

2013 SENATE INDUSTRY, BUSINESS, AND LABOR

SB 2079

2013 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee
Roosevelt Park Room, State Capitol

SB 2079
January 16, 2013
Job Number 17267

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to the authority of housing finance agency

Minutes:

Testimony Attached

Chairman Klein: Opened the hearing

Mike Anderson, Executive Director of the North Dakota Housing Finance Agency: Written Testimony Attached (1).

Senator Murphy: Asked him to talk about the agency.

Mike: Said that they are a state agency that is governed by the industrial commission. We traditionally have taken advantage of federal programs whether it is home ownership, or rental assistance and multifamily development.

Chairman Klein: Asked Mike to walk them through how they get involved with the perspective home owner.

Mike: Said that they have created relationships with educated lenders about their programs and they have agreed to make loans under their program and sell them to them. They also have the real estate community, the development community, building community all aware of what their programs are. They generally allow them to promote their programs to potential homeowners.

Chairman Klein: Said that is banks and credit unions, people out there know you have this program available.

Mike: Said that was correct. They maintain a dialogue and communication with the bank or credit union when a potential home buyer comes in to get financing the bank or credit union will offer their program, if the buyer then choses to use the program, they make the loan and do all of the credit underwriting, all of the origination process. The only involvement that HFA has is doing compliance underwriting, which is making sure the buyer is eligible before they close the loan. Over time so many lenders have gotten significant expertise in that eligibility underwriting process that they have delegated that to them also. The majority

of the loans other than a reservation to sell the loan to them at the application time, they are not involved in the underwriting, the processing or the origination of that loan at all. They see the loan after that is done and buy the loan from the lender. In about eighty percent of the cases they will service the loan on behalf of the lender and for the borrower.

Senator Laffen: Said he used the first time home buyers program way back when he bought his first home. It was a discounted interest rate for him which was at 9 ½ percent and he got it for 7 ½ percent. He doesn't understand what they are doing this anymore when interest rates are so low and wondered if the program was still needed.

Mike: Said they answer that question a lot these days. Number one is you are dealing with first time buyers, low and moderate income buyers who have minimal equity and a lot of those in their own right probably can't access as low of an interest rate as you did. Secondly so many of their borrowers have the issue of the out of pocket cost, down payment and closing cost assistance. They provide and offer directly and have approved other governmental entity programs for providing down payment and closing costs assistance, that is what they bring. The difficulty is having the funding and doing that under the MRB program today because of the cost and efficiencies of issuing bonds. Nearly seventy percent of the first time home buyer loans in recent years have used some form of down payment and closing cost assistance. Ninety percent of those borrowers used agency sponsored down payment assistance.

Senator Laffen: Said if he understands this right, they are trying to do the same program just accessing the money in a different way?

Mike: Said that was correct, they want to do the same thing they just need a different funding mechanism to do it. When they looked at this and considered what it was going to take, so they could deal with this indemnification issue with the North Dakota century code, they asked if they could get an exception to the indemnification language in the century code for them. The response from the attorney general's office is; if you put it into the code that way, everybody you wanted to create a relationship with will challenge you to resist that. They wouldn't have an option at that time in being able to say no we are not going to agree with that indemnification language. What this does is say, they can function like a private sector functions and in doing so they can enter into relationships, transactions and such, like a private sector would do. They would have the choice to decide if they wanted to enter into that indemnification or not.

Senator Sinner: Said he was having a little heartburn over the statement that says they can conduct business and transactions as any private wholesale servicing lender. What was to prevent them from going further down the road and doing everything that the private industry is doing in this business.

Mike: Said that in 5417 they do not have the authority to function as an originating lender and that would be policed not only by the century code but by the industrial commission. That's the other piece of this, whatever agreement they enter into one of these or something else we look at, they would be vetted in terms of the feasibility for the agency by their advisory board that would make a recommendation to the industrial commission. This just gives them the ability to take a look at those and make the decision.

Senator Sinner: Said he understands that they can't originate loans. The statement says wholesale servicing but what he doesn't understand is if you're accessing federal home loan bank funds. Is this really more a function that the Bank of North Dakota would be better off doing because they are members of the vet and the federal home loan bank rather than creating this whole new kind of vehicle here?

