

SESSION OF 2022

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2268

As Amended by House Committee on Financial
Institutions and Rural Development

Brief*

HB 2268, as amended, would enact the Kansas Rural Home Loan Guarantee Act (Act). The provisions of the Act would be administered by the Kansas Housing Resources Corporation (KHRC), and loan transactions eligible for a guarantee would include the construction or renovation of a single-family home in a rural county. The total amount of loans guaranteed under the Act would be limited to \$2.0 million. Further details of this loan guarantee program follow.

Definitions

The bill would establish definitions for these terms under the Act:

- “Financial institution” would mean any bank, trust company, savings bank, credit union, savings and loan association, or any other lending institution that is approved by the KHRC;
- “Loan” would mean a transaction with a financial institution to provide financing for the construction or renovation of a single-family home in a rural county;
- “Rural county” would mean any county in Kansas with a population of less than 10,000, as certified to

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

the Secretary of State on July 1 of the preceding year.

Loan Guarantees Against Risk of Default for Rural Housing Loans; State Housing Trust Fund; Administration of the Act

The bill would authorize the KHRC to enter into agreements with financial institutions to provide loan guarantees against risk of default for rural housing loans, as provided in this act. The bill would include a provision specific to the filing of a claim related to a payment for loan guarantee under the State Housing Trust Fund (Fund).

In addition, the bill would require eligible financial institutions to apply all usual lending standards to determine the creditworthiness of eligible borrowers. The financial institution originating the loan would be responsible for monitoring the loan, and in the case of default, working with the borrower to obtain collateral. The bill would specify the financial institution would be in the first position, and the State in the second position, to recover on the loan.

The KHRC would be required to administer provisions and the Act and to adopt rules and regulations for the Act's implementation, including the development of an application process. The loan guarantee agreement for this program would be required to include reporting requirements and financial standards that are appropriate for the type of loan for the borrower. The KHRC would be permitted to impose fees and charges, as necessary, to recover administrative costs.

Loan Agreements, Backing by the Fund; Appraised Value

The bill would provide that each agreement entered into by the KHRC to guarantee against default on a loan transaction must be backed by the Fund and must receive prior approval by the KHRC or its designee.

The bill would specify eligible costs for the loan transactions subject to the Act, including:

- Land and building purchases;
- Renovation and new construction costs;
- Equipment and installation costs;
- Predevelopment costs that may be capitalized;
- Financing;
- Capitalized interest during construction; and
- Consultant fees that do not include staff costs.

The bill would provide that the portion of the loan guaranteed by the KHRC must be for the amount of the loan that exceeds 80 percent of the appraised value of the home. The bill would further provide that no loan amount above 125 percent of the appraised value of the home could be guaranteed by the KHRC.

The bill would specify that the total amount of loans guaranteed by the KHRC could not exceed \$2.0 million. The bill would include provisions relating to the fees and charges received by the KHRC under the Act. Each receipt would be deposited to the credit of the Fund.

Reporting to the Legislature

The bill would also require the KHRC, beginning with the 2023 Legislative Session, to annually prepare a report of activity related to the Act that will include new loans, loan repayment status, and other relevant information regarding these activities. The report would be required to be submitted at the beginning of each regular session to the House Committee on Appropriations or the appropriate budget committee and the Senate Committee on Ways and Means or the appropriate subcommittee.

Background

The bill was introduced by the House Committee on Financial Institutions and Rural Development at the request of Representative Kelly, who stated this request was being made on behalf of Representative Waymaster.

House Committee on Financial Institutions and Rural Development

In the House Committee hearing on February 17, 2021, representatives of the Heartland Credit Union Association (HCUA) and the Kansas Bankers Association (KBA) provided **proponent** testimony. Written-only proponent testimony was submitted by Representative Waymaster and a representative of the Kansas Association of Realtors. Proponents generally stated the bill would address one of the rural housing challenges. An example of this challenge was provided, noting for individuals either building or extensively renovating an existing single-family home, the costs far exceed the final appraisal, making it nearly impossible to obtain a residential mortgage. The HCUA and KBA representatives indicated the loan guarantee program would provide a helpful tool and resource for some borrowers.

No other testimony was provided.

On February 7, 2022, the House Committee received an update on the bill and presentations were provided on rural housing topics. Presenters included representatives from the KBA, Kansas Corn Growers Association and Kansas Farm Bureau, KHRC, the Kansas State Treasurer, Northwest Kansas Economic Innovation Center (EICI), and Sunflower Electric Power Corporation.

The representative from the Kansas Corn Growers Association and Kansas Farm Bureau presented an amendment to the bill during the presentation. The amendment would:

- Replace the State Treasurer with the KHRC as the administrator of the Act;
- Modify the guarantee amount specified for a certain portion of loans with moneys from the State Housing Trust Fund;
- Establish a limit on the total amount of such loan guarantees at \$2.0 million (the bill, as introduced, would have required the guarantees and Act administration to be funded subject to Appropriations and moneys receipted to a new fund); and
- Require fees and charges imposed by KHRC and other moneys received by KHRC to be remitted and credited to the Fund.

On February 16, 2022, the House Committee amended the bill to incorporate the above-described changes proposed by the representative from the Kansas Corn Growers Association and Kansas Farm Bureau.

Fiscal Information

The fiscal note prepared by the Division of the Budget on the bill, as introduced, detailed administrative expenses for the Office of the State Treasurer and the costs to the State of Kansas if insufficient funds were available to pay for a loan guarantee (the bill, as introduced, would have limited the Act's financing to available appropriations). A fiscal note was not available on the bill as amended by the House Committee.

Financial institutions; Kansas Rural Home Loan Guarantee Act; Kansas Housing Resource Corporation; State Housing Trust Fund; rural housing