senator Olafson asked if this will be a reduced interest rate or will the interest rates be comparable to regular financing?

Michael Anderson answered that this will be a grant. The low interest loan that I referred to earlier would be providing for the development of the housing not the financing.

Becky Meidinger, Development Specialist for Cooperstown Community Development, representing the Economic Development Association of ND, testified in support of SB 2333. (See attachment #2)

Senator Christmann, District 33, testified in support of SB 2333. The bill is very important for rural North Dakota. In his area where there is a lot of industry they face a very big hurdle as the people who got the industry going are now reaching retirement age and they like it there

and are not wanting to leave. So as they are recruiting young new workers, the workers don't have the kind of the investment they need to build a new home, so it is needed in this area.

Paul Rechlin, Executive Director Communityworks of ND, testified in support of SB 2333.

(See attachment #3)

Sherry Arenz, Chief Lender, Communityworks of ND, has worked with Fanny May on the appraisal gap. There are a variety of different reasons that happens. The secondary market will not purchase typically more than 97% and we have worked with Fanny May, ND Housing, Bank of ND and other secondary markets to set up a special program to handle that. They will never go above 100% of the appraised value but they will allow us because of our program guidelines to provide in addition 20%. There are a lot of guide lines, it is not an easy thing to do, we have done in the last several years about a dozen. It is a large variety of different financing and it depends upon what fits the situation.

Senator Warner In my area a good share of the housing which is created will eventually be converted into trust land and will go off of the tax rolls forever. This creates a real resistance for local participation requirements. Local governments are not willing to put money into land which they will never recoup any property tax from. Do you see that as an impediment to this legislation?

Shirley Dykshoorn, Fanny May, North Dakota, answered that anytime you are dealing with trust land and in particular tribal trust land, the tribe has to enact certain tribally accepted requirements if it is something that is going to be sold, we have to have an agreement with the tribe with the requirements in terms of the trust land. I think that at the same time you are looking at this legislation we have to be working with the tribal government to make sure that what they have adopted is consistent as to what we can accept and at the same time our office

in housing finance has to be working with Communityworks to make sure you don't have additional bumps along the road. Every situation is unique.

Senator Holmberg, District 17, was asked to be a co-sponsor of this bill and he would have if he wasn't Chairman of Appropriations. He thinks the bill has great potential in rural North Dakota.

Mike Marshel, private developer, appeared in support of SB 2333. As a multi unit developer, the problem they have as private developers is they have an income gap or rental gap and they also have an appraisal gap. The problem is as a developer we have to finance with their money the difference between providing that housing and getting the 120% of debt service coverage to work and to be able to get the construction cost to work. We need tools to help us to evade some of the risks with multi unit property. It is important that this is not debt. We have too many debt programs in ND.

Doreen Redmann, ND Association of Builders offered support to SB 2333. We think it is a really good idea. We do get contacts often from the rural areas.

Duke Rosendahl, Developer Director, Hazen, ND appeared in support of SB 2333. The gap issues have always been a part of the problem in economic development. We have some good programs for housing but they are not being filled because of those gaps. I think that this bill is an awesome way to take a look at it.

John Mahoney, Center ND appeared in support of the SB 2333. There is a serious gap in getting homes. In Center we are on the verge of getting some developments on the edge of town, because we are having a lot of activity up there, but people are having a real hard time getting financing to build a home and we are losing those people to the bigger towns. It is a real good tool.

Mel Heilman, City Council, and Housing Authority Board, City of Center appeared in support of SB 2333. This type of a program would be a great savings in our community.

Michael Anderson offered to work with the committee if they feel some additional changes need to be made with the bill. A couple of things you need to be aware of in terms of what you put into the bill so you don't become too restrictive. We are aware of abusing and creating an additional gap when it is not necessary. Be real careful on how you place those limitations on the amount of assistance you get. There are secondary financing for them but you have to work to get special programs.

Senator Hacker asked if he could explain the design of housing and finance and who it is responsible too.

Michael Anderson answered that the Housing Finance Agency is a member of the Industry Commission and they are our governing body. All the programs that we create and administer are through the advice and guidance of a six member advisory board that we have and then finding Industrial Commission approval. Any rules and procedures that we would put into place with this program would require us to take that in front of the Industrial Commission.

Chairman Cook closed the hearing On SB 2333

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2333**

Senate Political Subdivisions Committee

Check here for Conference Committee

Hearing Date: January 26, 2007 (Committee Work)

Recorder Job Number: 2056

Committee Clerk Signature

Shirley Borg

Minutes:

Chairman Cook asked for committee work on SB 2333.

Senator Hacker passed out amendments on SB 2333. (Attachment # 1)

The committee will study the amendments over the weekend.

Chairman Cook adjourned the Senate Political Subdivisions Committee.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2333**

Senate Political Subdivisions Committee

Check here for Conference Committee

Hearing Date: **February 1, 2007**

Recorder Job Number: **2660**

Committee Clerk Signature

Shirley Borg

Minutes:

Chairman Cook called the committee to order. All members (5) present.

Senator Hacker handed out amendments and explained them along with a letter from Mike Anderson (attachments #1, #2, and #3)

Senator Hacker moved the Amendments

Senator Anderson seconded that motion

Voice vote: All members in favor.

Senator Warner made a motion for a Do Pass as amended and be re-referred to Appropriations.

Senator Anderson seconded the motion

Roll Call: Yes 3 No 2 Absent 0

Carrier: **Senator Hacker**

JH
1 of 2
2-2-7

PROPOSED AMENDMENTS TO SENATE BILL NO. 2333

Page 1, line 1, after "new" insert "subsection to" and replace "to chapter 54-17" with "54-17-07.3"

Page 1, line 3, after the first semicolon insert "to provide for a report to the legislative council;"

Page 1, line 6, after "new" insert "subsection to" and replace "to chapter 54-17" with "54-17-07.3"

Page 1, replace lines 8 and 9 with "A"

Page 1, line 10, remove "shall establish and administer a"

Page 1, line 16, replace "2." with "a.", replace "commission's" with "commission shall establish the eligibility criteria and", and replace "financial assistance under" with "the"

Page 1, line 17, remove "this", after "program" insert "which at a minimum", and remove "provide"

Page 1, replace lines 18 through 23 with:

(1) Require a local grant match from private or public funding or in-kind contributions which may not exceed forty-five percent of the gap between the cost of construction and the appraised value of the new construction;

(2) Provide that the local grant match may not include state funds; and

(3) Require an application for assistance under this program to include evidence of community support for the new construction project.

b. The maximum assistance provided to any person or family under this program may not exceed forty-five percent of the gap between the cost of the construction and the appraised value of the new construction. Assistance provided under this program may be provided to a person or family of low to moderate income or to any other person or family in a developing community in the state to address an unmet housing need or to alleviate a housing shortage.

Page 2, remove lines 1 through 9

Page 2, line 10, replace "3." with "c."

Page 2, line 18, after the period insert "The housing finance agency may not be construed to be a general fund agency because of the appropriation made by this section."

SECTION 3. EXPIRATION DATE. Section 1 of this Act is effective through July 31, 2011, and after that date is ineffective."

Renumber accordingly

2 of 2



7

Date: 2-1-07
Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. SB 2333

Senate Political Subdivisions Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass as Amended and Re Referred to Appropriation

Motion Made By Senate Warner Seconded By Senate Anderson

Senators	Yes	No	Senators	Yes	No
Senator Dwight Cook, Chairman		X	Senator Arden C. Anderson	X	
Senator Curtis Olafson, ViceChair	'	X	Senator John M. Warner	X	
Senator Nicholas P. Hacker	X				

Total Yes 3 No 2

Absent 0

Floor Assignment Sen. Hacker

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2333: Political Subdivisions Committee (Sen. Cook, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (3 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2333 was placed on the Sixth order on the calendar.

Page 1, line 1, after "new" insert "subsection to" and replace "to chapter 54-17" with "54-17-07.3"

Page 1, line 3, after the first semicolon insert "to provide for a report to the legislative council;"

Page 1, line 6, after "new" insert "subsection to" and replace "to chapter 54-17" with "54-17-07.3"

Page 1, replace lines 8 and 9 with "A"

Page 1, line 10, remove "shall establish and administer a"

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Page 2, line 18, after the period insert "The housing finance agency may not be construed to be a general fund agency because of the appropriation made by this section."

SECTION 3. EXPIRATION DATE. Section 1 of this Act is effective through July 31, 2011, and after that date is ineffective."

Renumber accordingly

2007 SENATE APPROPRIATIONS

SB 2333

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2333

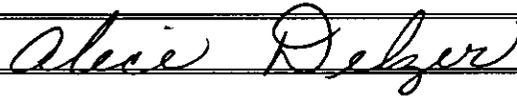
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-13-07

Recorder Job Number: 3470

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2333.

Senator Nicholas Hacker, District 2, Grand Forks, presented written testimony (1)

introduced SB 2333 testifying in support of the bill indicating it is a development bill to address new residential construction financing. He described how the financing would work for rural communities.

Mike Anderson, Executive Director for the North Dakota Housing Finance Agency, presented written testimony (2) and testified in support of SB 2333 indicating the state would be investing in rural economic development. He described how the program would work.

Rick Clayburg, President, ND Bankers Association, testified on behalf of the ND Bankers Association indicating they are supporting SB 2333 because it will be helpful to economic development in the rural community.

Claus Lembke, ND Realtors, Jamestown, testified on SB 2333, indicating the funding goes to the bankers and the communities discussed she felt were prosperous communities. In one section it indicates community support must sign off on the application, who does that mean.

She sees this as competition with local bankers as well as the elimination certain types of housing.

Senator Fischer moved a do pass on the amendment, Senator Christmann seconded.

An oral vote was taken and the amendment passed.

Senator Christmann moved a do pass on SB 2333 as amended, Senator Bowman seconded. A roll call vote was taken resulting in 13 yes, 0 no and 1 absent. The motion carried and Senator Hacker will carry the bill.

Chairman Holmberg closed the hearing on SB 2333.

Date: 2/13/07
Roll Call Vote #:

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2333..

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken do amend the Bill

Motion Made By Fischer Seconded By Christmann

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm			Senator Aaron Krauter		
Senator Bill Bowman, V Chrm			Senator Elroy N. Lindaas		
Senator Tony Grindberg, V Chrm			Senator Tim Mathern		
Senator Randel Christmann			Senator Larry J. Robinson		
Senator Tom Fischer			Senator Tom Seymour		
Senator Ralph L. Kilzer			Senator Harvey Tallackson		
Senator Karen K. Krebsbach					
Senator Rich Wardner					

Total (Yes) all No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Date: 2/13/07
Roll Call Vote #:

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2333

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken do pass as amended

Motion Made By Christmann Seconded By Bowman

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann	✓		Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer			Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment policialSubs

If the vote is on an amendment, briefly indicate intent:

Hucker

REPORT OF STANDING COMMITTEE

SB 2333, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends
DO PASS (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2333
was placed on the Sixth order on the calendar.

Page 2, line 10, replace "\$5,000,000" with "\$2,215,000"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

This amendment decreases the general fund appropriation for the program to bridge the financing gap of new residential construction in rural communities by \$2,785,000, from \$5,000,000 to \$2,215,000.

2007 HOUSE POLITICAL SUBDIVISIONS

SB 2333

2007 HOUSE STANDING COMMITTEE MINUTES

Bill No. SB 2333

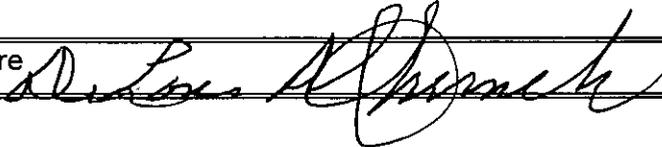
House Political Subdivisions Committee

Check here for Conference Committee

Hearing Date: March 8, 2007

Recorder Job Number: 4659, 4715

Committee Clerk Signature



Minutes:

Chairman Herbel opened the hearing on SB 2333.

Senator Hacker: (see testimony #1).

Rep. Lawrence Klemin: I can think of maybe four cities that this would not be covered in North Dakota. By census West Fargo would be covered under this too; by current population it would not be. So basically this covered all of North Dakota except the four major population areas. Why 20,000?

Chairman Hacker: It is only communities that are experiencing the gap problem. Casselton does not have a gap problem or any city close to the larger communities. The cost of construction vs. the appraised value that is all we are addressing. We are not addressing anything below the appraised value. That is the responsibility of the home buyer or builder so they are still going to have their down payment.

Rep. Lawrence Klemin: I am pretty familiar with the appraisal process and I know that allot of times the appraisal you get depends on the appraiser you get. I have seen properties that have had three appraisers with three different values. Maybe the problem isn't in the construction, but in the appraiser process? There is more than one way to appraise property and comparable sales is one of those, but have you ever gone to the city and say my structure

isn't worth as much as you say it is in tax purposes, they won't look at comparable sales, they will look at replacement costs. Replacement cost is almost always more than comparable sales so I am wondering if maybe the problem is not so much in the gap; it may be created by appraisers. Would this possibly result in every one trying to find the most favorable appraiser to get them the evaluation so they get the paper gap?

Senator Hacker: You mentioned commercial property. This bill does not apply to commercial property. The appropriate way to appraise homes is comparable sales. Appraisers provide an estimate of value. When we started to draft this bill we tried to address income and other things in the bill but we were creating a mess. It was almost impossible to write a program into legislation so to provide only finance liability.

Rep. Lawrence Klemin: You said local grant money. Can the home owner contribute to that local grant money?

Senator Hacker: I believe they could. A lot of communities are not going to be willing to use copy cat dollars to help some bodies' neighbor build a home. Those dollars will come from employer.

Rep. Lawrence Klemin: The employee could also contribute to that. Let's give an example. If you build a \$120,000 house and it cost \$120,000 to build; the appraised value is \$80,000 so we would have a \$40,000 gap here. The maximum that can be contributed under this is 45% which of that \$40,000 would be \$13,000. So if the homeowner contributes the other \$22,000 and the state kicks in the \$18,000; now you have basically assisted with the down payment.

Senator Hacker: I think we would assist with the down payment. The home owner would have \$22,000 plus the \$8,000 down that they need; it cost them about 10% on an \$80,000 loan so we are talking \$30,000. You take the \$120,000 home in Fargo or some of these other areas; what is his down payment, \$12,000.

Rep. Lawrence Klemin: What is the city going to value that property for tax purposes; \$12,000?

Senator Hacker: They will assess the property.

Rep. Kim Koppelman: I would like to explore a couple things I see with your concept. 1) It exempts farmsteads and there are a whole lot of empty farmsteads. I assume the reason you do that is because of the assessed value on property if zero because taxes aren't paid on them. Is that right?

Senator Hacker: That is part of it; it is also the farm homestead law that assists.

Rep. Kim Koppelman: You don't like mobile homes either.

Senator Hacker: Mobile homes are moveable and there is no benefit for the community when they are moved. It does not exempt manufactured homes.

Rep. Kim Koppelman: We have done a lot of things in this legislature over the years to try to assist whether it is developing rugged areas like the renaissance zone in cities of all sizes are making use of that in a good way. It is not a subsidy and we had another bill last week in our committee that is a continuation of a program that we began last session to help construction of apartments and multi dwellings in small communities. This is yet another approach but what concern me is though the disparities that I see. One of the problems you are spot lighting here is depressed property values in our small towns. Now my concern that if we have a number of existing homes in a small town. We already as a legislature said we are going to subsidize the building of apartment buildings so you come into a small town and you want to rent and you are a private property owner; if his property was not constructed under this government program it has created immediately a competitive disadvantage because he does not have that advantage and now we are going to put, if he wants to sell his house, we are putting him at

rather an additional disadvantage it seems to me because you are giving him tremendous subsidy's to you to build a house in that town vs. buying it.

Senator Hacker: To drive property values up in any area you have to have activity.

Rep. Kim Koppelman: I understand that, but you are trying to do that through an artificial means through a government subsidy. In other words taxpayer dollars paying to build you a house. Don't you trust the free market forces to create a system where it works for someone? I see small towns where houses are being built and there is a gap you are talking about with appraised value vs. cost of building and apparently some people are deciding that is OK. There are other reasons they want to live there; taxes are low, there is no crime and the schools are good.

Senator Hacker: The government and the state of ND, which I know, allot of legislation within the free market. This bill will help some of those communities that are really struggling and there is a list of them. The cost of getting in is too much. If we can provide a tool to allow some young family to come into a small local community this will add to the local economy. It is for folks who could not possible afford to put all that money down. The idea is we have a rural demise going on in the State of ND and if we could provide a tool that would allow some young families out there to come to local communities that would be great. This would just stir the pot a little bit.

Rep. Chris Griffin: Did you think about putting a cap on how much money could be appropriated from the state for a single dwelling home?

Senator Hacker: No we did not. With working with housing and finance; different things started coming up and they said let us have the ability to say yes or no to projects so they could buy one or not. So we put a 45% cap on there so the state or local community is not being assessed for anything more than that. It is up to 45% at the discretion of housing and

finance. If this bill to provide million dollar homes; absolutely not. Housing and finance will have that ability. If you put a cap on there of maybe \$150,000-\$175,000 for the constructed value of the home and a rural community is planning to give back to the local parent. Trying to get a doctor to live in the smaller town vs. living in a larger community; they can use that to encourage them to live in the smaller town.

Rep. Steve Zaiser: to follow up with Rep. Chris Griffin question, do you think it is appropriate for tax payers in the state of North Dakota to subsidizing for someone who has the potential to earn a whole lot of money and probably is making a whole lot of money.

Senator Hacker: We subsidize all sorts of things here whether it is private industry through different economic development initiatives and things like that. It is simply an economic development tool. We are saying this is our problem and this is what we need to address. Discussed the fact that a lot of people travel in and out of Bismarck to work.

Rep. Louis Pinkerton: I applaud your effort because of this gap of appraisals in construction costs. What happens when you make this grant of 45% and then the home owner turns and sells the property in two years? Many of these homes are being built lots of time with allot of sweat from the owner. We get into a situation where a carpenter moves to Westhope, ND where there is a big gap and they get their 45%. Then they sell that home in two years does the state recapture that money?

Senator Hacker: We talked about some of the ways they could recap some of those dollars if that situation would come up. If that home sold, the program gives you the comparable sale that we were looking for. I do understand that someone that builds his own house and then sold it he would have made money.

Rep. Lawrence Klemin: I am trying to work through the logic on this comparable sale. If you had a \$120,000 home that appraised at \$80,000 and sold the house and again it appraised at \$80,000 how would that bring up the value?

Senator Hacker: I would hope that house would sell for \$90,000 or \$100,000 there is no comparable sale.

Rep. Lawrence Klemin: but you constructed this \$120,000 home that appraised at \$80,000 two years ago and now the same appraiser comes in and looks at it and says it is still an \$80,000; you really haven't increased the value of the home along with the other people in town because the comparable sale is still the same.

Senator Hacker: I will try to answer your question again. We hope this will provide value to homes so the appraisal of two years ago will not be the same as before. The program completely fails if the sales appraisal comes in at \$70,000 and the home sold at \$70,000. That is not what we intend. Once we move in the direction of the constructed value starts to erode the gap.

Rep. Lawrence Klemin: If it works the way you hope it does here it would have the affect of bringing up the values of the other houses in town and that would increase their property taxes too.

Senator Hacker: I would say that is on those folks at the local level of government to lower their mills so that the property tax doesn't increase but it would add a new home onto the rolls.

Rep. Kari Conrad: Isn't one of the problems you have is you have all this old housing and so when you try and sell a new house you don't being compared to the sale of new houses because nothing else is comparable. Discussed fact that no one else has built new comes in some small rural towns for 15 years.

Senator Hacker: That is the problem we are trying to address.

Rep. Steve Zaiser: I support these bills that help with the rural communities but I am worried about the abuse that can happen with this bill. How do we prevent fraud when it comes to the buying and selling of the home? Do you have any ideas to prevent the improper use of the program?

Senator Hacker: We had the same concerns. When we looked at the bill we tried to put some flexibility on the constructive cost or income unit cap. That was a problem we ran into with providing housing for single family units.

Rep. Steve Zaiser: Would you be amendable to some amendments to this that gives the locality flexibility, but also may be a way to tighten up the loop holes?

Senator Hacker: Absolutely, but the executive director of public finance is very knowledgeable as well and he would be able to assist you.