Mike: Said number one is, what they are looking at is first time buyers, low to moderate income households. The bank up to this point has chosen not to be part of that process; they have allowed us to do that. Today they are members of the federal home loan bank. They had used the Bank of North Dakota for credit facility, when they were able to issue bonds.

Discussion continues on what the Housing Finance Agency purpose is, what they do for the consumer and if the agency is still needed today.

Chairman Klein: Asked Rick Clayburg to come up and asked him if they as an agency or a group look to the Housing Finance Committee for a lot of help in a lot of areas.

Rick Clayburg, President and CEO of the North Dakota Bankers Association: Said yes and in fact their members, their association represents the banks in North Dakota. The mortgage lenders work with the housing finance on cases where they would meet the needs and that traditional mortgage services would not have available to that customer and so they utilize housing finance. Housing finance is a partner with their lenders in the state. Of all of the bills that housing finance has put in this session, they did meet with them and they went through the bills with them. His legislative committee just hasn't had an opportunity to review these. They will be reviewing them next week during their bank management conference and will be taking a look at it. In this particular case after listening to the testimony today and also the meetings he had with Mr. Anderson, back in December, he understands what they are doing. They are looking for sources to have the ability to continue to service the customers that they have.

Chairman Klein: Asked if it is just another tool for the banks to go to the housing finance for some of these loans. What they are doing is looking to make sure they have enough cash in their bank so that when you come to them they are covered.

Rick: Said yes, they are a tool for our mortgage lenders in the State to be able to service the needs of their customers. Their banks work with housing finance; they will work with the bank of North Dakota on certain projects as well.

Chairman Klein: Asked if there would be any reason for them to hold this up in case their group needs to look at it more carefully or as you have discussed with Mike, you seem to be okay and they seem to be okay.

Rick: Said he will be careful how he answers that question. This is really a policy decision for the legislature. This is dealing with the indemnification issue, the potential risks that Housing Finance may get into. That is not at his level to be able to say how they will be operating under this. In terms of competition, they work with our banks. So from the banks

perspective he doesn't see this as a competition concern. In terms of managing the risks he has a lot of faith with the industrial commission. There are three elected members, the Governor, the Attorney General and the AG Commissioner who are pretty savvy not just because of who they are but because of their positions. They will watch and insure that housing finance is managing that risk appropriately. It is more about what the legislature thinks is a potential risk concern.

Chairman Klein: Said in hearing what he had said and in what has happened with interest rates in the past, as with a lot of our agencies who use to enjoy quite a return on their interest they would be struggling the same, whether it is Job Service or WSI or any other agency that use to make money and are having that same problem.

Rick: Said that their biggest problem right now with the mortgage lenders in the State, more so in the rural areas, is not the access to funds it is the ability to get access to conventional mortgage lending. Two years ago they had the bill to allow the Bank of North Dakota to originate home lending; they have that bill in to remove the pilot project aspect. Their association is supporting that. He talked about the rural areas not being able to get proper comps and timely appraisals. The housing finance serves a lot of customers that may not meet the traditional definitions for mortgage lending.

Discussion followed about mortgage lending in rural North Dakota.

Senator Laffen: Said in the issue of banks not doing lending anymore, if the housing finance program helps with that at all.

Rick: Said if they aren't in the business anymore then they wouldn't have that relationship with the housing finance agency.

Rick: Said that it will help housing finance to continue to offer their upfront costs.

Chairman Klein closed the meeting.

2013 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee
Roosevelt Park Room, State Capitol

SB 2079
February 6, 2013
Job Number 18397

Conference Committee

Committee Clerk Signature

Erin Liebelt

Explanation or reason for introduction of bill/resolution:

Relating to the authority of housing finance agency

Minutes:

Discussion and Vote

Chairman Klein: Said we would be going to 2079.

Senator Laffen: Said he wanted to talk to some bankers and he did that. They did say this is still a viable program and has safe guards in place. This bill came from the North Dakota Housing Finance Agency; they administer this first time homebuyers program. They are looking for a different way to access the money for their program. With the interest rates being so low the bonding costs make the cost of financing high. They now have some access to the federal home loan money through Des Moines and they just need to request to get their money in another fashion.

