owman answers think tank criticism of HOST

By Gerald Frawley

HOST, the state savings invest-ment program designed for first-time home buyers, is possibly illegal, financially impractical and philo-sophically unsound, according to a mid-Michigan public policy think tank

mid-Michigan public policy think tank.

But state treasurer Robert Bowman said the Mackinac Center report released Jan. 4 makes accusations based on a lack of understanding about the program. HOST is advantaged to the program of the program of the program. HOST is advantaged to the program of the program of the program. HOST is the program of t

voters in 1988 for environmental and recreational improvements. Forty million dollars has been earmarked for the HOST program.

Those interested in obtaining applications for the program can call the HOST hot line at 1-809-842-4178.

According to Mackinac Centre sceleropidicy analyst Gary Wolfram, the program is difficult to assess because the state has been deliberately vague about some of HOST's aspects.

pects.
"If the state's intent is for HOST to be a housing program, it is illegal because the state Legislature never because the state Legislature never gave the administration the authori-ty to set up a housing program," Wolfram said. If HOST is an invest-ment program, the state cannot lim-it the sale to first-time buyers as much of the program promotion has suggested.

RESTRICTING THE SALE of bonds to first-time home buyers

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would discriminate against others and limits the bonds' marketability— neither of which is allowed by the bond implementation acts. Bowman said HOST is an invest-ment program, and although the bond sale is not limited to first-time home buyers, it has been tailored for them.

home buyers, it has been tailored for them.

"It's designed that way, but it someone else wants to purchase the bonds we won't stop them."

It is unlikely that other investors will be interested in the bonds, he said. Current homeowers are al-ready building equity in their homes, and people with money to invest are less likely to purchase the bonds be-cause of the way the program is set

up.
Monthly purchases by participants is cumbersome for the average investor, but it will make saving easier for those that have difficulty sav-

ier for those that have difficulty sav-ing, Bowman sald.
"This lish't for everyone," Bowman said. "We're offering a guaranteed rate of return equal to the housing inflation — that may be good for some but not for others."

MACKINAC CENTER'S Wolfram sald the program could also be dangerous because the HOST program variable rate bonds are guaranteed to match the state housing inflation

Historically, statewide housing in-Historically, statewide housing in-fation rates have howered near 8 percent, but a sharp increase in housing infalion could boost these rates considerably, and taxes would need to be diverted to pay the higher increast rates, Wolfram said. "Should we be put in this posi-tion?" Wolfram asked. People should be aware that the state is putting the general fund at risk, he said. Bowman said the Mackinac Cen-

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ter's hypothetical situation is trying to foment fears. "We've done an em-pirical analysis of the relation be-tween tax-exempt securities and housing inflation — they've been right on top of each other for 20 years."

years."
Wolfram also called the state's de-cision to sell the quality of life bonds allocated to HOST program to resi-dents instead of Wall Street ques-tionable. Wolfram sald the state could have sold bonds at a lower in-terest rate on Wall Street and the state's interest indebtedness would have been less.

BOWMAN DISAGREED. Institu-tional bonds are sold by bond bre-kers on wall Street for commission, "We're saving money by cutting out the middle man."

We're saving money by cutting out the middle man."

Saving money by cutting out the middle man. Saving man beautiful and bonds man assame or a higher la-terest rate than the saving man parties. The participants. "So we're going to pay the interest, why not let the people of Michigan benefit from 17".

Greg Kaza. Mackinge Conter's

Greg Kaza, Mackinne Center's vice president for policy research, said the basic underpinnings his group's argument is state government has no business guaranteeing home ownership loans. "What's next' 1s the state going to help you finance a new car or swimming pool?" Kaza asked. "Part of our argument is based on a philo-

sophical objection to the program."
In this, Bowman agreed, saying it comes down to differing philosophics. "We believe there is nothing wrong with the government helping people to buy a home; they believe that government should be involved in people's lives as little as possible." Bowman said much of the Mackinac Center's argument bandled about in the media last week — that only buyers in upscale areas will benefit from the program — Is based on incorrect information.

"THEIR FUNDAMENTAL premise is that different people will get different returns," Bowman said. "Everyone gets the same rate of return."

"Everyons & Seam" In the program's earlier stages, the state considered tying the interest return to local housing inflation rates, but the program was changed to make it more workable, Bowman

said.
Those interested in purchasing a home in an area with a higher rate of inflation will make larger principal payments, but will receive the same interest return as a person who intends to purchase inan area with lower housing inflation.
Those buying in areas with many and the property of the prop

lower housing inflation.

Those buying in areas with more costly homes will purchase more bonds and get the same rate of interest. They will get a larger return, but they will also make a larger investment.

"The state will still pay the same amount of dollars on the same amount of bonds regardless of who holds them."

holds them."

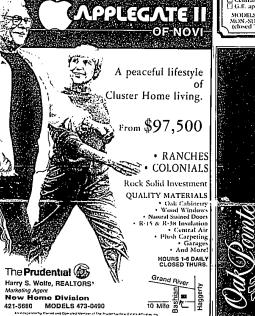
The only exception — and this is still subject to change — is if a person does not purchase a home or withdraws from the program early Under the current program the state will only guarantee an investment return equal to one-year tax exempt securities.

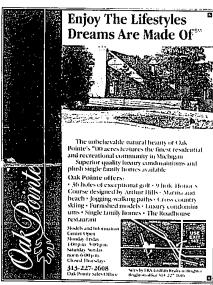
But Bowman added the return on one-year tax exempt securities and the housing inflation rate have his torteally been the same.

When the bonds are sold, Bowman said investors will know what they're paying for and what the rules will be. The BOST program has been gradually refined from its earlier in carnations and will continue to be refined.

The program's concept was delhe crately written with some gray areas so the state could refine the program over time. Bowman said, adding there was some fear that HOST could be abused. As the program gets closer to implementation, Bowman, said these gray areas will be further clarified.











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