Senator Christmann: I don't know the details of the housing situation as well as Senator Hacker. I think it would be a great part of the solution for rural North Dakota faces. A couple things that you were talking about earlier. When you were talking about property tax values and I guess we could say that about Universities and all the things we try to do to spur on the economy that drive up values and ultimately property taxes. Under the current systems, when we get into these areas the face the gap builders is not building spec homes and that is part of our problem. I wanted to add that the development of our state economy. Look at our budget and a lot of what is good in making money available for us to do good things is coming from oil and coal. The oil and coal is not found in down town Grand Forks, Minot or Bismarck. It is found in the rural areas. Twenty five years ago when coal industry was really taking off and part of the 80s when the oil was booming out in the Williston area a number of those companies had regulations of where those employees could live. It worked when unemployment was high. Will over the years it has become harder and harder to get the highly

trained, highly skilled people that are needed in modern industry and so those rules have been relaxed and they can live where they want to. Dual career families was a problem because the spouse could not get a job in the small towns. So more and more people are living in the four largest communities. Banks would like to see more people coming into the towns and they could put together more people so they could finance some construction. This will encourage that and get those people building out in those areas, where frankly because of relaxed schools there people can live. Industry is starting to look at it and worries them. When we get a big snow storm and we have so many people living such a distance from their work you are worried how to keep your shifts going and we all want the heat working and the lights on. Those are 24/7 positions. You can shut down because of weather.

Chairman Herbel: Is there a gap of housing in either Beulah, Hazen?

Senator Christmann: Yes, there is a significant gap.

Rep. Steve Zaiser: Have you had a chance to look at all the bills and see which ones are the best way to go.

Senator Christmann: I am not sure what you are talking about comparing to, but I will tell you this. The financing and building community this is the bill they are excited about. This is the one they see having the potential solution to the problem and could work.

Rep. Donald Dietrich: You mentioned highly trained and highly skilled. Do you also not mean highly paid?

Senator Christmann: Yes, Rep. Donald Dietrich they are. Not that they can't afford to build a house with a reasonable down payment. But that highly skilled person has a lot of debt coming out of school, but you know you are going to have a good income. You want to have a nice home and you want a \$200,000 house. The way it is right now you might be able to build that house in Bismarck for \$20,000 to add onto your college debt. You might be able to

build that same home in Beulah or Hazen for \$60,000 down because you have to cover that whole gap. What are you going to do, just live in Bismarck and not add another \$40,000 debt? It is no different when we provide housing allowance to a president of a college or something like that. We do it to attract the person we want.

Michael Anderson: (see testimony #2)

Rep. Kim Koppelman: I am gathering from your testimony that you are not here to provide technical assistance as Senator Hacker indicated, but to advocate for the bill, is that right?

Michael Anderson: But I will offer whatever technical assistance in terms of your questions.

Rep. Kim Koppelman: What this would in affect would do and what problems you are trying to solve. In the rural small communities it is not a question of there being available housing. It seems to me there are a lot of people that own homes in those areas than would love anything better than to sell them to someone to come into that community. Instead it is to subsidize new construction in the hopes of increasing property value for that subdivision and I suppose the tax base, but also raise that bar for every body so that their values are higher; that taxes they pay are higher and that is a good thing. Am I correct?

Michael Anderson: I believe in order to really truly answer; the housing agencies started working with rural communities on developing housing strategies in their communities and that strategies and we have already put a number of initiatives together to help work on existing home rehabilitation. We feel that the housing strategy in every community needs to be broad based. You can only rehab older 50-60 year old homes so much to keep them a viable housing. You also need to be building and expanding a housing base with new housing. Other housing is being worked on and this is just another one of those tools that will help us jump start the housing in those rural areas with new construction sites.

Rep. Kim Koppelman: What you are said, there are parts of the country where there are homes that are older than our state law and they are beautiful so I don't know that I believe existing homes can not be renovated beyond a certain need. So now I am hearing you say because this program clearly further depress the values of existing properties in these small towns. Older homes and existing homes because we are proposing this bill you are saying there is going prop that up too and we are created another market disparity by artificially getting to this bill.

Michael Anderson: That is not quite how we see that, but it is a valid concern that we should have. What we are saying that if any individual community housing strategy needs to part of multiply for tax payer ability and yes there are a lot of old homes that are still viable homes, but just need to be upgraded. We are saying the rehab programs that we are putting out there are not just the agencies with rehab programs, grants and low interest rate loans. They have always been there and we are just going to augment them to make sure we have enough rehab to meet the needs of those communities. Not every one is seeking new construction. There are people that want existing older homes. I don't see this as a direct depression impact on existing housing as long as it is in concert with a multi facet of housing strategy in those communities.

Rep. Kari Conrad: You had mentioned Valley City having a gap; does that include Devils Lake?

Senator Christmann: I will tell you the larger the community the more likely the dent is going to be on the rental side than on the single family side. The agency also administers a low income housing tax credit program. That is for low income house holds and what we hear is that there was a difficulty in multi county projects and most of those projects aren't in the real

small communities. They are in medium size communities. The gap is if market rents can't meet those expenses and that is where the gap shows up.

Rep. Kari Conrad: There is in kind contribution. We have had people who have offered lots as a contribution. Would that be considered an in kind contribution?

Michael Anderson: Yes, in fact that was one of the things we brought to Senator Andrew when he first showed us the bill is that communities will have different ways of meeting their investment requirement. It could be in kind donation of land and a number of things that can be done that communities are doing now.

Rep. Steve Zaiser: Gap is that a buzz word? It certainly describes it well.

Michael Anderson: I can tell you with certainly our sister state south of us, South Dakota, has gap assistance programs. I can't tell you where they came from or how they are graded or funded. I believe when you look at the rural states in the upper Midwest, all of them are looking at dealing with this gap in one form or another.

Rep. Steve Zaiser: there was a discussion about how this might depress the values of the older homes in the community. If you could maybe answer this question for me, isn't that often times more efficient to remodel an older home than it is to build a new home; especially if you want to remodel it and make high quality.

Michael Anderson: It depends on the type of home you are looking at wanting to build. Those of us that are involved in the rehab assistance programs; we always look at the tolerance level. What makes sense? What it will take to bring that home up to code and make it viable. Is it reasonable to put that much money into it?

Rep. Chris Griffin: How do you see the application process working if this bill were to pass? We did not put caps in would any home be eligible? Million dollar home or will it be a first come first serve basis.

Michael Anderson: As I stated earlier there needs to be a maximum cost of a single family home particularly. Yes I see that there would be limitations and I would not hesitate to say million dollar homes may not fit the bill of what we would be looking at. First of all it would have to be on a first come first serve basis because of the amount of money as well as the media getting it out there that it is a viable tool that the communities have. We would promote this program mostly to communities and we would work with those communities on them creating a housing strategy, a housing project, how would be approach their investment requirements to meet them and they will be marketing those projects at this point in time and we would just be providing the information. You get the home builder, buyer and lender in line and you submit the information to us and we will review that and determine the eligible at that point in time.

Rep. Steve Zaiser: I am familiar with some of those, but I know they are different on a variety of programs. You talked about incomes and we have had discussions on requirements of the program such as income and evaluations and pay backs if they sell the house in two years. Is it possible to set up these guidelines and standards and have them followed?

Michael Anderson: First of all I will provide you with detailed information of the existing program. As far as mandating the housing authorities to come in to the communities; I am a little concerned with that. Not only the communities that this program would be targeted to may have; in other words, do they have a housing authority itself. They may have a county housing authority but they may not have a community housing authority. I guess to the extent that the housing authority is there locally I would recommend that we would bring them in to help us define the program. Community leaders themselves need to come to the table when we design this program.

Rep. Steve Zaiser: I really meant the community or housing authority; whoever would run the program to bring them to the table. But the question really would be we don't have any of those criteria in here and I do think it should not be boiler plated in here. May be something to the affect there has to be some standard and ask that the local jurisdiction set those standards.

Michael Anderson: I understand your point. I think that is reasonable.

Rep. Donald Dietrich: I have a list of questions. Who is targeted; what citizens or buyers are targeted for homes under the gap program.

Michael Anderson: Specifically to low and moderate income people.

Rep. Donald Dietrich: give me a definition in your mind what a mobile home is and what a manufactured home was.

Michael Anderson: In our industry a mobile home is one that was built with a cheesy and towing gear on it. A manufactured home was one that was built in a factory and does not have cheesy and towing gear on it.

Rep. Donald Dietrich: Does FHA, VA structure homes for, as you say a mobile home is mainly built on a cheesy, if it is moved and put on permanent foundation.

Michael Anderson: FHA will allow mobile homes in their 5023b program which is their real estate loan program. If it is put on a foundation and fits the standards.

Rep. Donald Dietrich: Last session we had a bill that allowed for the formation of housing authorities in cities of 3,000 or less than 15,000. Could not those housing authorities obtain block grant money to under this program to build moderate income housing?

Michael Anderson: I am familiar with the local housing authority bills and projects that were targeted with the passage of that bill. I would make an assumption as long as it met the income they probably could.

Rep. Donald Dietrich: Give me an instance when some home owner would want to build a \$150,000 structure? There is a lot of \$45,000 state funding which is \$18,000 and up to \$45,000 which is local funding, which is \$18,000 and they themselves at 10% which is \$4,000; let's say in two years they sell the home for \$110,000. What becomes of the \$40,000 short; what becomes of the \$18,000 local funding; \$18,000 state funding when they sell that home. What becomes of that? It basically would be a short sale. Is the home owner liable for the \$18,000 and the \$18,000 or \$36,000?

Michael Anderson: My definition of short sale means the debt against the mortgage is greater than they could sell the home for. I don't see this bill in itself as creating that situation. In the terms of liability if they don't sell the home for enough to cover not only the first mortgage, but the states contribution and the communities contribution, that depends on whether or not the transaction does have a second mortgage in terms of the soft second mortgage and what the terms of that mortgage may be. That type of soft second mortgage; they range any where from forgivable from three, five, ten years; some of them last the life of the first mortgage and even if there may be a recapture able amount of assistance, if the sale of the home is not sufficient to pay off the first mortgage as well as the recapture able amount it is typically the amount if forgiven. If they were able to sell the home and satisfy the first mortgage, then the rest would go to the second remaining assistance or mortgage.

Rep. Donald Dietrich: Let's assume that the soft second was not forgivable. So there is a total of \$36,000 that is not forgivable. What becomes of that \$36,000 when that home sells short?

Michael Anderson: First of all the home won't sell unless the second mortgage holder is willing to forego their lien and the collection they do on that lien. That is typically where short sales come in. So if the home doesn't sell the home owner has a choice of either staying with

the property or letting it go back. When we talk about going back we talk about foreclosures; those junior liens go away on foreclosure litigation.

Rep. Lawrence Klemin: I want to focus on the holes of this program. I understand the goal is to decrease the gap over time?

Michael Anderson: Yes.

Rep. Lawrence Klemin: By decreasing the gap we are bringing up property values. So how are the comparable sales does this. Once the community agrees and new construction. Then we have comparable sales and if we go back to the example that Rep. Donald Dietrich used of \$150,000 house and it appraisals at \$110,000 so you have this \$40,000 debt. So when that house is subsequently sold why would the appraised value be any more the second time than it was the first time?

Michael Anderson: First of all the market dynamics is home sales home building activity. That in it self should create the comparable to the next time around. I don't think it is necessarily scientific as much it a market dynamic. I also believe by making that community vital and having it grow you are creating interest in the existing housing in that market. With that comes the increase in value in your existing housing.

Rep. Lawrence Klemin: I am having trouble with the logic here. We are going to increase values throughout the community for purposes of later comparable sales and the goal here in resolving this little gap is try an bring the values in the rural communities closer to the cost of construction, which would be similar to what you would have in larger communities. We are doing this in expectation that the next time these houses are sold that they will be selling for a higher price?

Michael Anderson: I think the number one priority of this bill is to jump start housing development in communities where housing is lagging behind economic development and

there is demand for additional housing because of workforce growth etc. It is intended to be a short term assistance to jump starts that. I think the by product of that is the argument that you have created a growing community and all of that is going to create more interest in housing; whether it is existing housing or additional new construction. That is where you get increasing values and stability for that community.

Rep. Lawrence Klemin: I am just trying to follow the scenario through again. So we start in community with one house and we are probably going to need more than one house to jump start the housing development in a particular community. The expectation is that when we say we put four houses in under this subsidy program that the fifth house someone wants is not going to be under this program, aren't they still going to have a gap to seal with?

Michael Anderson: In theory we hope that is eliminated, the gap for construction. Only time is going to tell. Keep in mind the gap is real today and the closer you can narrow that gap the less need for that assistance that is coming from the state and community or whether it be individual home buyer or builder itself.

Chairman Herbel: Committee we have been going at this for an hour and twenty minutes and I think we need a break.

Rep. Donald Dietrich: If the program of matching 45% the state would do \$270,000; the locals would do \$270,000; that is \$540,000 and in my mind that is real money. He walks away from the project two years later. He went bankrupt; other projects did not work so he is no longer in business. \$540,000 split between the state and local. We would hurt the tax payers both local and state wide. Locally twice because they also get a safe fund.

Michael Anderson: By using it as an example I wasn't necessarily suggesting that that is the nature of multi family that this program would assist. Standing here now I would say that this

project is available, you probably don't want to hear this, would probably not fall between the perimeters that we would regard when looking at.

Rep. Steve Zaiser: Would you be in favor of having a minimum gap; in other words, in Fargo all our major cities the gap might be 5%. Make it be at least the gap of 20%.

Michael Anderson: I believe that has some merit to have a minimum gap.

Rep. Kari Conrad: What would you think if we would take the appropriation amount out? It is a big appropriation of two million dollars which I think it what we should do, if we can find the money. I would prefer not to find it in the general fund. If we could find it some where else. I was wondering if we could find it from the Bank of ND?

Michael Anderson: I can't speak on that. Whether it is coming from the general fund, I will leave that up to the discursion of the general fund.

Rick Clayburn: President and CEO of the ND Bankers Association: We would like to commend Senator Hacker on what we believe is an issue that needs addressing in the state of ND. The banks have been working with the economic development folks in the communities and there have been housing issues. There is a housing shortage in certain communities in the state. When you start looking at a community you can see the vibrancy of that town. Mostly in the western part of the state where there is oil activity the housing stock is not there. Certainly the tools are already in place with low or moderate income, but it is that housing stock that workers need that is not available. In the economic development in the later part of 2006 they are reaching out to us wanting to understand why banks are having a difficult time on funding these projects. They want to know what we can do to help banks and economic development and bring the two groups together. With that discussion, with Senator Hacker and housing and finance in drafting this bill. The whole concept is that banks with underwriting standards that they have to deal with the regulators and also prudence in running their

business as well and being able to maintain solvency. Banks are not getting anything under this. They are receiving a targeted amount. What this is going is providing additional tools to make the deal work. It is something that benefits communities and is a tool and a decision that the local community is making. We support that concept as an additional tool. One of the issues that was brought up earlier, sometimes we are looking at tools and we have them for low and moderate income, but do not have a tool to assist the higher income professionals. If a community wants to attract a doctor, nurse practitioner, a veterinarian; somebody to maintain the life of that community. This just gives them another tool. The ND Bankers Association strongly supports this legislation.

Rep. Dwight Wrangham: there are lots of tools in place for low or moderate income individuals. If what I recall is true several of those initiatives we passed last session included low or moderate income family plan. Is there any body who could not find housing suitable for their tastes included? If I remember correctly then we don't need this program for higher means.

Rick Clayburn: I was talking about professionals being targeted and it is a tool for that community. I can't talk about past legislation because I don't have knowledge of it. I can tell you there is a significant gap problem in financing of individual and multi family housing in a number of our rural communities. Most predominately we are seeing it in the western part of the state. We don't have that bedroom community aspect to help keep those valuations up.

Rep. Donald Dietrich: I commend young families and returning National Guards men and I want to buy a home in my local community in big town ND and it is a \$150,000 house. I get an \$18,000 gap local; \$18,000 gap state; it appraises for \$110,000. I have that opportunity in another town in ND to move on for a better job and now I have solid second mortgages; no soft

mortgages. The community wants something a little more solid; a second mortgage of \$36,000 and I fell short. Am I not liable for that \$36,000 second mortgage?

Rick Clayburn: If you are referring to the grant program aspect of this program. That is going to be determined by the rules of housing and finance, but keep in mind you have already as that home owner, you will still be dealing with the situation where you had to come up with the down payment under traditional financing. You also had to come up with the down payment that some one in a larger community does not have to face and that is part of dealing with that gap. As a home owner you will have to be dealing with that large gap if you are selling under that appraised value or close to that appraised value. You still loosing money yourself as an individual. Without the legislation that home will never be built.

Rep. Donald Dietrich: If there is a \$36,000 second mortgage and I am liable for that and I leave that home and there is a difference between appraisal and selling price of \$36,000 am I not liable for that \$36,000 on my second mortgage?

Rick Clayburn: We were talking about a grant program on this bill. That debt would be wiped clean.

Rep. Lawrence Klemin: So when I have this \$150,000 home and sold it don't I have two gifts? An \$18,000 check gift and an \$18,000 ND housing finance check. They cover that?

Rick Clayburn: Under traditional financing to have the primary mortgage as the first which will be paid off and the second mortgage is paid up if there is enough money left over from the sale.

Rep. Kari Conrad: Isn't it for a designated workforce?

Rick Clayburn: I don't know if I would state it that way. From my standpoint, to me it is an opportunity for communities who are trying to expand their economic base and attract new jobs. New jobs will come to their communities; we have communities who don't have the

necessary housing to full fill the needs of the community. Under the current situation because of that gap it is very difficult throughout our traditional financing that is regulated by both the state and federal government it is next to impossible for our lenders to be able to put deals together to address that gap issue and that is the reason the bankers association supports this.

Rep. Lawrence Klemin: We have an appropriations problem now if you follow where we are at. As of the end of last week the ending balance is -270 million dollars. Obviously we can't have a negative and we have to have a balanced budget so part of that 207 million dollars balance includes this 2.2 million dollars that we have here. Is there any place you can think of that this 2.2 million could come from other than out of the general fund?

Rick Clayburn: I have not sat down and checked this out. This bill will go to the appropriations and if the funds aren't there, what will they fund it from. What we are saying here today representing the ND Bankers Association, we have a bill we believe that is a priority and we would hope this would make it down to that process.

Rep. Louis Pinkerton: If we piloted this program at a much lower day \$250,000 to see if it actually works. Would that would be a durable pilot is that too small of an amount.

Rick Clayburn: From my experience, now I am going back to former tax commissioners, I think \$250,000 would be used up very quickly and you would probably have more frustrated people. I think anything less than \$2 million dollars would cause more harm and heartburn.

Paul Goby: Deputy Commissioner of the ND Department of Commerce. I think developing another tool to address this gap is a good idea so therefore we support this bill and think it would be a good idea to try it.

Dana Bond: Economic Development Association of ND: With economic growth comes the need to provide housing in rural communities. Providing any kind of housing in the rural

communities is always difficult and this is especially true with housing therefore we ask for your support of this bill.

Rep. Kari Conrad: Why can't the concept of the free market work here?

Dana Bond: I am not an economic developer, but we have all these communities like Oaks, Watford City where they have jobs and they want to bring their families in to do the jobs that are there; however, the family can not afford to purchase the home. They can not afford the down payment and there hasn't been any construction in a lot of these communities for twenty years, but the jobs are there.

Mike Marscell: Individual and a developer that develops housing in rural ND and have been doing that for the last three years. I am in support of this bill and passionate about it because I have built new housing in the last four years and I have done that with my own money. I am the guy that built the 36 plex in Valley City. You have a decision to make on whether or not we are going to support rural ND. I just moved back from California. I am investing in small towns because I believe in small towns. We need tools for these families to be able to come to small towns. We have 500 people retiring from industry in Beulah and Hazen and Washburn and they will move to Bismarck-Mandan. Those new families coming to that community they are saying I don't have the money. You know how many houses were built in Richland County last year; four. The highest medium income in the state. This is not a credit bill; this is an investment bill that creates tax dollars for ND. It brings families into rural ND. We need that courage to support this bill and bring rural families into those communities.

Doreen Riedman: ND Association of Builders: I am just going to make three quick points about this bill. 1) New construction is needed out there. Housing shortages are taking place in some towns. 2) Housing does pay for itself. We have studies that show housing pays for itself

in terms of property, sales tax incentives that come in and the jobs that are created when homes are built plus furnishing and materials and nearby communities will benefit from that.

3) Incentives are needed to get builders to go to those communities. Right now they are not going out there. I get phone calls all the time in our office asking do you have a list of builders. Construction costs are too much in most rural areas and that is where the gap comes in. The economic impact of this bill would circulate 11 times whatever is appropriated so the positive benefit is out there.