Senator Laffen: Motioned a do pass.

Senator Unruh: Seconded the motion.

Roll Call Vote: Yes - 7 No - 0 Absent: 0

Floor Assignment: Senator Laffen

FISCAL NOTE
Requested by Legislative Council
12/21/2012

Bill/Resolution No.: SB 2079

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2079 was no fiscal impact on NDHFA's requested appropriation.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*
- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*
- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name: Anita Hoffman

Agency: ND Housing Finance Agency

Telephone: 701-328-8076

Date Prepared: 12/21/2012

**2013 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 2079**

Senate Industry, Business, and Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Senator Laffen Seconded By Senator Unruh

Senators	Yes	No	Senator	Yes	No
Chairman Klein	x		Senator Murphy	x	
Vice Chairman Laffen	x		Senator Sinner	x	
Senator Andrist	x				
Senator Sorvaag	x				
Senator Unruh	x				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Laffen

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

REPORT OF STANDING COMMITTEE

SB 2079: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2079 was placed on the Eleventh order on the calendar.

2013 HOUSE INDUSTRY, BUSINESS AND LABOR

SB 2079

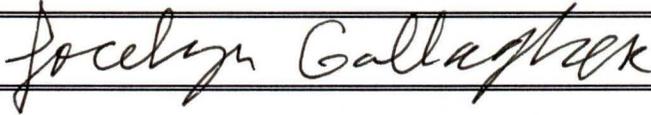
2013 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee
Peace Garden Room, State Capitol

SB 2079
March 11, 2013
Job 19709

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to the authority of the housing finance agency

Minutes:

Attachment 1

Committee called to order.

Hearing opened.

0:56 Dave Flohr, Director of Homeownership Division at the North Dakota Housing Finance Agency: Refer to written testimony, attachment 1.

8:04 Chairman Keiser: Will this compete with the current private sector?

Dave Flohr: No, we don't originate any loans directly ourselves.

Chairman Keiser: There must be in the private sector somewhere wholesale servicing mortgage lenders.

Dave Flohr: Yes, there would be.

Chairman Keiser: The point is that right now you're not competing with these people. With this bill we're going to allow you to compete with a source of dollars that you could use without becoming one yourself.

9:17 Dave Flohr: Our programs would not change. We would still be offering the first time home buyer program and nothing would change on the eligibility of that. But you could say we would be competing with a wholesale lender, but we are also doing that today within our limited scope.

Chairman Keiser: But this expands that scope in the competition arena.

Dave Flohr: It is not our intention to do that. I don't think it does because our programs will be limited.

Chairman Keiser: Would they pay taxes and you would not?

Dave Flohr: Is a private wholesale lender out there paying taxes, certainly they are.

10:45 Representative Ruby: Could you explain what this change would do regarding indemnification?

11:00 Dave Flohr: answered question about indemnification.

12:29 Representative Ruby: Is this something you are able to do in some situations now?

Dave Flohr: The only contract is between us and the originating lender. It has not been needed up to this point.

13:38 Representative Kasper: Who in North Dakota is currently providing the services which this bill would allow you to do?

Dave Flohr: In ND there is no private company that does this.

14:56 Representative Kasper: What volume is out there, as far as collected fees?

Dave Flohr: We are not looking to expand our business so our qualifications for first time home buyer program have income and purchase price limits.

15:55 Representative Kasper: The new type of business you will be able to do will, what revenue do you think you will generate by being able to do this new type of business that will be additional revenue or fees to your organization?

Dave Flohr: We don't anticipate that this will provide us any more revenue.

16:54 Representative Frantsvog: Does the industrial commission support this legislation?

Dave Flohr: Yes.

17:15 Representative Becker: Asked him to work through this with him. What the service you are providing to people of ND that are not currently able to get it if you don't do this?

18:00 Dave Flohr: The mortgage revenue bonds are tax exempt from federal income tax. Went on to explain the service.

20:53 Representative Vigesaa: Are you currently pooling loans and selling them outside?

Dave Flohr: We've always pooled loans together and put them into our mortgage revenue bond.

Representative Vigesaa: What is an example of governmental investor?

