

## **BILL ANALYSIS**

C.S.H.B. 3671  
By: Thompson  
Urban Affairs  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

The Regular Session of the 79th Legislature in 2005 approved legislation to adopt the Urban Land Bank Demonstration Program (program). The purpose of the program is to address the dual needs of insufficient affordable housing and arresting urban plight related to an excessive number of abandoned tax delinquent properties. Under the program, a municipality of 1.9 million people or more is authorized to acquire property that has been abandoned and for which taxes have been delinquent with all taxing jurisdictions in excess of 10 years. Once the property is sold to the Urban Land Bank (bank) at a private sale the bank is authorized to sell the property to an eligible adjacent property owner who has maintained the property, a community development corporation, or a private developer. Current law limits the use of the properties to affordable housing. Lenders are reluctant to make loans on these properties because title companies are reluctant to provide title insurance. Many of these properties have also been abandoned and the record of ownership is not discernable. Under current law, a third party is authorized to file a suit challenging the validity of the initial sale by the bank or, years later, challenge the subsequent resale to another home buyer.

The proposed complete committee substitute for House Bill No. 3671 addresses the concerns raised by the title and financial lending industries and facilitates the issuance of title insurance, which might otherwise take years and cause delays in redeveloping distressed inner-city neighborhoods and creating affordable housing opportunities. This proposal also provides a security net by placing a one-year deadline on any and all claims arising from the foreclosure of these otherwise uninsurable properties.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION-BY-SECTION ANALYSIS**

SECTION 1. Amends Section 379D.010(a), Local Government Code, as follows:

(a) Requires the Urban Land Bank (land bank) to impose deed restrictions with appropriate terms and conditions on property sold to qualified participating developers and eligible adjacent property owners that require the development and sale or rental of the property to low income households, if the property is sold to a qualified participating developer, or that require the use of the property to be consistent and compatible with the residential character of the neighborhood and any applicable standards for use adopted by the land bank, if the property is sold to an eligible adjacent property owner.

SECTION 2. Amends Section 379D.011, Local Government Code, as follows:

Sec. 379D.011. New heading: RIGHT OF FIRST REFUSAL IN ELIGIBLE ADJACENT PROPERTY OWNERS; CONDITIONS OF PURCHASE. (a) Requires property acquired by the land bank to be offered for sale at fair market value as determined by the appraisal district in which the property is located.

(b) Includes the additional requirement that an owner of property adjacent to property acquired by the land bank is required to meet any eligibility requirements adopted by the land bank to be eligible to exercise a right of first refusal under this section.

(c) Prohibits an adjacent property owner who purchases property under this section from leasing, selling, or otherwise transferring the property to another party before the 10th anniversary of the date the adjacent property owner purchases the property. Sets forth certain situations for which this prohibition does not apply.

SECTION 3. Amends Chapter 379D, Local Government Code, by adding Section 379D.015, as follows:

Sec. 379D.015. EFFECT OF SALE TO LAND BANK OR SUBSEQUENT PURCHASERS OR LENDERS FOR VALUE; LIMITATION ON CERTAIN CAUSES OF ACTION. Provides that after the first anniversary of a sale of property to a land bank under this chapter (Urban Land Bank Program in Municipality With Population of 1.9 Million or More):

(1) a third party, other than a qualified participating developer or eligible adjacent property owner who purchased the property from the land bank under this chapter or a person with a cause of action based on a right, title, interest, or other claim described by Subdivision (2)(A)(ii), is prohibited from bringing a cause of action to set aside or otherwise challenge the sale of the property to the land bank, including a cause of action that is brought against certain persons; and

(2) a qualified participating developer or eligible adjacent property owner who purchases property from a land bank under this chapter, any other subsequent purchaser for value, or, if applicable, a lender for a developer, owner, or purchaser described by this subdivision or any other subsequent lender for value has full title to certain property and authorizes such persons to conclusively presume that the sale of the property to the land bank under this chapter was valid and a mortgage on or a subsequent sale of the property complies with this chapter and is subject only to a right, title, interest, or other claim provided by Paragraph (A)(ii).

SECTION 4. Makes application of Section 379D.015, Local Government Code, as added by this Act, prospective.

SECTION 5. Effective date: September 1, 2007.

#### **EFFECTIVE DATE**

This Act would take effect September 1, 2007.

#### **COMPARISON OF ORIGINAL TO SUBSTITUTE**

The substitute deletes subsection e (added in the original) in SECTION 1 which stated that subsections (b), (c), and (d) do not apply to property sold to an eligible adjacent property owner.

The substitute adds language to SECTION 2 to clarify that property sold to eligible adjacent property owners must be sold at fair market value. The substitute also adds language in SECTION 2 which clarifies that in addition to the eligible adjacent property owners having to occupy the property for at least five (5) years, additional eligibility requirements will be promulgated by the Land Bank.

Finally, language is added in SECTION 2 of the substitute which states that eligible adjacent property owners who acquire the property may not sell it for ten years with exception of the transfer to a family member or upon death of the owner.