Chairman Herbel: I they built a house in Washburn or built a house in Bismarck wouldn't that same dollar turn over here rather than over there?

Doreen Riedman: They would try to use local people wherever possible. The materials would probably be purchased here, but lets hope that a lot of it would be purchased there. So I think you would mix it up allot.

Rep. Steve Zaiser: If one house is built would it not promote more being built?

Doreen Riedman: Absolutely. It would multiply itself.

Opposition: None

Hearing closed.

Chairman Herbel reopened the hearing on SB 2333. Job #4715

Rep. Steve Zaiser: I am preparing amendments for this bill as we speak.

Chairman Herbel: As long as you know this is an appropriation bill and we have to have it out tomorrow.

Hearing closed.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill No. SB 2333

House Political Subdivisions Committee

Check here for Conference Committee

Hearing Date: March 9, 2007

Recorder Job Number: 4814

Committee Clerk Signature



Minutes:

Chairman Herbel reopened the hearing on SB 2333.

Rep. Chris Griffin: Presented the amendment that was proposed. Legislative counsel was uncomfortable putting it back. Showed a decrease in the amount appropriated on the gap for new residential construction in rural communities from \$5,000,000 to \$2,215,000.

Rep. Chris Griffin moved the amendment Seconded By Rep. Kari Conrad

Discussion:

Rep. Dwight Wrangham: While I applaud these amendments, I am not going to support them because they maybe cloud things up a little in that if they seem to propose that there would be cap etc., but it doesn't establish a cap or similar guidelines. I think the industrial commission and the housing finance agency because I think we would be able to do this without the amendment.

Rep. Steve Zaiser: I think you are right. I think it is good we don't specify in there. I think the whole idea of statues and caps is or floors or ceilings are a good idea to allow premature justice rather than boilers plate something that the whole state might not be the same code. It also addresses the issue that you can not build this big fancy home and get these credits. There has to be a reasonable ceiling on the value of the homes.

Voice Vote Carried.

Chairman Herbel amendments do pass.

Do Not Pass As Amended Motion Made By Rep. Donald Dietrich; Seconded By Rep. Pat Hatlestad

Discussion:

Rep. Kari Conrad: I ask that we lower the amount. The amount I wanted to put in there was \$500,000.

Chairman Herbel asked for the motion to be withdrawn and the seconded was withdrawn.

Rep. Donald Dietrich: A point of order. I withdraw my motion of do not pass as amended if I am afforded the same opportunity to move on the bill first?

Rep. Kari Conrad: Motion Made by Rep. Kari Conrad Seconded by Rep. Kim Koppelman
I want to amend it in section 2 to \$500,000 from \$2,215,000. Senator Warner said he had talked to Mountrail County and that is one of the developing oil counties. What they have been told by the bankers and real estate developers is that they just had two houses built in that county within a short period of time. That is a pretty big town in my area; New Town and Stanley and they are substantial towns so I was really was impressed that we may not need to put in much money so that is why I got it lowered to \$500,000. Maybe it would make it through the appropriations committee.

Rep. Kim Koppelman: I seconded the motion, but I have a question of Rep. Kari Conrad. You talked about the county saying here we have had one or two new houses constructed; we have a valuation to tack onto for appraisal purposes. Why would that not be true now; without this bill? When somebody builds a house and there is valued what do we need the bill for?

Rep. Kari Conrad: The problem is the appraised value is not what the construction value is so if we have the construction going on we then have the appraisal value.

Rep. Kim Koppelman: I do understand the gap. My question is if someone builds a house now without the study and someone goes into these rural towns and builds a house, I think what you are saying is the appraisal value goes up without those benchmarks. So we don't need the bill if we already have it. If what we are trying to do is we want that appraisal value higher so that someone would be able to build. That is the way economics' works. Appraisals are based on sales and I don't know if we can artificially change that.

Rep. Kari Conrad: The reason is no body could build a house if you can't get the funds to cover your construction costs.

Rep. Kim Koppelman: I grew up in a small town in rural North Dakota and many of us represent those areas. I can think of one community where the housing costs are very depressed. There are a lot of homes where people were unable to sell their homes, but in that same town, there is construction going on now. I am not sure if it is retirees or what but they are building and it is happening and maybe it isn't as much as it was, but I am not sure if from the state capitol we can change that.

Rep. Steve Zaiser: The bill is really to address that gap issue. Right now you build a new house in rural North Dakota. If you build a house for \$200,000 and the next day it is worth \$150,000 after construction you have lost \$50,000 and that is the gap. In urban areas we talked about supporting the rural communities. This bill is trying to buy homes for those people that live in those rural communities. Today it is unfortunate that this is one of the last bills to go into the hopper and unfortunately the last bills are penalized I think that is the appropriations job to pick out the good from the better and best. I think this bill would help rural North Dakota and I support the bill.

Rep. Lawrence Klemin: I think regardless of this amendment I think this bill has been based on a false as an example given by Rep. Steve Zaiser about the \$150,000 home. The goal here is to have comparable sales so that further valuations based on comparable sales would reflect a higher market value, but that is not going to happen because you are still going to have that comparable sale to look at then as Rep. Steve Zaiser says you have to sell the house for \$150,000; which was less than the cost of construction. That is the comparable sale we are going to look at so this I don't see this raising the comparable sales that their goal is to have happen. If it did every one else in town would complain because now the values of all their houses would probably go up so it is probably a loose loose proposition.

Rep. Steve Zaiser: I think got off on my opinion of the appraised value of the home. I think the real just of this bill is the gap and getting rural housing.

Chairman Herbel: Remember we are addressing the amendment, not the bill.

Voice vote carried.

Chairman Herbel we now have the amended bill.

Do Not Pass As Amended Motion Made By Rep. Donald Dietrich; Seconded By Rep. Pat Hatlestad

Discussion:

Rep. Donald Dietrich: There is still reasons why I oppose the bill. When I asked the question of the bill sponsor as who are targeted purchaser of the homes and they said anyone. My concern is subsidizing homes for people that do not need subsidizing. The other problem I have is what the folks testified on grants and soft mortgages. They said they were forgivable when indeed soft mortgages generally are not forgivable. I work with soft mortgages all the time. Discussed the second, soft mortgage and how it works. The folks have to qualify to get

these loans and they have to make their payments. When they sell their homes in Grand Forks it will usually be for a profit. Any soft mortgage in that respect is recaptured. They have to pay that back. Potential problems I have seen are income credit. A family sets up payments and they buy a home for \$150,000 or \$120,000; whatever the price may be and there is a gap. Whether the gap is \$10,000-\$20,000 or \$30,000. They go to sell that home two years down the road. That home is sold and it does not appraise; the values aren't there. They have their mortgage and a second or third mortgage. What happens to that gap? It is not forgiven; it is a mortgage. That family transfers from a little town in North Dakota to any where else they want to go. That \$20,000 is going to follow them. They owe that. Good luck buying another home. It is a credit issue. In my mind we just ruined that young family's credit because they can't pay it off. To quote on mobile homes a mobile home is anything with a cheesy and a towing package. They did not mention it is a manufactured home, it is a mobile home. They come in one section, two sections and three sections. FHA and VA have guidelines that they will finance a manufactured home, whether it is one, two or three section homes. They have to be one a foundation and it could consist of a slab; it could be a basement. The two really sticky issues in my mind are if we sold to any one no matter what your income limits are and how are we going to tell these young families as policy makers here, we just helped ruin your credit. Who is responsible for these young families when they get into a bind?

Rep. Steve Zaiser: In terms of the income that is in the bill and rather than putting the number in there at this level; we decided to let the Industrial Commission do this based on communities. In terms of the other one regarding the responsibility to the young people. I don't see that the way you do. I think it is a good bill and I wish there would have been an income guideline, but that wasn't in there. The value of the house is addressed.

Rep. Kari Conrad: Rep. Donald Dietrich it is not about soft mortgages. The local communities are going to put up the money and they are will to put up the 45% match to get housing construction started in that town so they can create a labor and expand their business. So there are going to be a number of people that are going to put up this 45%. I know a town where they put up the land as a down payment. So I think it allows for a lot of creativity in a subject that we really don't know very much about in North Dakota and that is how to create housing, good quality housing, not publicly supported. This is providing a tool to the private sector. I am asking you to do not support the do not pass motion.

Rep. Dwight Wrangham: I understand the supporter of this bill would not go along with inserting any caps or income levels or amount of house that was going to be put up. I think this legislation as we see it is purely and simply corporate welfare. Housing subsidizes for people who may not be rich at least well enough off where they are going to be building a new house. Their certainly are not among the most needy of us; therefore, I would urge everyone to support the do not pass.

Rep. Donald Dietrich: I beg to differ with Rep. Kari Conrad that there won't be any soft mortgages, but there may not be soft mortgages but there is going to be second and third mortgages to take care of that gap. The local community wants their 45% protected and the state of ND housing industry certainly will want their 45% protected. They will have them sign an IOU. They said it is not publicly supported. I beg to differ, it is public supported. In fact my fiscal note says it is over 2 million dollars of public support. Discussed the Dickinson factor and gave an example on housing cost changes.

Rep. Nancy Johnson: Take action by local groups. If you think it is viable in your community and you want it to grow you want to come forward and just do it. The housing authority has been doing rental property, but not encouraging ownership and equity by an individual and I

think that is important. We could afford to build our lake home out in the middle of no ware, basically. Now we choose to do that and given western North Dakota; Watford City, Killdeer and Belfield there is a real tendency for people not to buy there because of the value of the home when you get done. Like I say the energy is going to be there for multiply years. It would start that growth back to smaller communities. In your right mind, if you have limited resources, you could get started by using this gap bill. I think it would be a great asset.

Rep. Steve Zaiser: Whether the bill sponsors did not want any limitations put on the bill, we do.

Rep. Dwight Wrangham: I think that I heard that local governments were going to have to buy into this. I think if we look at number 1 on line 15, page 1 it only requires a local grant match from private or public funding or in time contributions, which may not exceed 45%. They could buy in for 2%.

Rep. Kim Koppelman: To be honest Mr. Chairman, this is one of those bills where the deeper I dig, the more problems I find. Especially the way I have amended it because on one hand we heard that the sponsors of the bill don't control how it turns out. We heard folks and stories that they are not building in smaller towns due to the gap and about highly paid temps who live up in Hazen and Beulah because they can't build nice housing there and they want to have a nice house and want a nice house and now we have pulled the rug out from under them completely after we said we are going to limit the size and scope of the house you can build, so we have made it a welfare program for people who are wanting to limit the modest house. With that the objective now we have all these homes in these small towns that already exist that are very suitable for people of modest means and very affordable because they are depressed and we are not helping those folks at all. In fact we are probably hurting them because now someone looking at coming into that small town would be more likely not to buy

those existing homes. Instead they are going to take the incentive and build a house with this process. I just think we are digging the hole deeper so I am going to support the do not pass.

Rep. Lawrence Klemin: Subsidizes do not help housing. If the goal is to increase market values it just id not going to happen. It may help increase the availability of housing in some areas but it is not going to increase market values.

Rep. Chris Griffin: I understand Rep. Donald Dietrich concern, but I believe a grant is just a gift. It would have a zero fiscal note if the state expected to be compensated. I think Rep. Kim Koppelman concern all that amendment did was just say the Industrial Commission shall adopt some sort of standards. It did not say where they should be. We just wanted it so a million dollar home didn't eat up a quarter of the appropriation. Finally I think even though it is a \$500,000 appropriation and it is a subsidy, which it is, I think maybe the state won't get the money back, but allot of this money is going to be recouped in sales tax, future property tax and so I don't see it as a large amount of expenditures of the fiscal note in the state.

Rep. Vonnie Pietsch: The \$500,000, if it takes the 2 million plus to find a hundred single homes and maybe 48 family multi family projects depending on the size, \$500,000 how many is that going to help around the state? 25, that is just a point when we are looking up the difference.

Rep. Steve Zaiser: I do really want to help rural North Dakota and I think this would be the way to do it.

Rep.Dwight Wrangham: I recognize that this has been an enlightening discussion. I can't imagine what more we could say so I would respectfully ask for the question.

Vote: 8 Yes 4 No 2 Absent Carrier: Rep.Dwight Wrangham

Hearing closed.

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2333

Page 1, line 19, remove "and"

Page 1, line 21, replace the underscored period with an underscored semicolon

Page 1, after line 21, insert:

- "(4) Establish home value maximums that may not be exceeded for a new construction project to be eligible under this program;
and
- (5) Establish the minimum and maximum size of the gap between the cost of construction and the appraised value of the new construction, within which the new construction project must fall to be eligible under this program."

Renumber accordingly

**2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2333**

House Political Subdivisions Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass As Amended

Motion Made By Rep. Donald Dietrich Seconded By Rep. Pat Hatlestad

Representatives	Yes	No	Representatives	Yes	No
Rep. Gil Herbel-Chairman	X		Rep. Kari Conrad		X
Rep. Dwight Wrangham-V. Chair	X		Rep. Chris Griffin		X
Rep. Donald Dietrich	X		Rep. Lee Kaldor	 	
Rep. Patrick Hatlestad	X		Rep. Louis Pinkerton	 	
Rep. Nancy Johnson		X	Rep. Steve Zaiser		X
Rep. Lawrence Klemin	x				
Rep. Kim Koppelman	X				
Rep. William Kretschmar	X				
Rep. Vonnie Pietsch	x				

Total (Yes) 8 No 4

Absent 2

Floor Assignment Rep. Dwight Wrangham

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2333, as reengrossed: Political Subdivisions Committee (Rep. Herbel, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (8 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING). Reengrossed SB 2333 was placed on the Sixth order on the calendar.

Page 1, line 19, remove "and"

Page 1, line 21, replace the underscored period with ";

- (4) Establish home value maximums that may not be exceeded for a new construction project to be eligible under this program;
and
- (5) Establish the minimum and maximum size of the gap between the cost of construction and the appraised value of the new construction, within which the new construction project must fall to be eligible under this program."

Page 2, line 10, replace "\$2,215,000" with "\$500,000"

Renumber accordingly

2007 TESTIMONY

SB 2333



North Dakota
Housing Finance Agency

PO Box 1535 · Bismarck, ND 58502-1535

Attachment #1

INDUSTRIAL COMMISSION
JOHN HOEVEN, GOVERNOR
WAYNE STENEHJEM, ATTORNEY GENERAL
ROGER JOHNSON, AGRICULTURE COMMISSIONER

MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

SB 2333
Senate Political Subdivisions Committee
Testimony by Michael Anderson
North Dakota Housing Finance Agency
Division of the State Industrial Commission

January 25, 2007

Chairman Cook and members of the Political Subdivisions committee, for the record my name is Michael Anderson. I am the executive director for the North Dakota Housing Finance Agency (North Dakota Housing). I am here today to testify in support of SB 2333, as well as to offer some amendments that mostly deal with making the delivery of the program contemplated in this bill more efficient and user friendly. These proposed amendments are attached to my written testimony. Before I address these proposed amendments I want to present North Dakota Housing's perspective on the need for SB 2333.

This bill is about assisting in bridging the financing gap for newly constructed housing in the state's rural communities. This gap is also commonly referred to as value gap or appraisal gap. It comes to bear when you attempt to determine the reasonableness of the proposed financing for the home in relationship to the cost of the property. Under residential appraisal standards this is typically accomplished by comparing to recent similar transactions in the surrounding area. Unfortunately, in rural areas there has been little or no new construction activity. Thus, it becomes difficult if not impossible to draw a comparison, thus, reach a conclusion of reasonableness. And this translates to conservative or depressed values.

The problem transcends itself even when you develop a demand for housing as with the case of an economically developing community who is in a workforce recruitment mode. How do you generate the housing needed to house your new workforce when you don't have comparable sales to justify the cost of producing that housing? It becomes a catch-22.

How do you break this cycle? It has to start with making a commitment to helping with the process of not only developing housing where it is needed, but, also by making a commitment to seeing to it these new homes can ultimately be financed. Thus, you began creating the local housing market activity and the necessary comparable sales that can justify the next deal. And that next deal should have a smaller financing gap, if any gap at all.

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YOUR PARTNER IN AFFORDABLE HOUSING
WWW.NDHFA.ORG · INFO@NDHFA.ORG

FARGO (FIELD) OFFICE
118 BROADWAY, SUITE 604
FARGO, NORTH DAKOTA 58102
PH: 701-239-7255 · FAX: 701-239-7257
ND TOLL FREE: 877-239-3200 · 800-366-6888 (TTY)

North Dakota Housing began working on this gap issue a year ago when it adopted its 2006 Housing Priorities (see attached report). Although it did not start out as our number one priority, by sheer demand from small communities across the state most of our focus thus far has been on the issue of expanding housing in developing communities. And most of that effort has been looking at ways of resolving this financing gap issue. We recently announced a low interest loan program that should reduce the cost of planning and developing new housing projects, thus, lowering the overall cost of construction. But, with these costs being only a small part of the overall cost of building housing, materials and labor making up the lion's share, it can only serve to reducing the amount of the eventual financing gap. And we continue to look for and encourage other ways of reducing the cost of construction. But, again, we believe that will only help by narrowing the amount of financing gap. Without past new construction financing gap will not go away.

The next step from North Dakota Housing's view is work towards eliminating the obstacles in getting these homes financed. The assistance contemplated in SB 2333 will go a long way to that end. It will significantly reduce the overall financing gap making these transactions much more feasible to get done. It puts housing development in reach for rural communities knowing that the homes they plan will eventually get sold and financed, thus, creating an incentive for their own investment into their housing. And it sets a standard for developing other public/private partnerships that could work towards housing development and financing in rural areas. Attracting a developer/builder to their community is one example of this partnership.

There are two key elements to our proposed amendments that I will point out. The first is to allow for some flexibility in the level of local match. The capacity to provide match among small communities will likely vary greatly. The amendment provides for a minimum and a maximum match, thus, still meeting the initial goals of the bill. The second would eliminate the requirement for the community to participate in the application process. Being the program is targeted to new construction the community will already have been involved in the decision to support the housing project through the plotting and permitting process. Also, it would be at this planning stage that the community would consider what and how they would contribute the match. North Dakota Housing would make evidence of local support and match be part of the application for financing gap assistance. Thus, eliminating the two step application process.

In conclusion, by investing in assisting with the financing gap, the state will not only be investing in rural economic development by aiding workforce recruitment, but it will also be making a commitment to rural communities to help keeping them a viable and thriving place to live.



3

Amendment

North Dakota
Housing Finance Agency

PO Box 1535 · Bismarck, ND 58502-1535

INDUSTRIAL COMMISSION
JOHN HOEVEN, GOVERNOR
WAYNE STENEHJEM, ATTORNEY GENERAL
ROGER JOHNSON, AGRICULTURE COMMISSIONER

MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

January 25, 2007

SB 2333
Senate Political Subdivisions Committee
Recommended Amendments

The North Dakota Housing respectfully recommends the following changes to SB 2333:

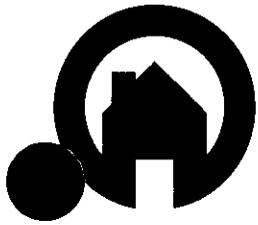
- The bill be amended to "create a new subsection to section 54-17-07.3" rather than a new section to chapter 54-17. Section 54-17-07.3 currently contains the various programs North Dakota Housing is currently authorized to provide and this program could be added to that list.
- Section 1 paragraph 2 be replaced with the follow:

"The industrial commission will establish the eligibility criteria and application procedures for the program that at a minimum includes; 1) a requirement for a minimum local match from private or public funding or in-kind contributions but not to exceed forty-five percent of the gap between the cost of construction and the appraised value of the new construction; 2) the local match cannot include state funds; and 3) an application for assistance under this subsection includes evidence of community support for the new construction project. The maximum assistance provided to any person or family under this subsection may not exceed forty-five percent of the gap between the cost of construction and the appraised value of the new construction. Assistance provided under this subsection may be provided to persons or families of low to moderate income or to any other persons or families in developing communities in the state in order to address an unmet housing need or to alleviate a housing shortage."

- Add the following sentence at the end of Section 2:

"The housing finance agency may not be construed to be a general fund agency because of the appropriation made by this section."