Dave Flohr: Government investor versus private investor, it's one in the same.

22:14 Chairman Keiser: Will this require additional FTEs?

Dave Flohr: No.

Chairman Keiser: Is there some reason we haven't used the Bank of North Dakota as a source of funds rather than the market?

Dave Flohr: We do have a line of credit with BND. Today we use it that as a place to warehouse the loans we buy from the lenders.

Chairman Keiser: The earnings are re-invested and it grows itself?

Dave Flohr: I don't believe the bank is interested in doing that.

23:37 Representative Kreun: Are there many loans you facilitate that other banks would not actually participate in under conventional loans to have these people enter the housing market?

Dave Flohr: Are we buying loans that would normally be made? To some extent maybe there are some of those. All of our loans have to be under normal credit standards.

24:59 Chairman Keiser: Please review North Dakota's first-time homebuyer plan?

25:29 Dave Flohr: Provided the process for first time homebuyers in ND.

Chairman Keiser: Anyone else in support of SB 2079?

27:50 Claus Lembke, North Dakota Association of Realtors: Provided historical background. Voiced support for the Housing Finance Agency and this bill.

Opposition:

Neutral:

Hearing closed.

Motion for a do pass made by Representative Kreun. Seconded by Representative Boschee.

Roll call vote on motion for Do Pass on SB 2079. Motion carries.

**Yes = 10
No = 5
Absent = 0**

Carrier: Representative Vigesaa

FISCAL NOTE
Requested by Legislative Council
12/21/2012

Bill/Resolution No.: SB 2079

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Name: Anita Hoffman

Agency: ND Housing Finance Agency

Telephone: 701-328-8076

Date Prepared: 12/21/2012

Date: 3-11-2013
 Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 2079**

House Industry, Business, and Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Kreun Seconded By Boschee

Representatives	Yes	No	Representatives	Yes	No
Chairman George Keiser		✓	Rep. Bill Amerman	✓	
Vice Chairman Gary Sukut	✓		Rep. Joshua Boschee	✓	
Rep. Thomas Beadle	✓		Rep. Edmund Gruchalla	✓	
Rep. Rick Becker		✓	Rep. Marvin Nelson		✓
Rep. Robert Frantsvog	✓				
Rep. Nancy Johnson	✓				
Rep. Jim Kasper		✓			
Rep. Curtiss Kreun	✓				
Rep. Scott Louser	✓				
Rep. Dan Ruby		✓			
Rep. Don Vigasaa	✓				

Total Yes 10 No 5

Absent -

Floor Assignment Vigasaa

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

REPORT OF STANDING COMMITTEE

SB 2079: Industry, Business and Labor Committee (Rep. Keiser, Chairman)
recommends **DO PASS** (10 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING).
SB 2079 was placed on the Fourteenth order on the calendar.

2013 TESTIMONY

SB 2079



Michael A. Anderson Executive Director

INDUSTRIAL COMMISSION

Jack Dalrymple Governor

Wayne Stenehjem Attorney General

Doug Goehring Agriculture Commissioner

SB 2079

Wednesday, January 16, 2013

**North Dakota Housing Finance Agency
 Division of the State Industrial Commission
 Testimony by Michael Anderson, Executive Director
 Senate Industry, Business and Labor Committee**

Chairman Klein and members of the Industry, Business and Labor Committee, my name is Mike Anderson, executive director of the North Dakota Housing Finance Agency (Agency). Senate Bill 2079 was introduced by the Agency to provide flexibility in finding resources to fund its traditional homeownership programs. It is NOT the intent of the Agency with this bill to expand its programming beyond its mission authorized by NDCC 54-17 and currently approved by the Industrial Commission of North Dakota.

The FirstHome program, commonly referred to as the first time homebuyer program, has traditionally been capitalized by issuing tax-exempt mortgage revenue bonds (MRBs) – the proceeds of which are used to purchase eligible mortgages from participating private lenders. However, since the capital market crisis and mortgage meltdown, MRBs have been minimally effective in funding this program. Specifically, the costs of issuing tax-exempt bonds today cannot produce an interest rate lower than conventional rates without significant subsidy from the issuer. The Agency, like the majority of state HFAs, does not have the capability of providing this ongoing subsidy.

