BILL ANALYSIS

S.B. 1989
By: Menéndez
Urban Affairs
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Due to volatility in financial markets and changing economic environments, interested parties claim that there is a need to provide consistency and certainty in the underwriting guidelines used in certain housing tax credit transactions at the time of completion and cost certification. The parties further explain that consistency in the underwriting at the time of the transaction will help secure the long-term viability of the transactions and ensure continued interest from the investment community. S.B. 1989 seeks to address these issues.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the Texas Department of Housing and Community Affairs in SECTION 2 of this bill.

ANALYSIS

S.B. 1989 amends the Government Code to require the governing board of the Texas Department of Housing and Community Affairs (TDHCA) to have the specific duty and power to adopt underwriting standards for housing tax credits allocated by TDHCA. The bill requires underwriting standards for such tax credits used to determine feasibility of a proposed development to be consistent with the criteria established under statutory provisions and bill provisions relating to the long-term affordability and safety of multifamily rental housing developments.

S.B. 1989 requires TDHCA, for developments receiving housing tax credits, to determine the feasibility of the development at the time of cost certification using actual net operating income, adjusted for stabilization of rents and extraordinary lease-up expenses, and a maximum debt coverage ratio of 1.50 or higher as adopted by TDHCA rule. The bill prohibits such a feasibility determination from including a maximum operating expense-to-income ratio. The bill requires TDHCA, in determining net operating income and making the appropriate adjustments, to consider the permanent lender and equity partner stabilization requirements documented in the loan and in the partnership or entity agreements. The bill authorizes TDHCA to adopt rules providing for exceptions to the maximum debt coverage ratio requirement with respect to specific types of projects. The bill limits the applicability of these provisions to multifamily rental housing developments to which TDHCA is providing one or more of the following forms of assistance: a loan or grant in an amount greater than 33 percent of the market value of the development on the date the recipient completed the construction of the development; a loan guarantee for a loan in an amount greater than 33 percent of the market value of the development on the date the recipient took legal title to the development; or a low income housing tax credit.

EFFECTIVE DATE

September 1, 2015.