North Dakota
Housing Finance Agency

PO Box 1535 · Bismarck, ND 58502-1535

attachment #2

INDUSTRIAL COMMISSION
JOHN HOEVEN, GOVERNOR
WAYNE STENEHJEM, ATTORNEY GENERAL
ROGER JOHNSON, AGRICULTURE COMMISSIONER

MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

SB 2333

**Senate Political Subdivisions Committee
Additional Testimony by Michael Anderson
North Dakota Housing Finance Agency
Division of the State Industrial Commission**

January 26, 2007

During your initial committee hearing on SB 2333 you heard a lot of testimony all of which generally supported the legislation. However, there were several questions inquiring about specific program details. Since much of the details have yet to be determined, my response was based on how North Dakota Housing has envisioned the program would look if authorized. Hoping to further clarify our vision of the program I offer the following additional thoughts.

The question was raised as to how the financing gap would be determined and I responded we would likely use the appraisal commissioned by the lender. I believe it is the appropriate source of determining the gap, since it is done by an independent third-party and is already part of the financing process so as not to add unnecessary paperwork. However, I also believe that before program implementation we should attempt to identify any flaws in this approach and include additional safeguards as appropriate. Several other questions inquired about need to assist higher income households and dealing with excessive or intentionally creating gap. I responded that there should be certain limitations established that would safeguard against unnecessary and unintended use of the program. More specifically, some of those safeguards that should be considered include:

- In addition to the percentage limitation already identified in SB 2333, I would envision establishing an overall dollar limit to the assistance under the program that would differ for single family and multi-family projects.
- I envision establishing an overall cost of construction and construction cost standards to that would differ for single family and multi-family.
- I envision utilizing a forgivable grant concept if the household income exceeded a certain limit, low and moderate income, for example, or if the overall cost of construction exceeded a certain limit. In the case of multi-family, the forgivable grant could be



triggered if the project was targeted to households above the aforementioned income limit or if the gap assistance exceeded an established limit.

In all of the above suggested program details there needs to be a careful analysis to insure program effectiveness without excessiveness. Thus, I recommend that SB 2333 not include such details and the North Dakota Housing be granted the flexibility to determine such detail during program development.

North Dakota Housing is authorized under N.D.C.C. 54-17 as part of the Industrial Commission. Section 54-17-07.1 authorizes the Industrial Commission, in consultation with its appointed advisory board, whose members represent the various housing industries across the state, to adopt the rules, regulations, requirements, and guidelines for its housing finance programs, to paraphrase.

In recent years the Industrial Commission has developed several programs that are funded with North Dakota Housing reserves and in which there are not regulations or guidelines for utilization other than the broad authority of Chapter 54-17 to create the same. Attached to this testimony are examples, including program details, of some of those programs.

In all our program development we have employed working groups made up of housing professionals from federal and state agencies, non-profits, and our private sector partners such as lenders, realtors, property managers. We take their suggestions and in consultation with the advisory board formulate program details. Then the final product is taken to the Industrial Commission for final approval. I envision this tried and true procedure would be enlisted for developing program details for the program authorized under SB 2333.



North Dakota Housing Finance Agency Housing Market Survey Grant Criteria

The Housing Market Survey Grant Program is a cost-sharing incentive program for rural communities to develop a local housing strategy. A housing strategy or plan is essential for a community striving to maintain or expand its population. This is true whether the community is pursuing economic and workforce development, or whether it is just trying to maintain its population by keeping aging housing stock viable and offering alternative housing solutions for its citizens. The critical first step to establishing a successful housing strategy is to conduct a market survey/analysis to determine the status of existing housing as well as, future housing needs.

1. Eligible applicants are communities or non-profit organizations representing or working in partnership with communities.
2. Eligible communities must meet the USDA Rural Development definition of rural (populations of 20,000 or less).
3. The maximum grant will be 50 percent of the out-of-pocket costs of the market survey, not to exceed \$5,000.
4. Applicant should submit written notification to the North Dakota Housing Finance Agency (NDHFA) indicating intent to conduct a market survey and request participation in the Housing Market Survey Grant Program by completing the **Housing Market Survey Grant Application** (SFN TBA).
5. NDHFA will issue a written commitment letter, as appropriate. Market survey should be completed within six months from the date of approval to proceed.
6. Upon completion of the market survey, the eligible applicant will submit the **Housing Market Survey Grant Request for Payment** (SFN TBA).
7. The request for payment should be made within 60 days following completion of the survey.

For more information:

Jolene Kline, Director of Planning and Housing Development
North Dakota Housing Finance Agency
1500 East Capitol Ave.
PO Box 1535
Bismarck, ND 58502

Phone: (701) 328-8072 or (800) 292-8621
Email: jkline@ndhfa.org



North Dakota Housing Finance Agency Rural Community Housing Development Program

<u>Funding Source:</u>	\$2,000,000 from HFA Reserves
<u>Type of Assistance:</u>	Low Interest Revolving Loan Fund
<u>Pilot Period:</u>	Earlier of one year or funds utilized
<u>Eligible Borrower:</u>	Communities located within an area meeting the USDA Rural Development definition of rural (population of less than 20,000) and non-profit organizations working in partnership with a community located within an area meeting the USDA Rural Development definition of rural. The Agency will seek a local lender or a non-profit to originate and sell the loan to the Agency.
<u>Maximum Loan Amount:</u>	75% of project cost not to exceed \$200,000. If the loan purpose includes construction financing and there is no permanent loan take out commitment, the maximum loan amount will be 50% of project cost not to exceed \$200,000.
<u>Term of Loan:</u>	Maximum three years with, extensions available on a case by case basis and at the sole discretion of the Agency.
<u>Interest Rate:</u>	4.0%
<u>Proceeds Usage:</u>	Planning and project design, including, soft costs such as engineering, architectural, legal, title work, etc.; land acquisition; site development, and construction financing.
<u>Repayment Terms:</u>	Periodic (quarterly, semi-annual, or annual) interest payments only. Principal repayment tied to housing units placed into service (i.e. as single family lots are sold or the permanent financing for multi-family project or single family home is closed.)
<u>Collateral:</u>	First lien preferred, but, no less than second lien.
<u>Underwriting:</u>	The Agency will establish underwriting and documentation standards that reserves its right to determine the long term viability of the project and reasonable assurances that loan will be repaid.



North Dakota Housing Finance Agency Rural Housing Rehab Loan Program

- Funding & Source:** \$1,000,000 from HFA Reserves
- Type of Assistance:** Low Interest Revolving Loan Fund
- Pilot Period:** One year
- Eligible Borrower:** Homeowners with household income of 100% of area medium income or less and located within an area meeting the USDA Rural Development definition of rural (population of less than 20,000). Owner, general partner or other authorized agent for multi-family projects located within an area meeting the USDA Rural Development definition of rural.
- Maximum Loan Amount:** For single family 75% of project costs not to exceed \$25,000.
For multi-family 75% of project costs not to exceed \$100,000.
- Term of Loan:** For single family a maximum of 20 years or minimum payment of \$50.
For multi-family projects a maximum of 25 years or minimum payment of \$150. In the case of multi-family the loan may include a 5 year balloon and provisions for renewal.
- Interest Rate:** 4.0%
- Proceeds Usage:** Any improvement to the property to a decent, safe and sanitary condition, requiring more than routine or minor repairs or improvements that may vary in degree from gutting and extensive reconstruction to cosmetic improvements combined with cure of substantial accumulation of deferred maintenance, the construction of additions, the rehabilitation of an attached or detached garage, driveway, and sidewalks, improvements to achieve energy efficiency. Ineligible uses include the construction or rehab of sheds, storage facilities or other buildings or facilities attached to or adjacent to the property, swimming pools, decks, patios, saunas, spas or other purely recreational facilities.
- Repayment Terms:** Monthly amortization. See also Terms of Loans.
- Collateral:** No less than second lien on subject property preferred (exceptions at sole discretion of the Agency).
- Underwriting:** The Agency will establish underwriting and documentation standards that reserves its right to determine the long term viability of the project and reasonable assurances that loan will be repaid.



Housing Market Survey Grant Pre-Application

North Dakota Housing Finance Agency
SFN to be assigned

PO Box 1535
Bismarck, ND 58502
www.ndhfa.org

Organization/Applicant Name: _____

Address: _____

City, State, Zip: _____

Contact Person: _____

Title: _____

Phone Number: _____

E-Mail Address: _____

Type of Applicant:

- Non-Profit
- City
- Other

**PLEASE REFER TO Housing Market Survey Grant at www.ndhfa.org
INCOMPLETE APPLICATIONS WILL NOT BE CONSIDERED**

Amount Requested \$ _____

Total Anticipated Cost of Survey \$ _____

Projected Survey Start Date: _____

Projected Survey Completion Date: _____

(Survey should be completed within 6 months following pre-approval of grant funding.)

Attach the following to this application:

1. Description of the scope of the survey
2. Evidence of anticipated cost of survey, if available
3. Copy of the community governing body's resolution or minutes authorizing the survey and requesting participation in the Housing Market Survey Grant Program

I certify that I am authorized to execute documents for the Applicant and that the information provided is correct.

Date

Authorized Signature

Print Name

Print Title

Requests for grant funds should be mailed to Jolene Kline, NDHFA, PO Box 1535, Bismarck, ND 58502-1535. Questions should be directed to Jolene at 701-328-8072 or e-mail at jkline@ndhfa.org.

NDHFA Use Only

Grant Pre-Approved Yes No by Jolene Kline _____

Amount \$ _____



Housing Market Survey Grant Request for Payment

North Dakota Housing Finance Agency

SFN to be assigned

PO Box 1535

Bismarck, ND 58502

www.ndhfa.org

Organization/Applicant Name: _____

Address: _____

City, State, Zip: _____

Contact Person: _____

Title: _____

Phone Number: _____

E-Mail Address _____

Type of Applicant:

Non-Profit

City

Other

**PLEASE REFER TO Housing Market Survey Grant at www.ndhfa.org
INCOMPLETE REQUESTS FOR PAYMENT WILL NOT BE PROCESSED**

Amount Requested \$ _____

Total Cost of Survey \$ _____

Date Survey was completed: _____
(completion of Survey)

(Request for payment should be made within 60 days of

Attach the following to this application:

1. A copy of the billing invoice.
2. A copy of the completed market study showing results of the study

I certify that I am authorized to execute documents for the Applicant and that the information provided is correct.

Date

Authorized Signature

Print Name

Print Title

Request for funds should be mailed to Jolene Kline, NDHFA, PO Box 1535, Bismarck, ND 58502-1535.
Questions should be directed to Jolene at 701-328-8072 or e-mail at jkline@ndhfa.org.

NDHFA Use Only

Grant Approved Yes No by Jolene Kline _____

Amount \$ _____

Rural Community Housing Development Pilot Program

Funding Source: \$2,000,000 from Agency General Fund

Type of Assistance: Low Interest Revolving Loan Fund

Pilot Period: Earlier of one year or funds utilized

Eligible Borrower: Communities located within an area meeting the USDA Rural Development definition of rural (population of less than 20,000) and non-profit organizations working in partnership with a community located within an area meeting the USDA Rural Development definition of rural. The Agency will seek a local lender or a non-profit to originate and sell the loan to the Agency.

Maximum Loan Amount: 75% of project cost not to exceed \$200,000. If the loan purpose includes construction financing and there is no permanent loan take out commitment, the maximum loan amount will be 50% of project cost not to exceed \$200,000.

Term of Loan: Maximum three years with, extensions available on a case by case basis and at the sole discretion of the Agency.

Interest Rate: 4.0%

Proceeds Usage: Planning and project design, including, soft costs such as engineering, architectural, legal, title work, etc.; land acquisition; site development, and construction financing.

Repayment Terms: Periodic (quarterly, semi-annual, or annual) interest payments only. Principal repayment tied to housing units placed into service (i.e. as single family lots are sold or the permanent financing for multi-family project or single family home is closed.)

Collateral: First lien preferred, but, no less than second lien.

Underwriting: The Agency will establish underwriting and documentation standards that reserves its right to determine the long term viability of the project and reasonable assurances that loan will be repaid.

Rural Housing Rehabilitation Loan Pilot Program

- Funding & Source:** \$1,000,000 from Agency General Fund
- Type of Assistance:** Low Interest Revolving Loan Fund
- Pilot Period:** One year
- Eligible Borrower:** Homeowners with household income of 100% of area medium income or less and located within an area meeting the USDA Rural Development definition of rural (population of less than 20,000). Owner, general partner or other authorized agent for multi-family projects located within an area meeting the USDA Rural Development definition of rural.
- Maximum Loan Amount:** For single family 75% of project costs not to exceed \$25,000.
For multi-family 75% of project costs not to exceed \$100,000.
- Term of Loan:** For single family a maximum of 20 years or minimum payment of \$50.
For multi-family projects a maximum of 25 years or minimum payment of \$150. In the case of multi-family the loan may include a 5 year balloon and provisions for renewal.
- Interest Rate:** 4.0%
- Proceeds Usage:** Any improvement to the property to a decent, safe and sanitary condition, requiring more than routine or minor repairs or improvements that may vary in degree from gutting and extensive reconstruction to cosmetic improvements combined with cure of substantial accumulation of deferred maintenance, the construction of additions, the rehabilitation of an attached or detached garage, driveway, and sidewalks, improvements to achieve energy efficiency. Ineligible uses include the construction or rehab of sheds, storage facilities or other buildings or facilities attached to or adjacent to the property, swimming pools, decks, patios, saunas, spas or other purely recreational facilities.
- Repayment Terms:** Monthly amortization. See also Terms of Loans.
- Collateral:** No less than second lien on subject property preferred (exceptions at sole discretion of the Agency).
- Underwriting:** The Agency will establish underwriting and documentation standards that reserves its right to determine the long term viability of the project and reasonable assurances that loan will be repaid.



**Testimony of Becky J. Meidinger
Development Specialist
Cooperstown Community Development
Economic Development Association of North Dakota
SB 2333**

Mr. Chairman and members of the committee, my name is Becky Meidinger. I am the Development Specialist for Cooperstown Community Development. I am also representing the Economic Development Association of North Dakota (EDND).

EDND is the voice of the state's economic development community and provides networking for its 80 members, which include development organizations, communities, businesses and state agencies. Our mission is to increase economic opportunities for residents of the state by supporting primary sector growth, professionalism among economic development practitioners and cooperation among development organizations. With economic growth, however, comes an increased need to provide housing to the growing workforce. For this reason, EDND has also taken a stance on creating housing development opportunities in our communities—especially our smaller communities. By providing affordable housing, we create opportunities to sustain communities by retaining people in the community and at the same time, create new jobs. Providing any kind of development to our rural communities, however, is always difficult, and this has proven especially true with housing. Therefore, we are asking that you support SB 2333.

Currently, families and communities face many obstacles when developing homes, but one in particular places rural communities at a disadvantage, and that is the market value of a home once it has been constructed. What many come to find once a home has been completed is that because the market value is less than the cost of the construction, there is no permanent financing available to help cover those costs. This loss of equity puts home builders at a risk, and thus is a factor in preventing housing development in our smaller communities. This bill would work to counter these problems.

There are already some Regional Council funds that help cover these financing gaps, such as the DREAM fund. These funds have been an effective tool in community development efforts. Not all communities in the state, however, have the means and resources to invest in these funds. The creation of another fund as provided in SB 2333, however, would make available more dollars and create more opportunities for such communities.

As we have seen in the past with similar funds, we anticipate that further housing development would eventually bring the value of homes up in the assisted communities. Consequently, such programs will not be needed as much once we provide housing that is crucial to the development of North Dakota communities. But, this can only be done with the assistance of bills such as SB 2333.

EDND believes SB 2333 will aid development in North Dakota and build on successful programs that work. We urge a do pass. I would be happy to answer any questions.

**Testimony of Paul Reclin to
Senate Committee on Political Subdivisions**

RE: SB 2333

January 25, 2007

CHAIRMAN COOK, MEMBERS OF THE POLITICAL SUBDIVISIONS
COMMITTEE, MY NAME IS PAUL RECHLIN, AND I AM EXECUTIVE
DIRECTOR OF COMMUNITYWORKS NORTH DAKOTA.

I WOULD FIRST LIKE TO CORRECT A STATEMENT IN EARLIER TESTIMONY
BY ANOTHER SUPPORTER OF SB 2333 THAT THE DREAM FUND IS A
PROGRAM OF LEWIS AND CLARK REGIONAL DEVELOPMENT COUNCIL. IT
IS NOT. IT IS A PROGRAM OF COMMUNITYWORKS NORTH DAKOTA, WHICH
IS A STATEWIDE NONPROFIT WHOSE **DREAM** FUND PROVIDES GAP AND
OTHER TYPES OF FINANCING TO BORROWERS OF ALL INCOME LEVELS TO
BUY, BUILD OR REPAIR THEIR HOMES. WE DO NOT PROVIDE GRANTS, BUT
OUR LOAN RATES AND TERMS ARE ADJUSTED FOR AFFORDABILITY.

I AM IN SUPPORT OF SB 2333, BUT BEFORE IT PASSES, WHICH I HOPE IT
WILL, I SUSPECT IT WILL UNDERGO SEVERAL ITERATIONS. AS IT DOES, I
WOULD LIKE TO MAKE COMMENTS MOSTLY FOR INFORMATIONAL AND
CAUTIONARY PURPOSES.

THE PROBLEM OF FINANCING GAPS, AND SOLUTIONS TO FILL THOSE GAPS ARE ALREADY BEING ADDRESSED. BUT THERE ISN'T ENOUGH MONEY TO DO IT. MORE FUNDS AND MORE TOOLS TO OVERCOME THE PROBLEM ARE WELCOMED AND NEEDED. ALTHOUGH \$5 MILLION MAY SEEM LIKE A LOT, IT ISN'T WHEN THE MAGNITUDE OF THE PROBLEM IS VIEWED. FOR INSTANCE, OUR RELATIVELY SMALL AND NEW NONPROFIT HAS LOANED NEARLY \$10 MILLION, \$7 MILLION OF THAT IN THE LAST TWO YEARS.

WE HAVE BEEN DOING THAT TYPE OF LENDING FOR SEVERAL YEARS. WE HAVE BEEN ABLE TO EXPAND IT MORE RECENTLY DUE TO HELP FROM MANY OF OUR PARTNERS, INCLUDING THE NORTH DAKOTA HOUSING FINANCE AGENCY, SEVERAL OTHER SECONDARY MARKETS, AND FANNIE MAE.

FANNIE MAE, FOR EXAMPLE, NOW HAS ITS SINGLE LOAN WAIVER PROGRAM, IN WHICH A LENDER CAN PROVIDE UP TO 100% OF THE VALUE OF THE HOME, AND OUR DREAM FUND CAN PROVIDE UP TO ANOTHER 20% OF THE COST TO FILL THE VALUE OR APPRAISAL GAP.

I BRING THIS UP NOT JUST TO SHOW OTHER PROGRAMS EXIST, BUT MORE TO DEMONSTRATE HOW UNINTENDED CONSEQUENCES COULD ARISE AS THE BILL IS NOW WORDED.

UNDER THIS SCENARIO, IF THE GAP BETWEEN COST AND APPRAISAL IS MORE THAN 20%, OUR 20% COULD MEET MOST OR ALL OF THE BILL'S REQUIRED MATCH, AND THE BORROWER COULD THEN ACCESS GRANT FUNDS TO SIMPLY BUILD MORE HOUSE THAN MIGHT BE APPROPRIATE.

I DON'T BELIEVE IT IS THE BILL'S INTENT TO PROVIDE GRANTS TO HIGHER-INCOME PEOPLE SO THEY CAN ADD LUXURY ITEMS, OR BUILD A BIGGER HOUSE, SIMPLY BECAUSE GRANT FUNDS COULD PAY FOR IT.

THAT BRINGS UP ANOTHER RELATED ISSUE. OUR PROGRAM, FORTUNATELY, HAS BEEN ABLE TO ADDRESS MOST GAP ISSUES BROUGHT BEFORE US. HOWEVER, SOME WE HAVE NOT. SOMETIMES THE GAP CAN BE GREATER THAN 120%. AND SOMETIMES CLIENTS CREATE THEIR OWN GAPS.

FOR INSTANCE, WE HAVE SEEN GAPS CREATED, OR EXACERBATED, BY NICKEL- OR GOLD-PLATED FIXTURES, MAPLE FLOORING, EVEN LEATHER-COVERED REFRIGERATORS.