So, we have been exploring alternative funding sources for the FirstHome program. We have become a GNMA (Government National Mortgage Association) seller-servicer. Accordingly, we can package loans we purchase into mortgage backed securities. However, this only works for government backed loans – FHA, VA, USDA-RD. Since the out of pocket costs for these loans are higher than conventional loans and at risk of going higher, homebuyers are gravitating toward the less expensive conventional insured and uninsured loans. To stay relevant to this changing market, we continue to look for alternative funding sources for conventional loans.

SB2079 would add a new section to NDCC 54-17 that would give the Agency authority to conduct business and transactions as any private wholesale servicing mortgage lender, except as restricted by the other provisions of this chapter. Further, the new provisions would in no way limit or qualify the powers of the Industrial Commission or the functions of the Agency as currently defined in NDCC 54-17. Thus, any business or transactions resulting from this provision would still have to be vetted by the Agency’s Advisory Board and approved by the Industrial Commission.

The bill defines a “wholesale servicing mortgage lender” as a mortgage loan wholesaler that neither solicits mortgage loan applications nor deals directly with mortgage loan applicants. It purchases loans from mortgage originators, pools the loans, and then sells them to private or governmental investors while retaining the servicing rights. It is taken from the Mortgage Bankers Association as a defined category of membership for their organization.

Essentially, this definition defines the traditional work of the Agency's homeownership division. We purchase mortgages originated by private lenders. We either hold them in our portfolio or package them into the funding mechanism used to acquire them. And we retain servicing rights on the loans. None of this will change with enactment of this bill. However, it will allow the Agency to have access to funding resources that are not currently available to us due to certain provisions in the NDCC.

There are two such alternatives that we are currently looking at. Both FNMA and FHLB of Des Moines offer preferred pricing for HFAs that result in lower cost capital that can be passed on to homebuyers under the Agency's homeownership programs.

To take advantage of these opportunities, however, the Agency is required to sign a participation agreement with the respective entities. In both instances the agreements require the Agency to agree to indemnify them against acts of a third party. Third parties in the case of our homeownership programs would mean the originating lender and any of its vendors utilized in the origination of the loan. Currently, the Agency does not have the authority under state law to agree to indemnify against the acts of third parties.

The Agency has always recognized the inherent risk of an origination misstep under its homeownership programs and has mitigated the risk through appropriate indemnification language in the Mortgage Purchase Agreement we execute with participating lenders. While it appears with this bill that we may be taking on additional risk, we are already positioned in our agreements with participating lenders to pass on any such exposure.

So far I have talked about this bill addressing an obstacle we face today in serving our first time buyer customers. The future of the mortgage finance system in this country, including the final disposition of the GSEs, is still up for debate in Washington. There could be a return of the economic feasibility of issuing tax-exempt bonds. There may or may not be GSEs as we have known them the past several decades. There may be an entirely new entity to replace the current GSEs. Most in the finance industry anticipate government backed loans to look much different if available at all. In light of all this, the Agency needs to remain diligent and posture itself to be flexible to respond if it is going to continue to be successful in providing appropriate financing option for new homeowners.

We want to be able to explore every opportunity that may help the residents of North Dakota, especially in times like this when the traditional funding mechanisms do not work. The Agency, its leadership and staff will remain diligent so as not to jeopardize the safety and security of our homeownership programs. But we need to be nimble enough to respond to opportunities that will best serve North Dakota and its residents.

Thank you and I would be glad to answer any questions that you may have.

① 3-11-2013
SB 2079

SB 2079

March 11, 2013

**North Dakota Housing Finance Agency
Division of the State Industrial Commission
Testimony by Dave Flohr, Director of Homeownership
House Industry, Business and Labor Committee**

Chairman Keiser and members of the House Industry, Business and Labor Committee, my name is Dave Flohr, director of the Homeownership Division at the North Dakota Housing Finance Agency (Agency). Senate Bill 2079 was introduced by the Agency to provide flexibility in finding alternative funding resources for its traditional homeownership programs. It is NOT the intent of the Agency with this bill to expand its programming beyond its current mission authorized by NDCC 54-17 and approved by the Industrial Commission of North Dakota.

