HB 3188 -3 STAFF MEASURE SUMMARY

House Committee On Housing and Homelessness

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Sub-Referral To: Joint Committee On Ways and Means
Meeting Dates: 2/12, 3/24

WHAT THE MEASURE DOES:

The measure creates a program to help first-time home buyers in Oregon afford a home without a down payment or mortgage insurance by establishing the Welcome Home Assistance Program Fund, to provide financial backing to lenders who issue these types of loans. If a first-time home buyer cannot repay their mortgage and the lender forecloses on the home, the state fund may cover part of the lender's loss, up to 20 percent of the home's purchase price. To qualify, the mortgage must cover 100 percent of the home's cost, have a fixed interest rate for 30 years, and include an account to cover at least two months' worth of property taxes and insurance. If lenders later recover money from other sources, such as mortgage insurance, they must reimburse the state fund. The buyer must also complete a homeownership education class and earn no more than 130 percent of the median household income in their area. The measure appropriates $2.5 million and is managed by the Department of Consumer and Business Services.

Detailed Summary:

- Establishes the Welcome Home Assistance Program Fund.
- Directs the Department of Consumer and Business Services (DCBS) to create a loan loss reserve program to partially cover risks of loss for lenders that make mortgage loans that meet specific criteria and fund the program using the Welcome Home Assistance Program Fund.
- Prohibits DCBS from pledging more than 20 percent of the purchase price of a dwelling as a guarantee against a lender's claimed loss of a sum due as a repayment of the mortgage loan.
- Specifies that a mortgage loan qualifies for the program guarantee if it finances 100 percent of a first-time home buyer's purchase of a dwelling without requiring the first-time home buyer to provide a down payment from the first-time home buyer's own funds and without requiring payment of mortgage insurance; has a fixed interest rate and a repayment term of 30 years; has an annual percentage rate that does not exceed one percentage point above the annual percentage rate that applies to a mortgage loan with similar terms that meets guidelines set by the Federal National Mortgage Association; meets underwriting requirements that the lender applies in accordance with the federal minimum standards for transactions secured by a dwelling, and includes an escrow account that reserves the amount of funds necessary to pay property taxes and insurance for a minimum of two months.
- Specifies that eligible first-time home buyers need to have an income that does not exceed 130 percent of the median household income in the county or region in which the dwelling is located and complete a home buyer education class.
- Specifies that a lender can claim from the amount the department pledged as a guarantee a loss of an outstanding sum due as a repayment of a mortgage loan only if: the lender has lawfully foreclosed on the mortgage loan that is subject to the department's guarantee not later than five years after the date on which the mortgage loan originally closed and can document the loss; the dwelling that secured the mortgage loan was sold in a trustee's or an execution sale under and the sale proceeds paid to the lender were less than the full outstanding amount due to the lender as a repayment of the mortgage loan; or the dwelling that secured the mortgage loan was resold by the lender after the lender purchased the dwelling in a sale and the proceeds of the lender's resale did not repay all of the outstanding amount due as a repayment of the mortgage loan.
- Clarifies that a lender can claim the amount the department pledged as a guarantee even if the lender resells a dwelling the lender purchased in a trustee's or an execution sale more than five years after the closing date