AS THE BILL GOES FORWARD, I ENCOURAGE THAT:

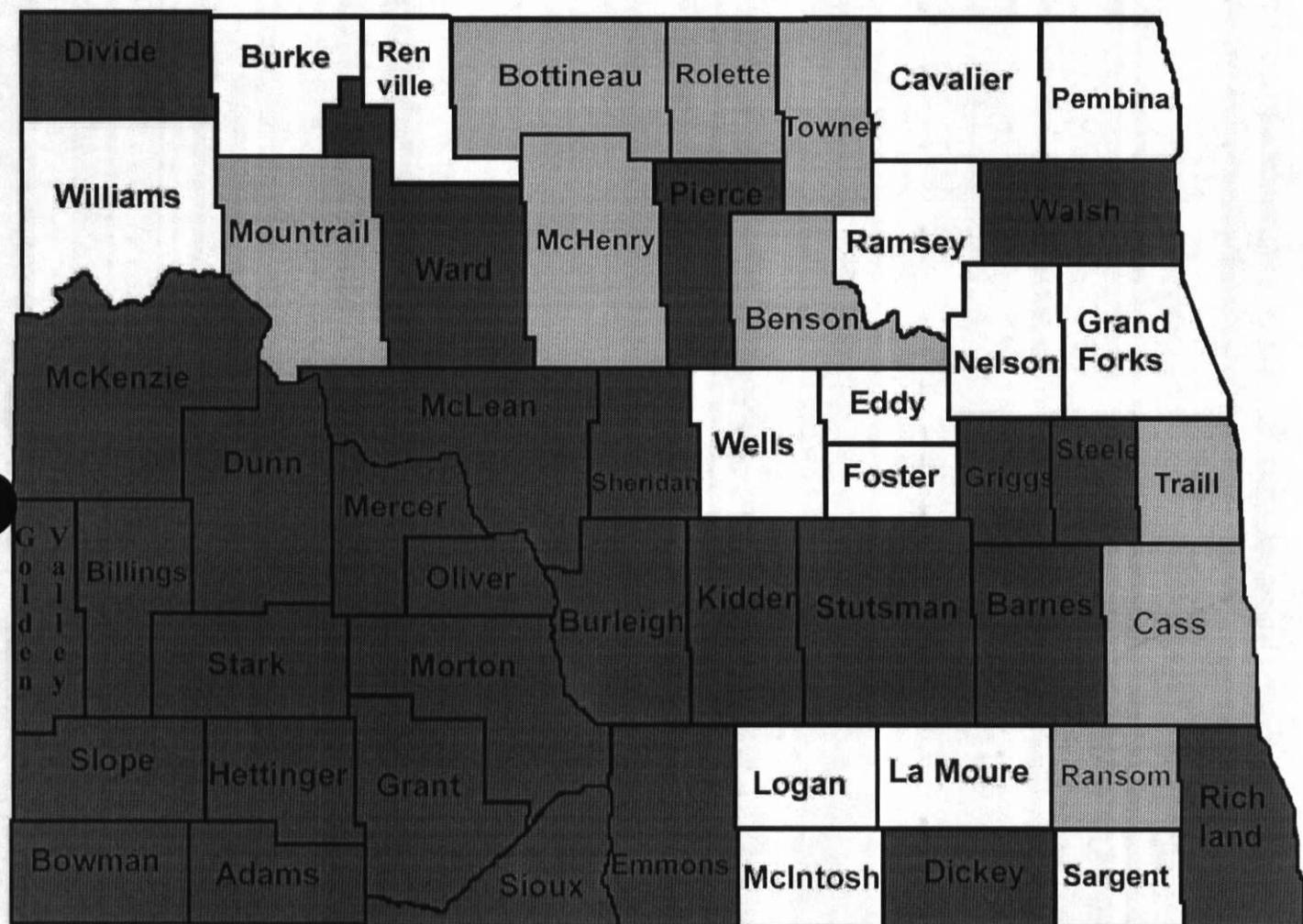
- LEGISLATIVE INTENT BE CLARIFIED, AND
- THAT THE NORTH DAKOTA HOUSING FINANCE AGENCY BE GIVEN ADMINISTRATIVE AUTHORITY TO BOTH CARRY OUT

THAT INTENT AND TO STRUCTURE THE PROGRAM TO
COMPLEMENT OTHER EXISTING AND EMERGING FINANCING
PROGRAMS DEALING WITH THIS ISSUE.

THANK YOU FOR THIS OPPORTUNITY TO SPEAK IN SUPPORT OF 2333, AND
IF YOU HAVE QUESTIONS, I WOULD BE HAPPY TO TRY TO ANSWER THEM.

The DREAM Fund in North Dakota

As of December 31, 2006



DREAM Counties
 Counties with limited access to **DREAM Fund**



COMMUNITYWORKS NORTH DAKOTA IMPACT (65 Months Ending December 31, 2006)

DREAM FUND SUMMARY	
423 DREAM Loans/366 Households	\$ 9,726,148
Other Financing Leveraged	<u>21,118,124</u>
TOTAL DREAM Fund Single-Family Impact	<u>\$30,844,272</u>

ALL SINGLE-FAMILY PROGRAMS SUMMARY	
423 DREAM Loans/366 Households	\$ 9,726,148
23 Brokered/Processed Loans/17 New Households	1,760,743
7 Other CWND Programs & Services/Loans (7 HH)	775,863
48 Other Programs & Services Delivered/Grants (48 HH)	605,645
2 Other Programs & Services (2 HH)	203,534
All Leverage	<u>24,219,315</u>
TOTAL S-F Impact/503 Grants & Loans-440 Households	<u>\$37,291,248</u>

ALL HOUSING PROGRAMS SUMMARY	
503 Single-Family Grants & Loans/440 Households	\$37,291,248
3 Multi-Family DREAM Fund Loans/2 Projects-58 Units	445,000
Multi-Family Financing Leveraged	<u>4,657,087</u>
TOTAL Housing Impact/506 Loans & Grants-498 Families	<u>\$42,393,335</u>

COMMUNITYWORKS IMPACT 1995-PRESENT	
August 2001-December 2006 (498 Households)	\$42,393,335
April 1995-July 2001 (132 Households)	<u>3,451,604</u>
TOTAL 1995-Present (630 Families and Households)	<u>\$45,844,939</u>



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DREAM FUND BORROWING PROFILE

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
423	\$9,726,148	\$15,000	5.85%	6 Years	69% AMI

Down payment and closing costs

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
148	\$571,690	\$3,048	5.85%	5 Years	67% AMI
Range		\$423-\$15,000	1-7%	6 Months - 18 Years	6-194%

Rehabilitation, repairs and modifications

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
59	\$978,728	\$12,259	5.95%	10 Years	70% AMI
Range		\$2,271-40,975	1-7½%	1 Month - 30 Years	25-163%

Emergency repairs

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
7	\$78,702	\$15,000	5½%	8 Years	63% AMI
Range		\$3,271-17,500	2-6%	4½ - 15 Years	34-97%

And other, including construction and construction bridge loans; and

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
43	\$1,339,472	\$24,021	6½%	6 Months	71% AMI
Range		\$3,800-154,800	1-8%	2 - 14 Months	34-649%

Mortgage assistance to cover income and appraisal gaps

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
166	\$6,757,556	\$27,768	5.63%	20 Years	67% AMI
Range		\$3,000-165,000	0-7¼%	1 Month - 30 Years	6-221%

DREAM FUND A-Z

26 Ways the DREAM Fund Can Help You Loans Approved and Closed

2333

DREAM FUND BORROWING PROFILE

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
423	\$9,726,148	\$15,000	5.85%	6 Years	69% AMI

Down payment and closing costs

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
148	\$571,690	\$3,048	5.85%	5 Years	67% AMI
Range		\$423-\$15,000	1-7%	6 Mos.-18 Yrs	6-194%

Adam and Eve had been homeowners for many years, but now both are on disability-social security income, making 52% AMI, and renting in Mandan. They wanted to again own a home and live in a rural area, and they found a suitable house to purchase in rural Mercer County, near Stanton. A small appraisal gap and need to escrow money for needed repairs left them \$4,000 short and unable to close on the mortgage with **Union State Bank**, but because they had previously owned a home, they were ineligible for First-Time Homebuyers. The **DREAM** Fund provided a below-market rate loan to cover the shortfall, and today they are living in their home.

Type: Down Payment/Closing Costs
 Amount: \$4,000
 Rate: 6%
 Term: 3 Years

Ben and Becky are newlyweds planning to move into their first home, a manufactured house in Elgin, but when final construction costs were determined, they found themselves \$3,500 short. **Wells Fargo** of Mandan provided the permanent financing, and the **DREAM** Fund provided help with the closing costs for the family earning 121% AMI.

Type: Down Payment/Closing Costs
 Amount: \$3,500
 Rate: 4%
 Term: 5 Year

Cal and Carol are both disabled, earn only 77% AMI, and wanted to buy the home in Mandan they have been renting for many years. The cost of the house and their income qualified for the first-time homebuyers program, but due to a technicalities involving potential lead-based paint, the need for more than just down payment assistance and additional costs of rehabilitation work, they could not receive DCA or START assistance. The North Dakota Housing Finance Agency agreed to accept a **DREAM** Fund loan, for both closing costs and some rehabilitation, in lieu of DCA or START, and **Security First Bank's** first-mortgage with rehabilitation loan was made and sold to NDHFA under the first-time homebuyers program.

Type: Down Payment/Closing Costs (with Rehabilitation)
 Amount: \$13,800
 Rate: 3%
 Term: 8 Years, 9 Months

Dan and Debby had faced some recent setbacks, including medical bills that forced them into bankruptcy a year earlier. Since then, they had re-established good credit and wanted to move their family of five from a mobile home into a house. The home they found in **Watford City** needed several thousand dollars in repairs, which, with 55% AMI, they couldn't afford, nor did they have enough for down payment and closing costs. Considering the recent bankruptcy, no secondary market would buy the loan, but **McKenzie County Bank** was willing finance most of the loan in-house if the **DREAM** Fund could provide help. The loan was approved.

Type: Down Payment/Closing and Rehabilitation
 Amount: \$9,274
 Rate: 5%
 Term: 10 Years

Ed and Edith, a schoolteacher of 27 years, have two children, but had never owned a home. The home they chose for themselves and their two children in **Dickinson** was, at \$96,500, and their income, at 84% AMI, slightly above First-Time Homebuyer requirements. Because they could not cover the full down payment/closing costs, **Kirkwood Bank** in Dickinson brought the couple to CommunityWorks, and the **DREAM** Fund provided the necessary loan.

Type: Down Payment/Closing Costs
 Amount: \$3,755
 Rate: 5.5%
 Term: 3 Years

Rehabilitation, repairs and modifications

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
59	\$978,728	\$12,259	5.95%	10 Years	70% AMI
Range		\$2,271-40,975	1-7½%	1 mo.-30 yrs.	25-163%

Faye is a single mother with three children, with income 71% AMI but excellent credit, who struggled to keep up with repairs to her older home in **Bismarck**. Doing the work herself, using credit cards and getting some small consumer loans had helped, but significant repairs were still needed. With a 104% loan-to-value ratio, traditional lending sources could not help her, but the **DREAM** fund was able to help finance the repairs and refinance some more recent repair work.

Type: Rehabilitation (second mortgage)
 Amount: \$8,900
 Rate: 5.5%
 Term: 4 Years

Gayle is a single woman, recently divorced, who wanted to move back to North Dakota to a modest home in **Beulah** that needed some repairs. Her credit was excellent, but her income was only 39% AMI and, since she and her ex-husband had owned a home, she was ineligible for First-Time Homebuyers. **First Security Bank-West** believed in their client, but no secondary market would buy the bank's loan. CommunityWorks was able to get NHSA, its exclusive secondary market, to buy the first-mortgage loan from the bank, and the **DREAM** Fund provided additional loan funds to make the needed improvements.

Type: Rehabilitation (second mortgage, to purchase)
 Amount: \$4,950
 Rate: 5%
 Terms: 5 years

Hank and Hannah both worked, had good credit, and had never been late on a payment when catastrophe struck: Hank, a self-employed trucker, was injured in an accident, broke his back, and is now paralyzed from the chest down, limiting him to a wheel chair. Their home in Mandan was not handicapped accessible, forcing Hank to sleep in the dining room. With Hank now unemployed and his wife, who lost her job of eight years taking care of her husband, now living off social security and savings until Hannah gets a new job, their 60% AMI and jobless situation prevented them from securing any loan. Fellow church members and the Bismarck-Mandan Christmas in April volunteer organization provided some free labor and materials to help build an accessible addition and make other modifications to the house in **Mandan**, and CommunityWorks initially approved a short-term construction loan. After work was complete, a long-term second mortgage **DREAM** Fund loan, which replaced the construction loan, was needed to finance the work that allowed them to stay in their home.

Type: Rehabilitation (second mortgage)
 Amount: \$40,200
 Rate: 1%
 Term: 24 Years, 8 Months

Ian and Ida needed to make repairs to their home in **Watford City**, but with an approximate 115% loan-to-value ratio after work was completed, **First International Bank and Trust** was unable to help the family of six earning 107% AMI. The **DREAM** Fund provided a loan to make the necessary improvements.

Type: Rehabilitation (second mortgage)
 Amount: \$20,000
 Rate: 5.5%
 Term: 10 Years

Emergency repairs

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
7	\$78,702	\$15,000	5½%	8 Years	63% AMI
Range		\$3,271-17,500	2-6%	4½-15 Years	34-97%

Jane, in the same month, lost her long-time job when her employer closed its doors and discovered she had cancer. Extraordinary medical bills forced her into bankruptcy. Now cancer-free and again working, she bought a townhouse in **Bismarck** under the First-Time Homebuyers Program, but during her first spring in her new house, she discovered major, emergency repairs were needed. She went to her bank for a \$15,500 loan. With no equity in the home, a 119% loan-to-value ratio and low income (73% AMI), it was unbankable. **Bank Center First** brought Jane to CommunityWorks, and the **DREAM** Fund provided the necessary loan.

Type: Emergency Repairs (second mortgage)
 Amount: \$15,500
 Rate: 5%
 Term: 9 Years

Krikor and Katia are a refugee immigrant family living the American Dream: both had jobs and they and their family lived in their own home in **Mandan**. A hail storm destroyed the roof, but when the contractor removed the shingles, it was discovered the rafters and the entire top part of the house was rotted and needed to be replaced. Insurance covered the shingles, but not the rotted lumber. Without equity in the home—it was purchased under First-Time Homebuyers—or limited income that was 63% AMI, no bank loan was possible, even though they had excellent credit. **Kirkwood Bank** brought the family to us, and a below-market rate **DREAM** Fund loan was provided to make the emergency repairs. Once work was underway, other problems and needs were discovered, and additional rehabilitation loan funds were provided.

Type: Emergency Repairs and Rehabilitation (second mortgage)
 Amount: \$16,000
 Rate: 5.5%
 Term: 6 Years

And construction and construction bridge loans

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
43	\$1,339,472	\$24,021	6½%	6 Months	71% AMI
Range		3,800-154,800	1-8%	2 -14 Months	34-649%

Larry and Linda participated in CommunityWorks' Mutual Self-Help Program in **Lincoln**, and permanent financing from **Dakota Community Bank** with a Rural Housing guarantee was secured, but the lender's policy limited construction financing to only 75%. The **DREAM** Fund provided the remaining 25% to the family of five with 68% AMI, and later added another \$11,000 second mortgage after a new baby, family income change and additional costs contributed to more financing needs.

Type: Construction Bridge Loan and Mortgage Assistance (second mortgage)
 Amount: \$22,271 + \$11,000
 Rate: 7% + 5.88%
 Term: 6 months + 30 Years

Maria, a single mother earning 64% AMI but with long-term employment history, wanted to build a new home in **Cannonball** on Standing Rock Indian Trust Land where conventional lending is virtually impossible. Working with **Dakota Community Bank**, the bank was able to make a permanent mortgage loan with a HUD 184 guarantee, and the **DREAM** Fund approved a \$62,000 construction loan.

Type: Construction
 Amount: \$62,000
 Rate: 6.25%
 Term: 3 Months

Nathaniel and Nancy, with two children earning 36% AMI, are home health-care providers in their rural Burleigh County home near Bismarck who needed financing help in building a permanent-construction connection from the home to a mobile home that will allow them to better serve more patient-residents. The **DREAM** Fund provided about half the construction financing needed to make the connections.

Type: Construction
 Amount: \$12,259
 Rate: 5.95%
 Term: 1 Year

Mortgage assistance to cover income gaps...

# Loans	Amt. Loaned	Median Loan	Median Rate	Median Term	Median Income
166	\$6,757,556	\$27,768	5.63%	20 Years	67% AMI
Range		\$3000-165,000	0-7¼%	1 Mo.-30 Yrs.	6-221%

Oliver and Olivia, and their young family of eight children, all at home, suffered a crushing blow when Oliver, a construction worker, fell off a church roof, broke his back, and is now a quadriplegic. Their modest home was barely adequate for their large family, and it now was totally unsuitable. They are a proud couple and wanted no grants or handouts, but their meager income (33% AMI) made purchase of a more suitable home impossible. Working with the regional council and city, grants from the state and a city CDBG were provided to help with the purchase and needed modifications so that the family could move into a new house in Hazen. The remaining gap was filled with **DREAM** Funds at a below-market rate, and today the family is in their new home.

Type: Mortgage Assistance (first mortgage)
 Amount: \$35,000
 Rate: 3½%
 Term: 15 Years

Paula found a home in Lincoln that met her needs, but with an income of less than 37% AMI and two children to support, finding financing was clearly a problem. Working with USDA-Rural Development and CommunityWorks, a solution was found by utilizing the Rural Home Loan Partnership program that CommunityWorks delivers for USDA. The RHS 502 Direct program provided 75% of the financing at a subsidized rate of 1% for 30 years as a second mortgage, and the **DREAM** Fund picked up the remaining 25% at a rate and term she could afford, plus an additional \$900 forgivable loan was provided to help cover closing costs.

Type: Mortgage Assistance (first mortgage)
 Amount: \$24,200
 Rate: 5.95%
 Term: 30 years

Quentin has worked for the same contractor since he graduated from high school five years ago, and since then he has rented from grandparents and saved his money, enough to put down 20% towards the purchase of a modest home in **Hazen**. But he was turned down by several banks, not because he had poor credit, but because he had NO credit. His frugality, allowing him to save despite an income of 48% AMI, and his stable employment indicated he is a good credit risk, and the **DREAM** Fund provided a first mortgage at market rate.

Type: Mortgage Assistance (first mortgage)
Amount: \$23,000
Rate: 7%
Term: 10 Years

Randy and Rae are an elderly couple who are retiring after living in the upstairs of a commercial building in Wishek for the past 31 years. Their sole source of income is Social Security, and with a household income of 45% AMI, they found a modest home in **Edgeley**. Their bank, **Security State Bank**, wanted to help, but since they were not yet an approved Bank of North Dakota lender they could not sell the loan; CommunityWorks is, so the bank approached the **DREAM** Fund, which provided the loan that was then sold to BND.

Type: Mortgage Assistance (first mortgage)
Amount: \$47,900
Rate: 5.375%
Term: 15 Years

Sam and Sandi are a young couple with two children earning only 39% AMI who wanted to buy their first home in **Scranton**. Their bank, **Dakota Western Bank**, which is not an approved Housing Finance Agency lender, brought the request to the **DREAM** Fund, which helped the couple obtain a DCA (down payment and closing costs) soft-second from ND Housing Finance Agency, then provided a first mortgage loan that was sold by CommunityWorks to HFA.

Type: Mortgage Assistance (first mortgage)
Amount: \$33,950
Rate: 4.35%
Term: 30 Years

Tad and Tammy and their family of four had weathered near financial ruin. Tad was laid off from his job for four months, Tammy had suffered health problems before, during and after her pregnancy, and farm losses had cut their family income to 19% AMI, all of which had forced them into bankruptcy. With both now working and most of their credit restored, they needed to buy a home for their growing family, and **Wells Fargo** in Bismarck was willing to help, but the family's financial history required high sub-prime rates. Working with the bank, CommunityWorks agreed to provide a lower-cost second-mortgage from the **DREAM** Fund, thus reducing the bank's risk and allowing them to reduce their sub-prime rate, and the family was able to purchase the home in **Wilton** at an affordable cost.

Type: Mortgage Assistance (second mortgage)
Amount: \$15,000
Rate: 6%
Term: 10 Years

Ulmer and Ursula hoped to move to **Dickinson**, but Ulmer, a professional offered a job in a local practice, had considerable student loans, a family income of only 54% AMI, and a disability, all limiting his housing and financing choices. Working with **Dakota Community Bank** in Dickinson that provided a first mortgage, the **DREAM** Fund provided a low-cost second mortgage.

