MaineHousing
MAINE STATE HOUSING AUTHORITY

131st Maine Legislature – 2nd Regular Session
Testimony of
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Before
The Joint Select Committee on Housing

In Support of LD 2209
An Act to Increase the Cap on Bonds Issued by the Maine State Housing Authority to Reflect Current Housing Production Needs in the State

Senator Pierce, Representative Gere, and members of the Joint Select Committee on Housing, I am Erik Jorgensen Senior Director of Government Relations and Communications at the Maine State Housing Authority (MaineHousing) and I am submitting this testimony in support of LD 2209, **"An Act to Increase the Cap on Bonds Issued by the Maine State Housing Authority to Reflect Current Housing Production Needs in the State".**

MaineHousing has been helping Maine people own, rent, repair, and heat their homes since 1969. We are an independent state authority (not a state agency) created to address the problems of unsafe, unsuitable, overcrowded, and unaffordable housing. We are authorized to issue bonds to finance single family mortgages for first time homebuyers and for affordable multi-family housing.

We are also authorized to administer a number of state and federal programs, including rental subsidies, weatherization, fuel assistance, two housing block grants, the low-income housing tax credit program, and homeless grant programs. We receive state general fund revenue for homeless programs and receive a dedicated portion of the real estate transfer tax for the Housing Opportunities for Maine (HOME) Fund.

While LD 2209 is a routine bill, moral obligation limit adjustments such as this have not been needed since 2001, when the legislature last passed one. MaineHousing is currently capped by statute at $2.15 billion in outstanding moral obligation debt. That limit of $2.15 billion worked for over 20 years due to the low-interest economic climate and housing production trends over that time. Over the past few years, that climate has changed dramatically. Interest rates, the cost of housing, the cost of construction, and state and federal production investments have materially impacted our ability to keep working within this limit.

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We have spoken to this committee about this issue, and recently sent all of you a fact sheet on the matter, so in hopes of not re-covering too much of the same ground, I will simply say that this issue has emerged this year for five principal reasons. These are:

1. **Fewer prepayments:** Single-family loan prepayments (which reduce our bonds outstanding as we use the prepayments to retire bonds) were $140 million less in 2023 than in 2022 and $150 million less than in 2021. This is due to historically low interest rates over the last several years – homeowners are not refinancing or selling their homes because a new mortgage would almost certainly be at a much higher rate.

2. **Extraordinary State investments:** The State's recent investments, through this committee and the Governor's office, have generated an unprecedented production pipeline at MaineHousing, which means an unprecedented number of loans being issued;

3. **Construction Cost Increases:** Multifamily projects, on average, cost 25% more than they did 2-3 years ago (meaning that around 25% more bonds need to be issued);

4. **Size of Projects**: We recently accepted a number of very large projects, including two of the largest we have ever financed, into our pipeline. The estimated bond amount for these two projects alone is $99.6 million;

5. **Average Loan Size:** Our average single family loan was $210,611 in 2023, up from $193,586 in 2022 and $157,175 in 2021. The average loan is up $53,436 since 2021, and with 820 first time and first generation home loans made in 2023, that's $43.8 million more in lending on the single family side for the same number of loans.

MaineHousing's financing operations are strictly regulated, and our rigorous practices have led to the high credit rating that we now enjoy. This credit rating is our most important asset in assuring that we can finance more housing and also provide the best rates for our borrowers. Therefore our policies around reserves, public notification and oversight all contribute not just to our credit rating, but also to the reduction of risk for the state. We are submitting a document with this testimony that explains the fiscal safeguards that are in place.

Early in our existence, we relied on the state's moral obligation when we sold bonds. Today our financial fitness is assessed on other metrics, but the statutory need to include moral obligation remains. This has been described as being similar to a parent co-signing a loan for a young adult. Later, the child has grown up and become financially independent, but the co-signed loan is still on the books.

Given the current size of our production pipeline, without your action, we will quickly hit the moral obligation limit. This is why your support, as our original "co-signers" is so critical now. Thank you.