of the mortgage loan.
- Permits a lender to claim as a loss only the lesser of the amount that the department pledged as a guarantee or the actual amount of the lender's loss after applying the proceeds from a sale toward repaying the outstanding sum due on the mortgage loan.
- Directs lenders to provide specific documents to show a loss of a sum due as a repayment of a mortgage loan, such as a copy of the mortgage note and trust deed or mortgage document; the borrower's repayment history for the mortgage loan; the outstanding balance on the mortgage loan; a copy of any agreement or other document the department issued as a guarantee for the mortgage loan; a certificate of compliance; and a receipt or other documentation that shows the amount the lender received as proceeds from a sale of the dwelling and the amount of the mortgage loan that remains unpaid after applying the proceeds toward repaying the mortgage loan.
- Requires lenders to release DCBS in writing from the pledge described up to five years after the date on which the lender closed the mortgage loan with the borrower or resold the property.
- Permits DCBS to pledge the amount the lender releases as a guarantee for a different mortgage loan.
- Prohibits DCBS from pledging as guarantees of mortgage loans more than the balance of the moneys in the Welcome Home Assistance Program Fund.
- Clarifies that if a lender recoups all or a portion of a loss the lender claimed from sources other than the proceeds of a sale that DCBS can seek a reimbursement from the lender of the lesser of the amount the lender received as a recoupment of the loss or the amount the department paid to the lender to satisfy the lender's claim.
- Prohibits DCBS from paying a claim for a loss from the fund unless specific conditions are met.
- Directs DCBS to adopt rules to administer the program, specifies guidelines.
- Directs DCBS to credit the Welcome Home Assistance Program Fund all funds the department collects or receives in connection with the loan loss reserve program such as appropriations to the department, releases of amounts pledged as mortgage loan guarantees, and reimbursements of claims the department pays from the fund.
- Allows fund dollars to be invested in the same manner as other state funds and any interest earned must be credited to the Welcome Home Assistance Program Fund.
- Directs DCBS to keep a record of all funds deposited into the Welcome Home Assistance Program Fund, indicating in the record by separate account the source of the moneys, the interest earned and the activity against which the department charges any withdrawal.
- Clarifies that if any amount credited to the Welcome Home Assistance Program Fund is withdrawn, transferred or used for purposes other than the purposes for which the fund was established, interest accrues on the amount withdrawn from the date of withdrawal until the date on which the moneys are restored to the fund.
- Allows continuous appropriation of funds from the fund to DCBS to cover the department's administrative expenses and duties.
- Allows DCBS to self-insure or obtain insurance or reinsurance against losses to the fund from claims paid to lenders.
- Appropriates $2,500,000 to DCBS for the 2025-2027 biennium for administering the loan loss reserve program and managing the Welcome Home Assistance Program Fund.
- Declares an emergency, effective on passage.

Fiscal impact: May have fiscal impact, but no statement yet issued
Revenue impact: May have revenue impact, but no statement yet issued

ISSUES DISCUSSED:
- Credit unions model on lending program from Arizona
- Loan loss reserve program advantages in lowering interest rates
- Reserve allocated to homes going back to loan loss reserve fund after home is sold

- Portion of the risk the state is underwriting capped at 5 percent
- Loan terms for agreements and credit union standards
- First time home buyers in high priced areas of the state and flexibility in administrative rule for maximum home price

EFFECT OF AMENDMENT:

-3 Shifts responsibility to the Housing and Community Services Department for creating and administering the Welcome Home Assistance Program.

Expands the definition of "lender" to include not only credit unions but also banking institutions.

Reduces this maximum pledge of the purchase price of the dwelling the department needs to pledge to five percent of the purchase price.

Modifies the buyer's income threshold to 120 percent of the qualifying income for a mortgage loan borrower in the area as determined by the Federal Housing Finance Agency.

Adds that the loan's annual percentage interest rate must not exceed one percentage point above the rate the lender would charge for a comparable mortgage other than a required down payment and notes that the comparable mortgage must be eligible for sale to either the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation.

BACKGROUND:

First-time home buyer programs are designed to make homeownership more accessible, particularly with high upfront costs like down payments and closing fees. These programs are often offered at the federal, state, and local levels and may be available through government agencies, nonprofits, or financial institutions. They aim to reduce financial barriers, mitigate risk for lenders, and encourage homeownership among low- and moderate-income buyers. Many programs offer grants, forgivable loans, or low-interest loans to help buyers cover down payments and closing costs. Some programs provide matching savings programs, where buyers contribute funds, and the program matches them at a set ratio. For example, the Oregon Bond Residential Loan Program offers down payment assistance to eligible buyers. Many programs offer low or below-market interest rates to reduce monthly mortgage payments. Some state-run programs provide fixed-rate mortgages that help borrowers avoid rising interest costs over time.

Government-backed mortgage guarantees reduce the risk for lenders, encouraging them to offer loans with smaller down payments. For example, Department of Veterans Affairs (VA) Loans allow eligible military members and veterans to purchase homes with no down payment. US Department of Agriculture (USDA) Loans provide no-down-payment loans for rural home buyers. Some state or local programs offer a second mortgage (a secondary loan in addition to the primary mortgage) to cover down payments or other costs and some of these loans may be forgivable. Many first-time home buyer programs require or offer homeownership education courses to help buyers understand budgeting, credit, mortgage terms, and maintenance responsibilities. Education programs aim to financially prepare buyers and reduce foreclosure risks. Other programs provide tax incentives, such as mortgage interest tax deductions or first-time home buyer tax credits, which lower the overall cost of homeownership. For example, the Mortgage Credit Certificate (MCC) Program allows qualified home buyers to claim a federal income tax credit based on mortgage interest paid.