Type:	Mortgage Assistance (second mortgage)
Amount:	\$27,300
Rate:	3%
Term:	15 Years

Valerie is a divorced mother of two small children, recently disabled and with damaged credit largely created by her ex-husband. In the divorce settlement she received the house, but it had a mortgage rate of 13.7%. Her income was just 56% AMI and now her disability prevents her from working, although child support, social security payments, farm rental income and forgiveness of a student debt by the Department of Education will allow her to get by if her house payments could be reduced—otherwise she will lose her house in **Killdeer**. **Kirkwood Bank** in Dickinson brought Valerie to CommunityWorks, which refinanced the mortgage with a long-term, lower-cost **DREAM** Fund mortgage she can afford.

Type:	Mortgage Assistance (first mortgage)
Amount:	\$27,200
Rate:	5.95%
Term:	30 Years

...and appraisal gaps

Wally and Wanda, always fiscally conservative, had rented while they saved to build their dream home in **rural Hettinger County** near New England. Finally, with enough saved, they got bids and were approved for VA financing by **Gate City Bank** in Dickinson. But when the appraisal was done, it showed a \$50,000 gap. Working with the family and lenders, the gap was cut in half—partly because Wally is providing more sweat equity—but the loan could still not be made. The family's income is 111% AMI and the house too expensive for first-time homebuyers program. The **DREAM** Fund filled the gap with a second-position, market-rate loan. By the time construction was completed, cost over-runs added almost \$20,000 more needed for financing. A new loan adding \$10,000 to the original loan was approved, and the rate and terms on the balance of the original loan were re-amortized at a lower rate and longer term to keep payments affordable.

Type:	Mortgage Assistance (second mortgage)
Amount:	\$35,000
Rate:	7% + 6%
Term:	5 + 10 Years

Xavier and Xena and their five children are Adams County farmers who wanted to build a unique home in Reeder, but the appraisal, always a problem in rural areas but a significant problem with unique houses, came in about \$40,000 below the cost. The family, earning just 53% of AMI, was willing to put in \$40,000 in cash and sweat equity, leaving \$110,000 to be financed. **Dacotah Bank**, using the Bank of North Dakota's Strengthening Rural Communities program, provided 80% as a first mortgage, and the **DREAM** Fund financed the balance.

Type: Mortgage Assistance (second mortgage)
 Amount: \$22,000
 Rate: 5%
 Term: 15 years

Yates and Yolanda, with three children and earning 108% AMI, bought a home in rural Kidder County near Medina, but soon learned they were victims of what clearly bordered on predatory lending practices. After paying \$11,000 in closing costs and making several years of payments, they still owed more than they had borrowed. In trying to refinance, it was learned there was a significant gap between the appraised value and the amount owed on the home and the 320 acres where they lived. Working with **Northland Financial** of Medina, which provided financing covering 80% of the appraised value, and the **DREAM** Fund, which filled the gap, the family can now stay in their home with payments they can afford.

Type: Mortgage Assistance (second mortgage)
 Amount: \$43,600
 Rate: 6%
 Term: 25 Years

Zachary and Zoe, earning 80% AMI, wanted to place a manufactured home on a lot they owned in Medina, but although it appraised at \$4,000 more than the cost, two secondary markets turned down the loan after discounting the appraisal. Working with **Northland Financial** of Medina that agreed to provide financing at 80% of the appraised value, the **DREAM** fund filled the gap.

Type: Mortgage Assistance (second mortgage)
 Amount: \$14,000
 Rate: 4%
 Term: 15 Years

DREAM FUND IMPACT
 (65 Months Ending December 31, 2006)

TOTAL: 423 Single-Family DREAM Fund Loans/366 Families	\$9,726,148
Other Financing Leveraged	<u>\$21,118,124</u>
TOTAL DREAM Fund S-F Impact/366 families	\$30,844,272

Construction Generated by DREAM Fund Loans: \$9,836,098

CONTRIBUTORS TO COMMUNITY WORKS NORTH DAKOTA

December 31, 2006

Adams County	Ekstrom, Brent and Lynn	Johnson, Tracie	Retterath Management and Sales
American Bank Center, Bismarck	elending NOW	KEM Electric Cooperative	Retterath, Sandy and Don
American Bank Center, Dickinson	Emmons County	Kidder County	Richland County JDA
Anderson, Susan and David	Fannie Mae Foundation	Kirkwood Bank and Trust Company	Rugby Jobs Development Authority
Arenz, Sherri and Roger	Fannie Mae State Partnership Office	Knoll, Rob and Greta	Schatz, Helen and Darryl
AXA Foundation	Farmers Security Bank	Kosse, Dorothy and Kelvin	Security First Bank of North Dakota
Bachmeier, Wade and Edie	Farmers State Bank	Lakeside State Bank	Security State Bank
Bakkum, Paul and Diane	Federal Home Loan Bank-Des Moines	Lange & Donovan PLLP	Security State Bank of North Dakota
Bank of Hazelton	First and Farmers Bank	Lange, Greg and Laurie	Sheehan, Joe
Bank of Minto	First Community Credit Union	Laughridge Holdings	Sheridan County
Bank of North Dakota	First International Bank & Trust	Leier, Joleen and Charles	Sioux County
Bank of the West	First National Bank of McClusky	Lembke, Claus and Marsha	Slope County
Bank of Turtle Lake	First National Bank & Trust Co. of Williston	Lewis & Clark Reg. Development Council	Slope Electric Cooperative
Barnes County/JDA	First National Bank & Trust Co. of Williston	Lincoln State Bank	Southwest REAP Zone
Barta, Rich	First Security Bank, Underwood	Mahlum & Rude/Barrett Paul Mem.	Spanjer, Denise and Larry
Basin Electric Power Cooperative	First Security Bank-West/Amundsen Fdn	McIntosh County Bank	St. Alexius Medical Center
BEK Communications Cooperative	First State Bank of Goiva	McKenzie County	Standing Rock Housing Authority
Bethke, Jay and Chris	First State Bank of LaMoure	McKenzie County Bank	Starion Financial
Billings County	First State Bank of Wilton	McLean County	Stark County
Bismarck Tribune/Jeanes Day	First United Bank	Meidinger, Becky and Clinton	The First and Farmers Bank
BNC National Bank	Fischer, Bonnie	Merchants Bank-Rugby	The Union Bank-Beulah
Bowman County	Flasher Community Credit Union	Montana Dakota Utilities Company	Thurn, Marlene and Gerold
Bremer Bank	Flohr, David and Patricia	Mor-Gran-Sou Electric Cooperative	Trinervice Federal Credit Union
Burgum, Corey and Barb	F-M Mortgage Corporation	Morton County	Union State Bank
Burleigh County	Ft. Berthold Housing Authority	ND Association of Realtors (RETA)	US Bancorp
Burleigh County Housing Authority	Garrison State Bank	ND Association of Rural Electric Coops	US Dept. of Housing & Urban Development
Bush Foundation	Gate City Bank	ND DoC-Division of Community Services	USDA-Rural Development
Capital Credit Union	Golden Valley County	NeighborWorks America	Wahpeton Community Development Corp.
Capital Electric Cooperative	Grafton Economic Development	North Dakota Housing Finance Agency	Walsh County
Cass County Electric Cooperative	Gramza, Greg	North Dakota Rural Development Council	Walsh County JDA
Center for Community Change	Grant County	Northern Plains Electric Cooperative	Ward County
Century 21 Landmark Realty	Grant County Jobs Development Authority	Oliver County	Warren, Don
Citizens State Bank of Finley	Grant County State Bank	Oliver-Mercer Electric Cooperative	Washington Mutual Foundation
Commercial Bank of Mott	Great Plains National Bank	Otter Tail Corporation	Weide, Mark and Diane
CONAC REAP Zone	Great Western LLC	Otter Tail Power Company	Wells Fargo Community Development Corp
Consolidated Telcom	Griggs-Steele Empowerment Zone	Otto Bremer Foundation	Wells Fargo Foundation
Dacotah Bank	Hall-Biesecker, Theresa and Dennis	Park River CDC	West Plains Electric Charitable Foundation
Dakota Community Bank	Heartland Mortgage	Paul, Gayle and Burnell	West Plains Electric Cooperative
Dakota Foundation	Heinsohn, Mike	Peoples Bank & Trust	Western Cooperative Credit Union
Dunn County	Hettinger County	Peoples State Bank	White Mountain, Tonya
Dakota West Credit Union	Hoffman, Clayton and Janice	Rechlin, Paul and Jennifer	Willis, Nancy and Kevin
Dakota Western Bank	Hogue, Lyle		
Dickey County/JDA	Honeyman, Stephanie and David		
Divide County	Housing Assistance Council		
	Jamestown Stutsman Development Corp.		

COMMUNITYWORKS NORTH DAKOTA

Geographic Distributions of DREAM Loans

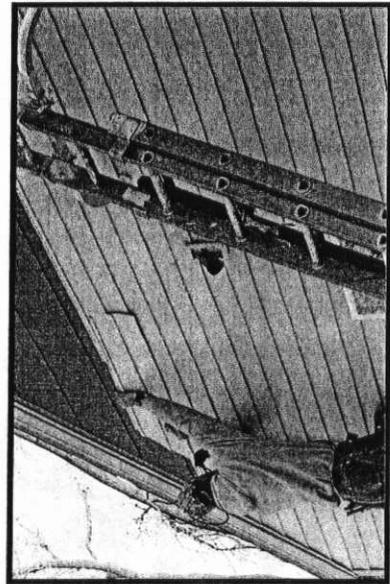
Location	# Loans/# >20K Pop.	Location	# Loans/# >20K Pop.	Location	# Loans/# >20K Pop.
Adams County	22/22	Grant County	1/1	Mountrail County	2/2
Hettinger 21		Elgin 1	1/1	Parshall 1	
Reeder 1		Griggs County	1/1	Stanley 1	
Barnes County	1/1	Cooperstown 1	3/3	Oliver County	3/3
Kathryn 1		Hettinger County		Center 3	
Bottineau County	4/4	New England 2		Pierce County	2/2
Bottineau 1		Mott 1		Rugby 2	
West Hope 3		Kidder County	4/4	Ransom County	1/1
Bowman County	14/14	Medina 1		Engelvale 1	
Bowman 11		Steele 3		Renville County	1/1
Scranton 3		LaMoore County	1/1	Glenburn 1	
Burleigh County	118/41	Edgeley 1		Richland County	2/2
Bismarck 77		Logan County	1/1	Hankinson 1	
Lincoln 34		Napoleon 1		Wahpeton 1	
Menoken 1		McHenry County	2/2	Rolette County	1/1
Moffit 3		Anamoose 2		Belcourt 1	
Regan 2		McIntosh County	3/3	Sioux County	6/6
Wing 1		Wishek 2		Cannonball 1	
Cass County	7/1	Fredonia 1		Fort Yates 5	
Fargo 6		McKenzie County	14/14	Stark County	49/49
Casselton 1		Alexander 1		Beifield 3	
Dickey County	10/10	Arnegard 1		Dickinson 44	
Ellendale 8		Watford City 12		Sourth Heart 1	
Fullerton 1		McLean County	17/17	Taylor 1	
Oakes 1		Garrison 1		Stutsman County	25/25
Divide County	3/3	Mercer 1		Buchanan 1	
Crosby 2		Riverdale 1		Cleveland 1	
Fortuna 1		Turtle Lake 3		Courtenay 1	
Dunn County	7/7	Washburn 2		Jamestown 18	
Dodge 1		Wilton 9		Medina 4	
Killdeer 6		Mercer County	28/28	Ward County	13/3
Emmons County	8/8	Beulah 17		Kenmare 1	
Linton 6		Hazen 9		Minot 10	
Strasburg 2		Pick City 1		Sawyer 2	
Grand Forks County	2/1	Stanton 1		Corson County SD	3/0
Grand Forks 1		Morton County	44/44	McLaughlin 3	
Thompson 1		Glen Ullin 1		TOTAL	423/329
		Mandan 42			
		New Salem 1			

Note: The DREAM began lending in 2001 in 10 counties surrounding Bismarck-Mandan, with 3-5 counties added annually. Generally, expansion started in the SW, most recently in the east. Spatial distribution of lending reflects years available more than need.

HOW COMMUNITYWORKS BENEFITS LOCAL COMMUNITIES

Through its housing programs and services, CommunityWorks has helped hundreds of North Dakotans to achieve their dream of homeownership and independent living, which has helped to enrich and revitalize local communities in several ways, including:

- ▶ Increasing housing and construction activities.
- ▶ Creating and maintaining safe and affordable housing.
- ▶ Providing more housing choices and opportunities.
- ▶ Retaining and attracting employees who want to live near their place of work.
- ▶ Enhancing the real estate market and building a local tax base.
- ▶ Stabilizing and beautifying communities.



CommunityWorks also administers the CDBG housing rehabilitation program for the City of Bismarck, which enables low-income elderly homeowners to access grant funds for repair of their homes.

RECENT AWARDS

CommunityWorks, a 501(c)(3) nonprofit organization, has earned several national and state awards for its commitment to providing opportunities for safe and affordable homeownership, including:

- ▶ HUD Top 100 Best Practices and Governor's Best Multi-Family Project for the \$2 million Beulah School House Apartments project (1999).
- ▶ Champion of Affordable Housing Awards from the North Dakota Housing Finance Agency, winning its Production Category award (2001) for the multi-million dollar DREAM Fund, the Leadership Category award (2003) for affordable housing advocacy, the Housing Production Category (2004) for the Library Square development, and the Lending Category (2005) for the DREAM Fund.



- ▶ Award of Excellence from the Federal Home Loan Bank-Des Moines (2003) for a 72-home, \$700,000 statewide housing rehabilitation program that assisted elderly and low-income homeowners in rural communities.

CommunityWorks North Dakota

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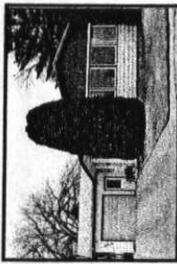


Providing affordable housing and development opportunities to revitalize communities and improve the standard of living and quality of life for North Dakotans.



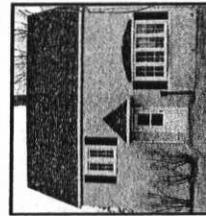
The DREAM Fund

The DREAM Fund is a revolving loan fund that assists households to overcome the obstacles to homeownership. By using its partnerships with local lenders, the Fund can provide Down payment and closing cost assistance, Rehabilitation loans, Emergency repair assistance, and (other financing, including construction and construction bridge loans), and Mortgage assistance. The Fund also provides financing for appraisal gaps, which has inhibited new housing construction, particularly in rural areas of the state.



The DREAM Fund is not an alternative to traditional financing by lenders. Instead, it offers the financing that its lender partners cannot provide. The Fund is capitalized with contributions from lenders, utilities, local governments, foundations, and other partners.

The Fund is a flexible program, with rates and terms structured to be affordable to the borrower. Although most borrowers are at or below 80% of their area's median income, loans are also made to households earning up to 120% of the median income, and in certain cases, more.



Rural Housing Opportunities

CommunityWorks also coordinates the Rural Home Loan Partnership program with USDA-Rural Development, which assists low-income households to purchase homes in rural areas, and has developed a pilot program with Fannie Mae and Bank of North Dakota to help finance rural housing applications.

Services for Lender Partners

Before expanding its program service area, CommunityWorks develops partnerships with local lenders, governments, rural utilities, and JDAs. For its lender partners, CommunityWorks provides training and technical assistance which helps lenders make better and safer additional loans, thereby contributing to the betterment of their local communities.

Some of the services and training provided include:

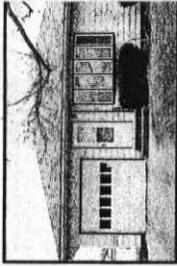
- o CommunityWorks Program Training - The CommunityWorks staff provides regional workshops to show how the DREAM Fund and other facilitated programs can work with lenders to help more of their clients.
- o Secondary Market Access - CommunityWorks is an approved lender with the Bank of North Dakota, Merchants Bank, and USDA-Rural Development. Partners also have access to NHSA (Neighborhood Housing Services of America), that is only available through CommunityWorks' affiliation with NeighborWorks America.
- o First-Time Homebuyers - CommunityWorks participates with the North Dakota Housing Finance Agency by originating low-interest, first-time homebuyer mortgage loans for its partners that do not have access themselves.

Homebuyer Education

CommunityWorks provides training through its certified homebuyer education counselors to prepare households for the home selection and purchase processes, thereby creating more informed and responsible homebuyers.

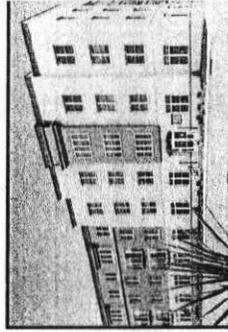
Programs for Disabled Households

CommunityWorks provides programs to assist households with disabled members to achieve living and working independence. CommunityWorks leads the HomeChoice Coalition, which provides help to households with a disabled family member to find affordable loan products and other resources to purchase or modify their homes to accommodate their needs. In addition, the Vocational Rehabilitation Loan Fund provides financing to qualifying applicants for business start-up opportunities.



Multi-Family Housing

CommunityWorks has been a co-partner in the development of two successful, award-winning multi-family projects. Library Square (pictured below) a \$5 million project that supplied 46 new units of housing to the Mandan community, has become the cornerstone of the city's downtown redevelopment plan. The School House Apartments in Beulah a historic school that was converted into 28 housing units, was awarded the HUD Top 100 Best Practices Award in 1999.



Reservation Housing Opportunities

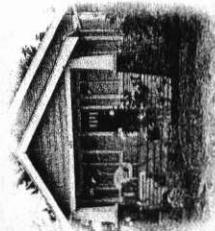
Through the DREAM Fund and other programs, CommunityWorks can provide affordable financing for rehabilitation, construction, or mortgage assistance. In addition, CommunityWorks also helps its lender partners to access lending products that work successfully in reservation lands, including the HUD 18-

CommunityWorks North Dakota is a statewide non-profit corporation that provides various housing programs and services. The **DREAM** Fund was established through contributions and grants to help North Dakotans purchase and maintain their homes.

The **DREAM** Fund is not intended to be a lower-cost alternative to traditional financing. Instead, it provides financing that traditional lending programs cannot provide. It is not limited to low income borrowers. Although most borrowers are expected to be at or below 80% of median income, loans are also made to families and persons earning up to 120% of median income, and in some cases more. There are no set interest rates or terms. Rates are adjusted to make the loan affordable. The **DREAM** Fund does not provide grants, only loans, and borrowers must demonstrate the character and capacity to meet their loan payments.

CommunityWorks North Dakota delivers other programs and services to provide affordable rental and home ownership opportunities, including:

- Rural Home Loan Partnership
- HomeChoice Coalition for the Disabled
- Multi-Family Development
- Home Buyer Education
- Specialized Help on Indian Reservations
- Other Lender Assistance



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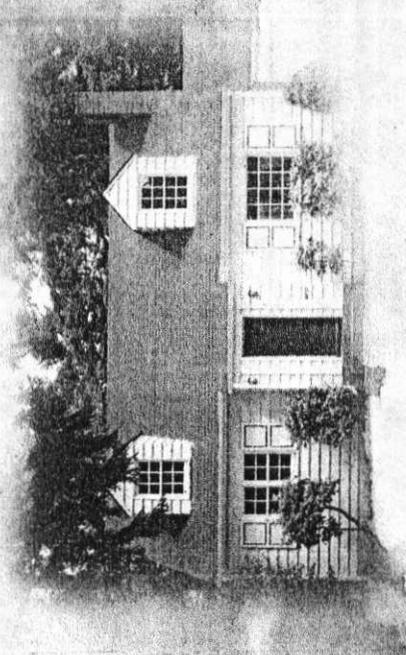


CWND
CommunityWorks
North Dakota



400 E. Broadway, Suite 418
Bismarck, ND 58501

Is buying or repairing
a home nothing
more than a *dream*?



Perhaps the CommunityWorks
North Dakota

DREAM Fund



can help you realize
the American Dream
of home ownership!



CHARTERED MEMBER

Questions & Answers

Q: Is there more cost and paperwork?

A: The paperwork your lender does for their loan is generally the same as we require. For the most part, we are able to use copies of paperwork your lender already has. We charge an application fee and for any other out-of-pocket expenses incurred by CommunityWorks North Dakota.

Q: Are there any other requirements?

A: The property must be owner occupied within 60 days of the loan closing except in the case of construction financing. Mobile homes not on a permanent foundation do not qualify. Home buyer education is highly recommended and may be required.

Q: Who should I contact about the DREAM Fund?

A: You can contact us, but better still, talk to your lender first, because the **DREAM** Fund provides only the financing that your lender is unable to provide. It does not replace what lenders can provide.