The FirstHome program, commonly referred to as the first time homebuyer program, has traditionally been capitalized by issuing tax-exempt mortgage revenue bonds (MRBs) – the proceeds of which are used to purchase eligible mortgages from participating private lenders. However, since the capital market crisis and mortgage meltdown, MRBs have been minimally effective in funding this program. Specifically, the costs of issuing tax-exempt bonds today cannot produce an interest rate lower than conventional rates without significant subsidy from the issuer. The Agency, like the majority of state HFAs, does not have the capability of providing this ongoing subsidy.

So, we have been exploring alternative funding sources for the FirstHome program. We have become a GNMA (Government National Mortgage Association) seller-servicer. Accordingly, we can package loans we purchase into mortgage backed securities. However, this only works for government backed loans – FHA, VA, USDA-RD. Since, today, the borrowers' out of pocket costs for these loans are higher than conventional loans and at risk of going higher, homebuyers are gravitating toward the less expensive conventional insured and uninsured loans. To stay relevant to this changing market, we continue to look for alternative funding sources for conventional loans.

SB2079 would add a new section to NDCC 54-17 that would give the Agency authority to conduct business and transactions as any private wholesale servicing mortgage lender, except as restricted by the other provisions of this chapter. Further, the new provisions would in no way limit or qualify the powers of the Industrial Commission or the functions of the Agency as currently defined in NDCC 54-17. Thus, any business or transactions resulting from this provision would still have to be vetted by the Agency's Advisory Board and approved by the Industrial Commission.

The bill defines a "wholesale servicing mortgage lender" as a mortgage loan wholesaler that neither solicits mortgage loan applications nor deals directly with mortgage loan applicants. It purchases loans from mortgage originators, pools the loans, and then sells them to private or governmental investors while retaining the servicing rights. It is taken from the Mortgage Bankers Association as a defined category of membership for their organization.

Essentially, this definition defines the traditional work of the Agency's homeownership division. We purchase mortgages originated by private lenders. We either hold them in our portfolio or package them into the funding mechanism used to acquire them. And we retain servicing rights on the loans. None of this will change with enactment of this bill. However, it will allow the Agency to have access to funding resources that are not currently available to us due to certain provisions in the Century Code.

There are two such alternatives that we are currently looking at. Both FNMA and FHLB of Des Moines offer preferred pricing for HFAs that result in lower cost capital that can be passed on to homebuyers under the Agency's homeownership programs.

To take advantage of these opportunities, however, the Agency is required to sign a participation agreement with the respective entities. In both instances, the agreements require the Agency to agree to indemnify them against acts of a third party. Third parties in the case of our homeownership programs would mean the originating lender and any of the vendors it utilizes in the origination of the loan. Currently, the Agency does not have the authority under state law to agree to indemnify against the acts of third parties.

The Agency has traditionally relied on the acts of the originating lender and its vendors to appropriately process and originate the loans it buys. And we have always recognized the inherent risk of a misstep in this process. Therefore, we have mitigated any risk through appropriate indemnification language in the Mortgage Purchase Agreement we execute with each participating lender. While it appears with this bill that we may be taking on additional risk, we are already positioned in our agreements with participating lenders to pass on any such exposure.

So far I have talked about this bill addressing an obstacle we face today in serving North Dakota's low- and moderate-income first time buyers. The future of the mortgage finance system in this country, including the final disposition of the GSEs, is still up for debate in Washington. In the final analysis there could be a return of the economic feasibility of issuing tax-exempt bonds. There may or may not be GSEs as we have known them the past several decades. There may be an entirely new entity to replace the current GSE system. Most in the finance industry anticipate government backed mortgage loans will likely look much different if they will be available at all. In light of all this, the Agency needs to remain diligent and posture itself to be flexible to respond if it is going to continue to be successful in providing appropriate financing options for new homebuyers.

We want to be able to explore every opportunity that may help the residents of North Dakota, especially in times like this when the traditional funding mechanisms do not work. The Agency, its leadership and staff will remain diligent so as not to jeopardize the safety and security of our homeownership programs. But we need to be nimble enough to respond to opportunities that will best serve North Dakota and its residents.

Thank you and I would be glad to answer any questions that you may have.