A bill for an act

relating to housing; creating a pilot program to stabilize market values of residential real estate in certain areas; providing a five-year guarantee against depreciation in value of certain properties; providing incentives to restructure mortgage loans; authorizing rulemaking; appropriating money; proposing coding for new law in Minnesota Statutes, chapter 462A.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. **[462A.37] HOME VALUES GUARANTEE PILOT PROGRAM.**

Subdivision 1. **Definitions.** (a) For purposes of this section, the terms defined in this subdivision have the meanings given.

(b) "Commissioner" means the commissioner of the Housing Finance Agency.

(c) "Pilot program areas" means Hennepin, Olmsted, Ramsey, St. Louis, and Stearns Counties.

(d) "The program" means the home values guarantee pilot program created in this section.

Subd. 2. **Creation of program.** (a) The home values guarantee pilot program is created to provide a five-year guarantee for the state against declining property values in certain areas of the state.

(b) The commissioner shall administer the program and has for the purposes of this program all powers otherwise available to the commissioner. The commissioner may contract for all or any part of the administrative and related functions, and shall pay for any such services from the fees collected under subdivision 9, paragraph (a).

Subd. 3. **Home values guarantee.** (a) A purchaser of real estate may apply to the commissioner for enrollment of the property in the program. The property must be:

(1) located in one of the pilot program areas;

(2) purchased or to be purchased between July 1, 2009, and June 30, 2011, by a buyer who intends to occupy the property as the buyer's single-family homestead;

(3) in a physical condition that complies with all applicable building and housing codes, as documented in a home inspection report;

(4) suitable for residential use only and not suitable for business or commercial use, including agriculture. This does not disqualify a property used for home-based businesses that complies with local zoning laws;

(5) have an appraised value of no less than $75,000 nor more than $300,000; and

(6) purchased or proposed for purchase without a mortgage loan, or with a mortgage loan made by a lender licensed to make residential mortgage loans in this state, that includes an interest rate and monthly payment that are fixed for the full term of the loan and a downpayment of at least 3.5 percent, by a borrower who meets mortgage loan underwriting criteria required for loans guaranteed by the Federal Housing Administration, but the borrower need not obtain a loan guarantee from that source. The requirement that the monthly mortgage payment be fixed does not apply to charges for escrowed property taxes, homeowner's insurance, flood zone status monitoring, or similar charges required by the mortgage lenders that may vary over the course of the loan. The downpayment must not have come from a government program or from a junior mortgage loan on the property.

(b) The commissioner shall issue to the new owner of a property that has declined in value since it was purchased, and is property that is approved for enrollment in the program a written guarantee on behalf of the state that the state will buy the property from the owner after five years from the date of purchase. In exchange for payment from the state equal to the downpayment made by the owner when the owner purchased the property and principal payments on the property made by the owner. In exchange for the payment, the owner must grant to the state a limited warranty deed to the property, ensuring that the property is free of any encumbrances such as mechanic's liens, second mortgages, or tax liens, and an inspection report that documents that the property is in substantially the same condition as the original inspection report under subdivision 3, paragraph (a), clause (3), taking into consideration normal wear and tear on the property.

(c) Upon receipt of the limited warranty deed from the owner, the commissioner shall contact the mortgage lender or other lienor who has the most senior lien on the property and offer to provide the lienor with a limited warranty deed to the property from the state if the lienor agrees to accept it in full satisfaction of the amount secured by the mortgage or other lien.

(d) The total dollar amount of guarantees issued must not exceed $25,000,000.

Subd. 4. **Effect of resale or other transfer.** If the purchaser transfers the fee title to the property prior to the end of the five-year guarantee period, the guarantee expires and is not assumable by the new owner. For purposes of this subdivision, "transfer" includes but is not limited to a voluntary or involuntary transfer through eminent domain, foreclosure, deed, contract for deed, probate, a transfer on death deed, a deed to a trust, or other transfer, other than a transfer between spouses.

Subd. 5. **Effect of use as other than single-family principal residence.** If the property is no longer homestead and owner-occupied as the owner's single-family principal residence at any time, the guarantee automatically expires.

Subd. 6. **Procedure for claim on guarantee.** (a) If an owner of a property that was issued a guarantee under this section wishes to make a claim under the guarantee, the owner shall submit a claim to the commissioner on a form provided by the commissioner.

(b) No claim may be made later than 120 days after the end of the five-year guarantee period.

(c) If the commissioner determines that the claim is payable under the terms of the guarantee, the commissioner shall pay the claim to the owner to whom the guarantee was made, or as otherwise provided for a spouse of the original owner under subdivision 5, from the appropriation made under subdivision 8.

Subd. 7. **Pilot project features.** (a) The commissioner shall report to the legislature in writing on the status and effects of the pilot project and on recommendations for changes or clarifications, if any, no later than January 15 of each year of the pilot project's existence and of each of the two years following its existence.

(b) Each year's report shall assess the extent to which the program is stabilizing home values and influencing lenders and other holders of mortgage loans to restructure existing loans to reduce the likelihood of foreclosures and short sales in the pilot project areas.

(c) The pilot project ends 120 days after the last guarantee under the program has expired or after the last guarantee claim is resolved, whichever is later.

Subd. 8. **Statutory appropriation.** The amounts necessary to make payments required by guarantees issued under this section are appropriated from the general fund to the commissioner of the Housing Finance Agency for fiscal years 2015, 2016, and 2017, for the purposes of payments required under this section.

Subd. 9. **Application fee; creation of account; appropriation.** (a) The commissioner shall charge a property owner applying for the program an application and administration fee in the amount of $....... at the time of application. The commissioner shall not accept an application unless the fee is paid.

(b) The home values guarantee pilot program account is created in the special revenue fund.

(c) The commissioner shall deposit fees received under paragraph (a) into the account created in paragraph (b)

(d) Amounts in the account created under paragraph (b) are appropriated from that account for fiscal years 2010 and 2011 to the commissioner of the Housing Finance Agency for purposes of performing the commissioner's duties in administering this section.

EFFECTIVE DATE. This section is effective July 1, 2009.