Q: Does that mean that the DREAM Fund won't provide my full mortgage?

A: Typically your lender will provide most of the financing and the **DREAM** Fund will provide the difference with a second mortgage behind the bank.

Q: What is the interest rate on the DREAM Fund loans?

A: Rates and terms are structured so that your total payments are affordable to you. Interest rates are typically at market rate or lower.

Q: Must I be low-income to be eligible?

A: Although most of our lending is to low-to moderate-income borrowers, the **DREAM** Fund will consider loans to anyone regardless of income.

Q: What if I have bad credit?

A: The **DREAM** Fund can be more flexible in determining your credit-worthiness than traditional lenders, but borrowers must be able to demonstrate the character and capacity to meet their obligations.

Q: Does it make any difference where I live?

A: The **DREAM** Fund makes loans to persons in major cities, small communities and rural areas. However, the **DREAM** Fund is not yet available throughout the entire state. If in doubt, you or your lender should check with us to make sure you are in our coverage area.

CommunityWorks North Dakota **DREAM Fund**

Downpayment and Closing Cost Assistance

- For the purchase of a new or existing home.

Rehabilitation - Loans to make repairs to improve and maintain your property.

Emergency Repairs - Loans for repairs to fix or replace essential items in your home.

And other housing related loans including construction and construction bridge loans.

Mortgage Assistance -

Appraisal Gap - To finance the gap between the cost of construction and the appraised value of the property. This program may also be used for interim financing during the construction phase.

Affordability Gap - To assist with the gap between the purchase price and the loan amount approved by the lender.

Owning a home can
be a *dream* come true!



Don Hacker's

**PROPOSED AMENDMENTS TO SB 2333
(Amendments noted in highlighted text)**

2-1-07

A BILL for an Act to create and enact a new **subsection to** section to **54-17-07.3** of the North Dakota Century Code, relating to a housing finance agency program to bridge the financing gap of new residential construction in rural communities; **to provide for a report to the legislative council;** to provide an appropriation; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new **subsection to** section to **54-17-07.3** of the North Dakota Century Code is created and enacted as follows:

A program to assist in bridging the financing gap in new residential construction in cities with populations of fewer than twenty thousand if the cost of the new construction exceeds the appraised value of the new construction. The program shall provide financial assistance for new construction of multifamily housing and single-family housing, excluding mobile homes and farmsteads.

a. The industrial **commission shall establish the eligibility criteria and** application procedure for **the** program **which at a minimum must:**

- 1. Require a local grant match from private or public funding or in-kind contributions which may not exceed forty-five percent of the gap between the cost of construction and the appraised value of the new construction**
- 2. Provide that the local grant match may not include state funds; and**

3. Require an applications for assistance under this program to include evidence of community support for the new construction project.

b. The maximum assistance provided to any person or family under this program may not exceed forty-five percent of the gap between the cost of the construction and the appraised value of the new construction. Assistance provided under this program may be provided to a person or family of low to moderate income or to any other person or family in a developing community in the state to address an unmet housing need or to alleviate a housing shortage.

c. Before August first of every even-numbered year, the housing finance agency shall report to the legislative council on the status of this program, including funds awarded, the state and local impact of the funds awarded, and program recommendations.

SECTION 2. APPROPRIATION. There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$5,000,000, or so much of the sum as may be necessary, to the industrial commission for the purpose of administering and providing grants under the program to bridge the financing gap for residential construction, for the biennium beginning July 1, 2007, and ending June 30, 2009. **The housing finance agency may not be construed to be a general fund agency because of the appropriation made by this section.**

SECTION 3. EXPIRATION DATE. Section 1 of this Act is effective through July 31, 2011, and after that date is ineffective.

Renumber accordingly

The 5 million dollar appropriation to Senate Bill 2333 will provide a 50 million dollar impact in new housing throughout rural North Dakota where new housing construction has been minimal for the past 15 years. The subsidy only occurs in towns with a population of less than 20,000 and with a gap problem between the cost of new construction and the appraised value:

The average gap across the state where this gap exists is estimated at 20-25%

\$165,000	New home construction cost (as determined by ND Housing and Finance...ie this is not a rogue number)
\$132,000	Appraised value using a 20% gap
\$33,000	Gap (\$165,000 - \$132,000)
\$14,850	45% of gap which state will grant
\$14,850	45% of gap which local entity (city, employer, EDC, JDA, donated land)
\$3,300	10% of gap owner is responsible for

Owner's responsibility

\$13,200	10% down payment on the mortgage that owner is responsible for
<u>\$3,300</u>	10% of gap owner is responsible for
\$16,500	Total amount needed prior to construction needed from owner

\$165,000	Construction impact per home
<u>/ \$14,850</u>	Divided by amount state has granted
11.1	Multiplier (times state money was leveraged)

\$5,000,000	Appropriation
11	Times multiplier
\$55,000,000	Total amount of rural development from a 5 million dollar appropriation

Amount owner needs to build in rural North Dakota
\$165,000 - \$132,000 = \$33,000 + \$3,300 = **\$36,300**

Amount owner needs if building in non-gap problem towns (Bismarck, Fargo etc.)
\$165,000 x 10% = **\$16,500**

55 million dollars of new homes in rural North Dakota with private citizens retaining ownership, not housing authorities etc. If a city were to bond 55 million to do housing authority projects one years worth of interest payments on the bonds (5%) would equal \$2,750,000 per year, thus in less than 2 years the program would pay for itself. This does not include immediate property tax revenues to the locals of \$1,100,000 per year (2% of property value). It also does not include sales tax revenues from purchasing construction materials or increased income taxes from new employment. Many indirect results would occur as well from providing new jobs and new income to the regions being served.

Bank of the West Pledges \$250,000

In August, Bank of the West pledged to support the **DREAM** Fund with a \$250,000 equity investment. This will help capitalize the Fund and will go towards helping North Dakotans to purchase, repair, and build housing throughout the service area.

Through this support, Bank of the West branches within the present service area – Fargo, Wahpeton, Dickinson and Cooperstown – will have access to the **DREAM** Fund in their service areas. The program helps

partnering lenders to fill the gaps that occur in residential financing, including appraisal gaps, downpayment & closing costs, and other mortgage financing for purchase or rehabilitation.

The **DREAM** Fund has provided 376 loans and over \$8.3 million in financing since it began lending in August 2001. It has helped to contribute to more than \$26.7 million in residential financing across the state, including \$8.9 million in construction.

CWND Selected for Cass County Housing Challenge

CommunityWorks North Dakota was recently awarded with a Housing Challenge Grant for Cass County by the Wells Fargo Housing Foundation. The “challenge” of the grant is to raise funds to match a \$50,000 grant award from the Housing Foundation, which will be used to help the **DREAM** Fund to provide downpayment assistance and housing rehabilitation financing to low-income households in the Cass County-

Fargo area. The matching funds can be raised through the end of November.

This award provides CommunityWorks with opportunities to assist additional Cass County households to purchase and repair their homes and to develop working partnerships within the communities to address and overcome obstacles to affordable housing.

FCCU Contributes \$25,000 to DREAM Fund

First Community Credit Union contributed \$25,000 to the **DREAM** Fund in May, which will enable its branches within the service area to access the Fund and other CommunityWorks programs and services.

First Community is the first credit union east of Bismarck to become a **DREAM** Fund partner and the sixth credit union overall. The First Community branches with access to the Fund include Bismarck, Hankinson, Jamestown, Oakes, Steele, Wahpeton, and Valley City.

Thank you to FCCU and we look forward to helping your clients achieve their homeownership goals!



*Thank you to Starion Financial for their continued support of the **DREAM** Fund. In May, Sr. Vice President Mark Weide (l.) and President/CEO Craig Larson (c.) presented Executive Director Paul Rechlin (r.) with a \$50,000 equity investment for lending.*

Works in Progress

When those of us in the lending business complain – rightly so, we're certain, and perhaps to some degree, justifiably – that there are too many rules and regulations, and too much paperwork involved in mortgage lending, we should remember that there's a reason. A lot of reasons, actually, all meant to protect against inept, improper, unethical, or illegal practices.



Paul Rechlin
Executive Director

Obviously, many requirements are meant to address discrimination. Until passage of the Equal Credit Opportunity Act in 1974, women could be required to offer assurances that they employed birth control before their husband's loan could be approved. If only life were so simple today, and that a few laws, documents, and reports could mostly solve a problem.

As we pile on the regulations, pile up the ever-thickening files, and embrace public policy to open homeownership to even more people, the even more sinister problem of unscrupulous lending confounds and confronts us, and could condemn us to even more rules and paperwork. The question is, will it make a difference?

This is not to condemn sub-prime lending, which are higher-cost loans to higher-risk borrowers. Any industry that has grown by 25% a year for a decade, represents more than 12% of lending in America, and does about \$400 billion in business is obviously meeting a need. It helps people overcome credit issues, become or remain homeowners, and build assets...when done properly. When done improperly, it is theft.

And that's part of the rub. Where do we draw the line between acceptable and prudent business practices of charging more to cover greater risk, and predatory practices that can strip away an unsuspecting client's cash and assets? In some ways, predatory lending can be identified in the same way as Justice Potter Stewart described pornography in 1964. To paraphrase him, he couldn't define it, but he knew it when he saw it. The difference is that with predatory lending, once you see and recognize it, it's too late; the cash, credit rating, and house may already be gone.

Defining it is hard. Recognizing it is difficult, and it's ironic that the esoteric verbiage contained in legal documents intended to protect borrowers makes it easier for predators to hide their onerous terms. Mobilizing consensus to stop it seems daunting because unethical lending is big business, and a major profit center for companies with household names whose ads we see on TV every night in our living rooms.

It is, after all, much easier to pass laws banning discrimination that limits business than it is to pass laws banning practices that create business.

But, make no mistake – as the economy hits inevitable glitches and housing bubbles burst in major media market areas, the human and economic costs of predatory lending will become better known and generate a groundswell of protective laws.

We should probably embrace that. But, ultimately, all of us have a responsibility to play some role in assuring the laws truly protect, and don't just create delays, add cost, and reduce the flexibility needed by conventional and subprime lenders to ethically help clients. In the long run, that is both good citizenship and good business.

Welcome New Partners!

Thank you to Rugby Job Development Authority, Great Plains National Bank, American State Bank & Trust-Dickinson, Consolidated Telecom, Laughridge Holdings, Bremer Bank-Rugby, First Community Credit Union, and Bank of the West!

CommunityWorks North Dakota

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CWND Staff

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Sherri Arenz	Housing Program Director
Bonnie Fischer	Mortgage Loan Processor
Dorothy Kosse	Housing Program Specialist
Greg Gramza	Community Resource Manager
Lyle Hogue	Assets Manager/Community Development Coordinator
Corey Burgum	Loan Administrator
Brent Ekstrom	VR Loan Fund Manager
Sue Anderson	Secretary/Receptionist
Gayle Paul	Office Manager

Board of Directors

Clayton Hoffman (<i>President</i>)	Oliver/Mercer Electric Cooperative
Mark Weide (<i>Vice President</i>)	Starion Financial
Tonya White Mountain (<i>Treas.</i>)	Standing Rock Housing Authority
Wade Bachmeier (<i>Secretary</i>)	Century 21 Landmark Realty
Greg Lange (<i>Past President</i>)	Lange & Donovan, PLLP
Rich Barta	City of Mandan/Golden Age Services
Dave Flohr	North Dakota Housing Finance Agency
John Giese	Wells Fargo Bank
Stephanie Honeyman	Dacotah Bank
Harvey Huber	Unison Bank
Rob Knoll	Fannie Mae/Pride, Inc.
Claus Lembke	ND Association of Realtors
Sandy Retterath	Mercer County Housing Authority/Retterath Mgmt & Sales
Mike Zainhofsky	Burleigh County Housing Authority

New CWND Board Officers Elected

At its recent board meeting, the Board of Directors for CommunityWorks North Dakota elected Clayton Hoffman of Oliver-Mercer Electric Cooperative and Mark Weide of Starion Financial in Mandan as its President and Vice President for the 2006-2007 term.

Hoffman replaces Greg Lange of Lange & Donovan, PLLP in Hazen, who had served in that position since 2003 and will now serve in the past president's capacity. Hoffman, who had been serving as Vice President, has been on the Board since the organization's founding in 1995. Weide, the Lending committee chairman for CommunityWorks, has served on the board since 2000.

Additionally, Wade Bachmeier of Century 21 Landmark Realty in Mandan, and Tonya White Mountain

of the Standing Rock Housing Authority were reelected to their positions as Secretary and Treasurer, respectively.

Rob Knoll of Fannie Mae's Bismarck office was newly elected to the Board with a nomination from Pride, Inc. Four other board members were reelected to the Board for an additional term: Bachmeier, White Mountain, John Giese of Wells Fargo in Bismarck, and Stephanie Honeyman of Dacotah Bank in Hettinger.

Debby Wisdom of Dakota Community Bank in Mandan will replace Weide as chair of the loan fund subcommittee. Bachmeier will continue to serve as head of the Development and Asset Management committee and Honeyman will continue serving as the chair for the Homebuyer Education and Counseling committee.

Rechlin Completes Harvard's "Achieving Excellence" Program

Paul Rechlin, Executive Director for CommunityWorks, recently completed the "Achieving Excellence" professional program through Harvard University. The 18-month program, sponsored by NeighborWorks America and the Fannie Mae Foundation, provides participants with new skill sets to identify and address challenges for their organizations and community development efforts in their local areas.

The program utilized several formats to allow the participants to learn and collaborate with other community development leaders across the nation. In between three

formal sessions at Harvard University, participants worked in groups to discuss common problems. Altogether, only 41 participants were selected for this program.

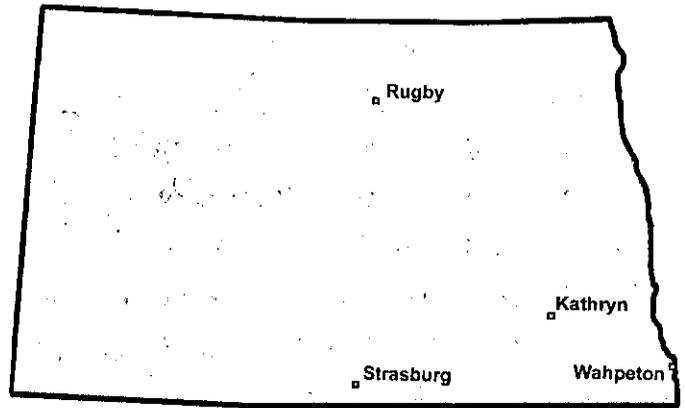
Rechlin, who has been Executive Director of CommunityWorks since its creation in 1995, was able to contribute to the program through his experiences in housing and community development. The training also helped him to sharpen his planning and communication skills, which will be beneficial as CommunityWorks continues to expand its coverage area into new counties.

Recent DREAM Fund Examples From Around the State

Wahpeton (Richland County) - William and Wanda recently moved to Wahpeton and wanted to purchase a home for their family of five. Lincoln State Bank in Hankinson, who was providing the first mortgage, contacted CommunityWorks about additional funds for downpayment and closing costs. The **DREAM** Fund was able to provide \$10,700 and helped the family settle into their new home.

Rugby (Pierce County) - Ryanne and Rich, a young couple with good credit and employment, found a home in Rugby to raise their newborn child. However, the family still needed to find downpayment and closing cost funds to finalize the transaction. Wells Fargo in Minot contacted CommunityWorks about bridging this gap and the **DREAM** Fund provided \$3,300 to help them secure their first home.

Kathryn (Barnes County) - Ken and Kristina recently moved back to North Dakota with their children and wanted to buy a home near Valley City. However, due to problems with their credit from medical bills, they were unable to secure a loan to make a purchase. Wells Fargo referred the family to CommunityWorks and the **DREAM** Fund provided \$49,535 to purchase their home and make repairs.



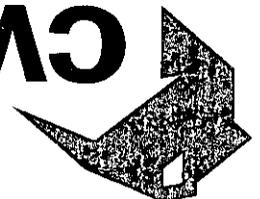
Strasburg (Emmons County) - Sally, a single mother with one child, purchased the home that she had been renting for several years. After her purchase, she needed to make repairs and modifications to the home, including installing new flooring, shingles, and windows as well as a new furnace. Wells Fargo in Mandan referred Sally to the **DREAM** Fund program, which provided \$15,500 in financing to allow her to rehabilitate her home.

(Note: Names have been changed to protect homeowner identities.)

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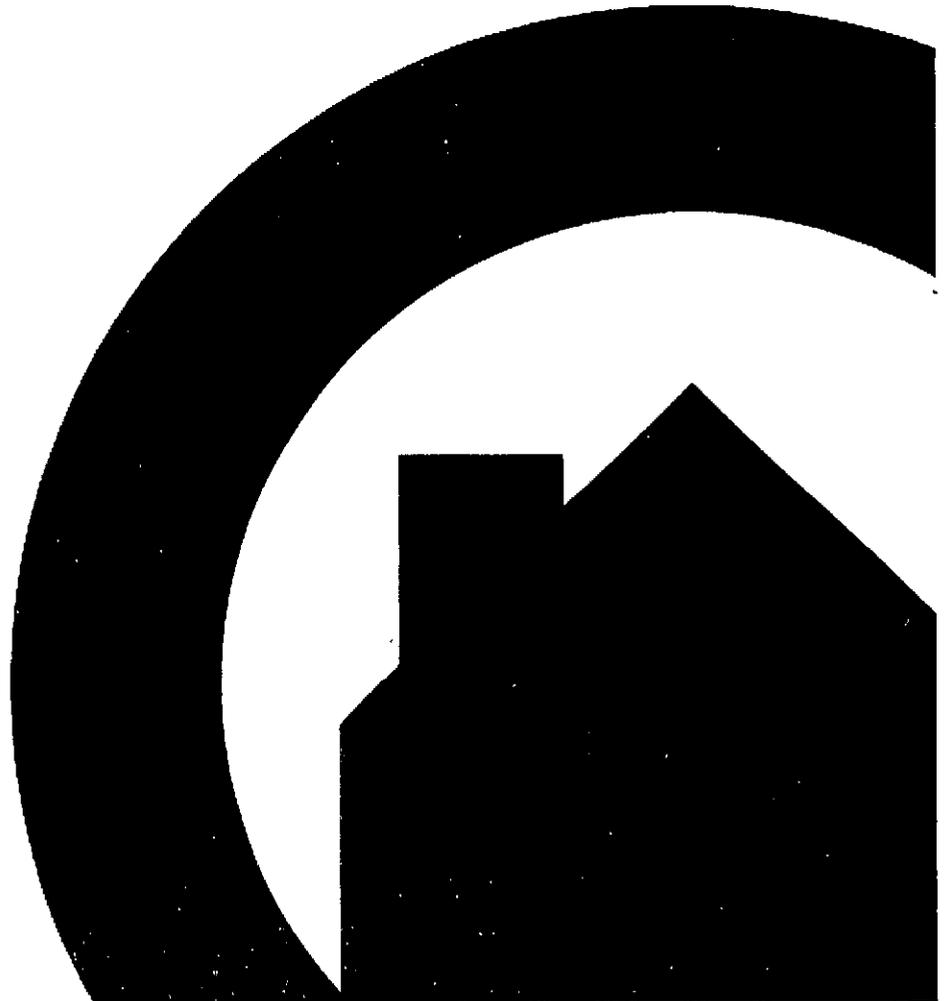
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**2006
NDHFA
Housing
Priorities**



2006 North Dakota Housing Finance Agency Housing Priorities

The 2006 Housing Priorities proposal is intended to begin addressing the housing challenges outlined in the Statewide Housing Needs Assessment conducted by the North Dakota State Data Center in 2004. In addition to the needs assessment, these priorities take into account input from major housing professionals in North Dakota, the North Dakota Housing Finance Agency's (NDHFA) staff priorities, and discussions with the Agency's Advisory Board.

NDHFA's goal is to establish priorities that could be successfully completed or have measurable successes within one to two years. Each priority has more than one initiative listed. Where appropriate, a working group will be created to assist in refining listed initiatives when necessary to achieve targeted results; defining additional initiatives along the way; and to play a role in accomplishing the initiative(s) themselves. Working group members will be selected by the NDHFA with consultation from our Advisory Board and other housing professionals.

It is anticipated the core working group participants will include, but not be limited to, representatives from NDHFA, North Dakota Department of Commerce-Division of Community Services, USDA Rural Housing, Housing and Urban Development, Fannie Mae, the North Dakota Indian Affairs Commission, and CommunityWorks North Dakota. Individual working groups may vary depending on the initiative.

