Attach - #2

VICTOR ATIYEH
GOVERNOR

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SALEM, OREGON 97310

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The Housing Division has been trying for some time to reactivate the Mortgage Purchase Program, which was halted by the Mortgage Subsidy Bond Tax Act of 1980 (the Ullman bill). Recent modifications in federal tax law, an improved bond market, and innovations in bonding techniques have allowed the Division to complete a $125 million bond sale on September 23.

However, the restrictions imposed by federal law will prevent this program from operating at a profit. In order to cover basic costs, the Division has had to cut back the fees of all program providers. Loan origination fees for participating lenders have been cut back 20 percent, from 1.25 percent to 1 percent, and servicing fees to lenders will be reduced 33.3 percent, from 3/8 percent to 1/4 percent.

The Mortgage Purchase Program is a public program to provide home financing for below-median-income home buyers. We have always limited the fees of the participating lenders, appraisers, and inspectors, as well as other costs relating to loan closing. Notwithstanding a limitation on real estate fees for this bond sale, 5 percent would still generate nearly $5 million in new real estate commissions. On a typical $50,000 home sale, the real estate sales fees would be $2,500.

The Housing Division is not seeking to regulate real estate fees in the private market. It is specifying the terms under which it will buy loans. This is the same as saying that the Division will buy a loan only where the lender charges an origination fee of 1 percent or less, or the appraiser charges a fee of $125 or less. Agreements to limit real estate fees are acceptable practice in the marketplace. Home builders set limits on commissions on the sale of new homes; lenders also set real estate fee limits on the resale of foreclosed properties. The State of Hawaii's housing program has a 5 percent real estate fee limit and has had good support from the real estate community.

The Housing Division has worked hard to develop a program that will be financially feasible in the current market environment. The permanent note rate on the Division's mortgage loans will be 11.75 percent. That is too high an entry level rate for below-median-income buyers, so a seller-paid buydown is necessary. Without this buydown, the program will not work. Home sellers are asked to make a major contribution from their equity. Participating lenders are accepting lower loan origination fees. The Housing Division is operating this program at a break-even or loss level. Everybody is sharing some of the burden.

I urge members of your association to get behind this effort. If economic conditions improve and a buydown is no longer necessary, the Housing Division will reevaluate this policy.

Sincerely,

Victor Atiyeh
Governor

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