



**2013 Annual Awards Entry Form**  
(Complete one for each entry.)

Entry Name Downpayment Assistance Legislation

HFA Washington State Housing Finance Commission

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Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013**.

Use this header on the upper right corner of each page.

HFA: WSHFC

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Communications	Homeownership	Legislative Advocacy	Management Innovation
<input type="checkbox"/> Annual Report <input type="checkbox"/> Promotional Materials and Newsletters <input type="checkbox"/> Creative Media	<input type="checkbox"/> Empowering New Buyers <input type="checkbox"/> Home Improvement and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Federal Advocacy <input checked="" type="checkbox"/> State Advocacy	<input type="checkbox"/> Financial <input type="checkbox"/> Human Resources <input type="checkbox"/> Operations <input type="checkbox"/> Technology
Rental Housing	Special Needs Housing	Special Achievement	Are you providing visual aids?
<input type="checkbox"/> Multifamily Management <input type="checkbox"/> Preservation and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Combating Homelessness <input type="checkbox"/> Housing for Persons with Special Needs	<input type="checkbox"/> Special Achievement	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO

## **A New Law**

When HUD's new interpretive rule threatened our ability to continue downpayment assistance to homebuyers, the Washington State Housing Finance Commission introduced legislation, found sponsors and successfully changed the law so we could continue providing this vital resource.

## **Background**

On December 5, 2012, the Department of Housing and Urban Development (HUD) published an interpretive rule that housing finance agencies had to provide downpayment assistance to home buyers using Federal Housing Administration (FHA) mortgage insurance directly at the closing table and not through a third-party, or non-governmental, entity. Further HUD guidance in January said that downpayment assistance loans should be closed in the name of the Housing Finance agency and not in the name of the first mortgage lender.

Under current state law, the Housing Finance Commission could purchase a downpayment assistance loan from a participating mortgage lender, but could not make a direct downpayment assistance loan to a borrower. Like 20 or so other states without this explicit authority, the Housing Finance Commission's vital downpayment assistance programs were in danger of ceasing operations by the end of May 2013.

## **Customer Impact**

The Housing Finance Commission is the largest provider of downpayment assistance loans to low- and moderate-income homebuyers in Washington state. Between 1992 and 2012, the Commission provided \$68 million in downpayment assistance to more than 9,000 low and moderate income families to help them purchase their home. Buyers in every county in the state have taken advantage of this program, with special programs for many kinds of borrowers.

In the Commission's current homeownership program, *Home Advantage*, 97% of the qualified borrowers receive some amount of downpayment assistance. Without the Commission's downpayment assistance, these families would not qualify for FHA mortgage insurance to purchase their home. This would amount to 1,400 to 2,000 qualified households who would otherwise be unable to purchase a home—with an impact of \$389 million to \$557 million lost to the state's economy (according to the Washington Center for Real Estate Research).

## **Taking Action**

In order to avert this disaster for our customers, the Commission would have to convince the Legislature to pass a bill allowing us to make downpayment assistance loans—in a particularly contentious year of shifting alliances. We would have to quickly draft a bill and find strong sponsors—as well as overcome questions about default rates under one troubled loan servicer.

## **The Process**

HUD provided a transition period through June 1, 2013 to allow housing finance agencies to make the necessary changes to be in compliance with the new interpretive rule. The Housing Finance Commission had already transitioned, at an additional operating cost, to provide funds

directly at the closing table, but needed the change in state law to make downpayment assistance loans and close them in the Commission's name.

Fortunately, our executive director, Kim Herman, has cultivated relationships on both sides of the aisle during his 30 years of leadership at the Commission. He was able to secure the sponsorship of Joe Fain, a relatively new Republican senator. This was especially critical because of a recent shakeup in the previously Democrat-controlled Senate, in which two Democrats switched sides to create a majority coalition with Republican objectives. Senator Fain would prove to be an able champion—not least because he soon achieved one of four positions of leadership in the Senate: the floor manager who controlled which bills would be heard.

In the House, Kim sought the support of Mike Sells and Timm Ormsby, who, though not on the Housing Committee, were influential legislators who had supported the Commission in the past.

After introducing the bill, Kim worked hard to help the sponsors keep the bill alive and moving toward the finish line. He showed that homebuyers in every county of the state would be prevented from buying homes without the critical assistance provided by the Commission, impacting not only these families but the local economy. He also secured the strong support of mortgage lenders and especially the state Realtors association, both of which were vital.

## **Complications**

Throughout the session, the Commission was burdened by the misperception among legislators that downpayment assistance enables unqualified borrowers to buy homes—shades of the mortgage industry collapse of 2008. Unfortunately, the Commission's default rates didn't help to assuage those concerns. While most portfolios had better default rates than the industry average, one of them had been exceptionally poorly managed by the servicer. Although the Commission had already switched to a high-quality servicer (ServiSolutions at the Alabama Housing Finance Agency—the first collaboration of its kind in the nation), we had been unsuccessful in regaining control over the mismanaged portfolio.

This issue had been intermittently raised and been answered throughout the session. At the very end of the process, with success in sight, it again flared up, threaten to derail the entire effort. The bill had passed the Senate with little opposition, and was now being debated in the House. Monitoring the process from the NCSHA Legislative Conference in Washington, D.C., Kim received a frantic call from staff that House members had seized on the poor default numbers and were seeking to dismiss the bill.

In a matter of minutes, the Commission was able to respond with numbers showing the excellent rates on our three other portfolios, compared to the mismanaged one. This effort successfully convinced enough legislators to pass the bill in the House and send it to the Governor's desk.

## **Success**

On April 17, 2013, the downpayment assistance bill was signed into law—protecting downpayment assistance in Washington state for years to come.