The priorities are listed in order of importance, with number one being the most important. The initiatives under each priority were also ranked with the first objective listed given the highest priority. The NDHFA does not have the capacity to take on each and every objective from the onset. The Agency intends to begin working on the initiatives with the highest priority first. Other initiatives will be worked on as time and resources become available. An annual review and update of the housing priorities will be made.

1. Expanding New Housing for Developing Communities

Many medium and small (rural) communities are experiencing a shortage of housing mostly due to, but not limited to, economic successes. These communities lack the expertise necessary to be able to define their specific housing needs, develop necessary housing projects, or see a housing project through completion. Additionally, many lack the financial resources to keep the housing affordable, attract developers, or overcome certain financial and value gap. NDHFA staff has identified several initiatives upon which the Agency could focus.

Technical Assistance This would involve three related efforts. The first would be to create models or schematics for the appropriate process. These models or schematics could assist each community with creating its own blueprint for determining and addressing its housing needs. The second effort would be to organize a Statewide Technical Assistance Team (STAT team) that would: 1) Go on-site to assist a community in developing its blueprint, 2) Continue to provide necessary support throughout the process, and 3) Develop a proactive educational forum or forums to orientate all communities on anticipating their housing needs.

Financial Gap Most rural communities lack affordable funding resources for project start-up costs, site development, construction, etc. A low interest bridge/interim loan program could be created to assist in the development and construction of affordable housing in rural communities. The loan would be repaid as the homes are sold (single family) or permanent financing is closed (multifamily).

Rural Value Gap Previous efforts to solve rural value gap have been largely unsuccessful. There is no easy solution for the gap between the cost of creating and the market value of rural housing. Compromises in underwriting standards with respect to the property can have some measurable success as long as there is a viable secondary market for the first mortgage loans. NDHFA will explore expanding secondary market options.

2. Housing for the Aging Population

There are several possible avenues to be considered with respect to elderly housing. They included:

Owner-Occupied Aging In Place Many seniors prefer to remain in the homes they own. However, they may lack a monthly income for this to be a viable option. There have been several inquiries recently about Reverse Equity Mortgages, including lenders asking if the NDHFA could offer such a program. These mortgages, utilizing the homeownership equity, can provide a monthly income to the elderly homeowner. The Agency will explore the feasibility and demand for a Reverse Equity Mortgage program.

Empty Nesters Also referred to as pre-elderly or pre-retirement, these households are often looking at life-style changes that involve changing their housing situation. This may mean downsizing and/or different housing environment such as condo/townhouse or rental unit. If the housing they are looking for is not available, they may move out of their current community or even out of state. NDHFA will explore what role it could play in developing a housing niche for empty nesters.

Assisted Living There continues to be a debate as to whether there are enough beds for those in need of assisted living. NDHFA will explore what role it could play in encouraging the creation of additional affordable capacity. There has been some success in using the Low Income Housing Tax Credit (LIHTC) program in this venue, although bringing in services seems to be the biggest hurdle.

Congregate Housing Like assisted living, congregate housing could play a significant role in meeting the state's growing demand for elderly housing. The Agency will explore what role it could play in developing affordable congregate housing.

3. Aging Housing Stock

Due to the challenges of building new housing, rural areas of the state are forced to continue to rely heavily on existing aging housing stock. Much of this housing needs to be updated and/or maintained in order to remain viable. There are several avenues to be considered with respect to rehabilitation/revitalization of the state's housing stock.

Single Family NDHFA will explore expanding and making more accessible our special rehab programs — Helping HAND, RAP, and HARP. Additional funds will be dedicated to our single family program with an emphasis on lower income households. In addition, the Agency will explore creating a revolving low interest rehab loan program for moderate income households that could be either soft second and/or amortizing mortgages.

Multifamily The LIHTC program currently has a ten percent set-a-side for preservation of existing affordable housing properties. The Agency will explore whether this set-a-side is sufficient. Also like for single family, the NDHFA could explore creating a revolving low interest rehab/revitalization loan program for rehab projects for affordable multifamily housing projects. It has also been suggested that some of these rural projects could become more viable if converted to other uses, such as assisted living facilities.

4. Native Americans

Housing on the state's Indian reservations has been called an anomaly. Although some of them are realizing significant successes in creating housing for tribal members, others continue to struggle to make progress. All have a long way to go in meeting their housing needs. One could argue there is not sufficient funding for Native American housing needs, but resources that are or could be available to the reservations are plentiful. Therefore, in addition to the initiatives undertaken to provide housing assistance in other parts

of the state, an emphasis will be placed on providing technical assistance that will aid the tribes in more efficient and timely resource utilization.

Technical Assistance The Agency will explore a technical assistance initiative similar to the suggestion in priority number one.

Education The broad observation is that there continues to be a significant need not only for homebuyer education, but for financial literacy in general within the state's reservations. If this remains true, the Agency should posture itself and offer necessary resources and services to substantially address this shortcoming.

5. Homelessness Including Ex-Criminals

Even though this priority is an activity NDHFA is already involved in, because it is ranked high in the priorities listed in the needs assessment, it is articulated in the NDHFA's 2006 Housing Priorities. The Agency's efforts with respect to this priority will be to continue to actively participate in the current initiatives already in progress and to be committed to support whatever initiatives come out of these groups. Current initiatives include:

Governor's North Dakota Interagency Council on Homelessness NDHFA is an active participant in the Council which is charged with creating a ten-year plan for eliminating chronic homelessness. One of the initiatives being discussed by the Council that is gaining broad support is the creation of a statewide Housing Trust Fund that would supply critical funding resources to this effort, as well as similar needs involving other special populations. Although the Agency should not take the lead on lobbying for a trust fund, it could provide support and resources for that effort.

Transition From Prison to Community Initiative A committee, including an NDHFA staff person, has been meeting and discussing the problem of preventing ex-criminals from becoming homeless upon release from prison. These individuals have difficulty finding employment and, depending on the nature of their crime, are not eligible for assisted housing.



North Dakota
Housing Finance Agency

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Mr. Chairman,
SB 2333 is a bill in response to a problem currently being experienced in rural North Dakota,

Some of our fastest growing counties are located in rural North Dakota yet the new construction of homes has been dismal to say the least leaving the housing stock in rural North Dakota to struggle. Why....because of the problem this bill has been introduced to address.

The dream of many young families in North Dakota is that of building their first home, this has been easy to recognize as new home construction as boomed in our major cities, specifically first time home building families. Many of these individuals would like to live in rural areas, however, to do so that same young family would have to save more than double the amount needed to build the same house in rural North Dakota as urban North Dakota. What is driving this problem?

Its called Gap

Gap is the difference between the constructed price of a new home in rural North Dakota and the appraised value of that home. In rural North Dakota the appraised values are running anywhere from 20-50% less than the cost of construction. This causes a real problem for families that want to build and live in rural North Dakota.

Example

A \$165,000 newly constructed home would require a young family wanting to live in rural north Dakota to come up with over \$36,000 down as a result of a minimum gap of 20%. That same home in our larger communities would only cost that young family approximately \$16,000 to get into. It is no wonder these individuals live in the larger cities and are willing to drive, many times over an hour, to get to work.

This bill attempts to address this problem through a homeowner, state and local partnership in communities of less than 20,000 that currently have a gap problem

Testimony on SB 2333
Sen. Nick Hacker - Grand Forks

The bill provides the North Dakota Housing & Finance agency, which is under the industrial commission, the ability to share in the gap cost, to develop and administer the program along with more guidelines than what are set out in the legislation, and the ability to eventually erode away this gap problem in some of our rural North Dakota communities.

ND Housing and Finance under this bill will develop a program in which they can grant up to 45% of the gap with the local community committing 45% and the owner the other 10%. Through this, all parties have a stake at hand, but specifically the owner is able to build that home with just slightly more down than what they would need in our larger communities.

The appropriation on this bill has been reduced down to 2.2 million at the request of Housing and Finance because as a pilot program they were unsure if the 5 million originally requested would be able to be used. Because of the leverage of the bill the states 2.215 million will generate over 22 million in economic impact in rural North Dakota. If a city were to use housing authorities to bond this amount of housing development the interest payments alone after two years would equal 2.4 million. The program would also drive a new base of property taxes that many of these communities need, to the tune of approximately \$480,000 per year. Additionally sales taxes from the purchase of construction materials would drive about \$600,000 in state revenue.

Mr. Chairman none of these results I believe are as important as the new jobs and new income that can be generated in these communities through this opportunity.

The bill has an expiration date in 2011 as it's believed the program will no longer be needed as a result of comparable sales for appraisers to use in the appraisal process being created.

Your Do Pass consideration would be greatly appreciated.

Testimony on SB 2333
Sen. Nick Hacker - Grand Forks

The 2.2 million appropriation in Senate Bill 2333 will provide more than 22 million dollars of impact in new housing throughout rural North Dakota where new housing construction has been minimal for the past 15-20 years. The assistance only occurs if the town is experiencing a gap problem.

The average gap across the state where this gap exists is estimated at 20-50%

\$165,000 New home construction cost (as determined by ND Housing and Finance...ie this is not a rogue number)

\$132,000 Appraised value using a 20% gap

\$33,000 Gap (\$165,000 - \$132,000)

\$14,850 45% of the gap which the state will grant

\$14,850 45% of the gap a local entity (city, employer, EDC, JDA, donated land)

\$3,300 10% of the gap the owner is responsible for

Owner's responsibility

\$13,200 10% down payment on the mortgage that owner is responsible for

\$3,300 10% of gap owner is responsible for

\$16,500 Total amount needed prior to construction needed from owner

\$165,000 Construction impact per home

/ \$14,850 Divided by amount state has granted

11.1 Multiplier (times state money was leveraged)

\$2,216,250 Appropriation

11 Times multiplier

\$24,000,000 Amount of rural development from a 2.2 million appropriation (rounded)

* Amount an owner needs upfront to build in rural North Dakota

$$\$165,000 - \$132,000 = \$33,000 + \$3,300 = \underline{\underline{\$36,300}}$$

* Amount an owner needs upfront if building in non-gap problem cities

$$\$165,000 \times 10\% = \underline{\underline{\$16,500}}$$

24 million dollars of new homes in rural North Dakota with private citizens retaining ownership. If a city were to bond 24 million dollars to do housing authority projects, one years worth of interest payments on the bonds (5%) would equal \$1,200,000 per year, thus in less than 2 years the program would pay for itself. This does not include immediate property tax revenues to the locals of \$480,000 per year (2% of property value). It also does not include sales tax revenues to the state from purchasing construction materials of about \$600,000 (5% x 12m) or increased income taxes from new employment. Many indirect results would occur as well from providing new jobs and new income to the regions being served.



North Dakota
Housing Finance Agency

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INDUSTRIAL COMMISSION
JOHN HOEVEN, GOVERNOR
WAYNE STENEHJEM, ATTORNEY GENERAL
ROGER JOHNSON, AGRICULTURE COMMISSIONER

MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

SB 2333
Senate Appropriations Committee
Testimony of Michael Anderson
North Dakota Housing Finance Agency
Division of the State Industrial Commission

February 13, 2007

Chairman Holmberg and members of the Senate Appropriations committee, for the record my name is Mike Anderson. I am the executive director for the North Dakota Housing Finance Agency (North Dakota Housing). I am here today to testify in support of SB 2333 as amended by the Senate Political Subdivisions Committee.

This bill is about bridging the financing gap, also known as value or appraisal gap, for newly constructed housing in the state's rural communities. It comes to bear when a lender attempts to determine the reasonableness of the proposed financing for the home in relationship to the cost to build it. In rural areas, where there is little or no housing construction activity, it is difficult to draw any comparable reasonableness. This translates to conservative or depressed evaluations.

North Dakota Housing began working on the issue of financing gap a year ago when it adopted its 2006 Housing Priorities. One of those priorities is to assist developing communities meet their expanding and changing housing needs. And most of that effort has been looking at ways of resolving this financing gap issue. To date, we have concentrated on ways to reduce the cost of construction. Last fall we announced a low-interest loan program intended to reduce the cost of planning, developing, and constructing new housing projects. But, since these costs are only a small part of the overall cost of building, materials and labor making up the lion's share, it can only serve to reduce the amount of the eventual financing gap.

The level of financing gap can vary among communities and is affected by such things as, but not limited to, the level of housing activity or lack thereof; the level of construction cost (the higher the cost the greater the gap); and the proximity to a larger community. With respect to single family it's not uncommon to see gap ranging from 20 to 50 percent. Experienced multi-family developers and appraisers tell us you can count on gap ranging from 25 to 50 percent depending on the size of the community. The smaller the community, the lower the market rents, the greater the gap. According to the general contractor of a 36-unit market rate project recently completed in Valley City at a cost of approximately \$2.4 million, he had to contend with a \$600,000 or 25 percent gap. The project owner is forced to require higher rents the results of which has been a slow rent up experience.

The next step from North Dakota Housing's view is working towards eliminating the obstacles in getting these homes financed. We see SB 2333 as providing a very valuable tool in our efforts to accomplish this. Senator Hacker talks about the bill as providing for a pilot program to help determine what it will take to be successful. This is a similar approach that we have taken in rolling out our other initiatives stemming from the housing priorities.

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During the Political Subdivision committee hearing, several questions were raised about the potential for excessive and abusive use of the program. I offered the following as some of the suggested program provisions that could be utilized to safeguard against unnecessary, excessive or unintended use of the program:

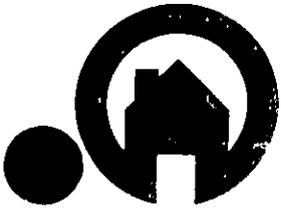
- In addition to the percentage limitation already identified in SB 2333, establishing an overall dollar limit to the assistance that would differ for single-family and multi-family projects.
- Establishing an overall cost of construction and construction cost standards that would differ for single-family and multi-family.
- Utilizing a forgivable grant (soft second mortgage) concept if the household income exceeded a certain limit or if the overall cost of construction exceeded a certain limit. In the case of multi-family, the forgivable grant could be triggered if the project was targeted to tenants above a defined income limit or if the gap assistance exceeded an established limit.

In all of the above suggested program details there needs to be a careful analysis to ensure program effectiveness without excessiveness. Thus, I recommended at that time that SB 2333 not include such details and that North Dakota Housing be granted the flexibility to determine them during program development.

Attached to this testimony is a spreadsheet showing our analysis and projections for achieving the targeted goals of SB 2333. You will note that the spreadsheet is offering an appropriation level less than written into the bill.

In conclusion, providing financing gap assistance puts housing development in reach for rural communities. Knowing that the housing rural communities plan for can get built and will eventually get sold and financed creates an incentive for their own investment into their housing. And, it sets a standard for developing other public/private partnerships that could work towards housing development and financing in rural areas

With SB 2333, the state is not only investing in rural economic development by aiding in workforce recruitment and ensuring there is housing available, but it is also sending a message of its commitment to its rural communities to keep them viable and thriving places to live.



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#2

INDUSTRIAL COMMISSION
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MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

Testimony on Second Engrossed Senate Bill 2333
Michael Anderson, Executive Director
North Dakota Housing Finance Agency
Division of the Industrial Commission of North Dakota
March 8, 2007

Chairman Herbel and members of the House Political Subdivisions Committee, for the record my name is Mike Anderson. I am the executive director for the North Dakota Housing Finance Agency (North Dakota Housing). I am here today to testify in support of Second Engrossed Senate Bill 2333.

This bill is about bridging the financing gap, also known as value or appraisal gap, for newly constructed housing in the state's rural communities. This gap comes to bear when a lender attempts to determine the reasonableness of the proposed financing for the home in relationship to the cost to build it. In rural areas, where there is little or no housing construction activity, it is difficult to draw any reasonableness comparison. This translates to conservative or depressed evaluations.

The level of gap can vary among communities and is affected by such things as, but not limited to, the level of home sales activity in the area; the level of construction cost - the higher the cost the greater the gap; and the proximity to a larger community. Experienced appraisers and developers tell us you can count on gap ranging from 20 to 50 percent depending on the size of the community - the smaller the community the greater the gap will likely be. This statistic applies to both single family and multi family housing. I will share with you a multi family example. A general contractor tells us of a 36-unit market rate project he recently completed in Valley City at a cost of approximately \$2.4 million. He had to contend with a \$600,000 or 25 percent gap forcing him to require higher rents the results of which has been a slow rent up experience.

North Dakota Housing adopted a set of housing priorities last year (see attached report). One of those priorities is to assist developing communities meet their expanding and changing housing needs. And most of our efforts with respect to this priority have been trying to solve this gap issue. To date, we have concentrated on reducing the costs of construction. Last fall we announced a low-interest loan program which will serve to lower the cost of planning, developing, and construction of new housing projects. But, since these costs are only a small part of the overall cost of building, materials and labor making up the lion's share, it can only serve to reduce the amount of the eventual financing gap. And the homebuyer will still have to deal with that gap when he/she tries to finance their purchase.

Thus, we believe that resolving rural gap requires more than one approach. And, another approach would be to work towards eliminating the obstacles in getting these homes financed. Once a community begins experiencing new construction that CAN be sold and financed you start creating the comparable sales that will justify the next deal. Comparable sales should substantiate the costs of build additional units. Thus, subsequent housing development will feed off previous developments.

You have to start somewhere. By making an investment in new housing development in rural areas today, you are taking a step towards resolving the rural gap for the future. And, Senate Bill 2333 proposes to provide for that initial investment.

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During the Senate hearings on this bill, several questions were raised about the potential for excessive and abusive use of the program. As then and in anticipation of similar concerns here, I offer you the following suggested program provisions that could be utilized to safeguard against unnecessary, excessive or unintended use of the program:

- In addition to the percentage limitation already identified in the bill, establishing an overall dollar limit of assistance that could differ for single-family and multi-family projects.
- Establishing an overall cost of construction limit and construction cost standards.
- Utilizing a forgivable grant (soft second mortgage) concept if household income and/or the overall cost of construction exceeded certain limits. In the case of multi-family, the forgivable grant could be utilized if the project was targeted to tenants above a defined income limit or if the gap assistance exceeded an established limit.

And, there may be other necessary program provisions that come to light as we begin working on program development. Program details need to be carefully analyzed to ensure program effectiveness. Thus, I recommend that Senate Bill 2333 not include such details and that North Dakota Housing be granted the flexibility to determine them during program development. Senator Hacker talks about the bill as providing for a pilot program to help determine what it will take to be successful. Using pilot programs is the approach that North Dakota Housing takes every day when developing its housing programs.

Attached to my written testimony is a spreadsheet showing our analysis and projections for achieving the bill's targeted goals – that being a sufficient appropriation to determine program effectiveness as a pilot program during the biennium. We are estimating the proposed appropriation of \$2.215 million should provide partial gap assistance for approximately 100 single family homes and four to eight multi family projects depending on project size. And this should be sufficient to test effectiveness of the pilot program.

In conclusion, providing financing gap assistance puts housing development in reach for rural communities. Knowing that the housing a rural community plans for can get built and will eventually be sold and financed creates an incentive for their own investment in housing. And, it sets a standard for developing other public/private partnerships that could work towards housing development in rural areas. Attracting a developer/builder to their community is just one example.

With Senate Bill 2333, the state is not only investing in rural economic development and workforce recruitment by ensuring housing will be available for them, but it is also sending the message of its commitment to rural communities to help keeping them viable and thriving places to live.

Financing Gap Projections
Senate Bill 2333
Prepared by North Dakota Housing Finance Agency

Single Family Identified Projects		Multi-family			
City	Units	Project Size:			
		24	18	4	
Center	40				
Fairmont	8				
Belfield	8	65,000	65,000	65,000	65,000
Bottineau	18	1,560,000	1,170,000	260,000	260,000
Riverdale	45				
Underwood	45	25%	25%	25%	25%
Garrison	18				
Total*	182	390,000 175,500	292,500 131,625	65,000 29,250	65,000 29,250
Projected % Assisted**	55%				
Projected Units Assisted	100				
Estimated Const. Cost	165,000	1,053,000	789,750	175,500	175,500
20% Gap	33,000	877,500	658,125	146,250	146,250
45% of Gap	14,850.00	702,000	526,500	117,000	117,000
Projected Funding	1,485,000	614,250	117,000		
\$2,216,250 is projected to fund partial gap on 100 single family homes and four to eight multi-family projects, depending on size		731,250	Total =	2,216,250	

* Communities we know with housing projects on the drawing board. Approximately 8 to 10 others who have contacted us and are just getting started talking about their housing needs.

** Not all units generated would likely meet all the eligibility criteria.