

Bowman answers think tank criticism of HOST

By Gerald Frawley
staff writer

HOST, the state savings investment program designed for first-time home buyers, is possibly illegal, financially impractical and philosophically unsound, according to a 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 a guaranteed investment program in which investors purchase state bonds that offer a variable interest return equivalent to the housing inflation rate. The savings trust created by the deposits will be tax exempt.

The bonds are part of \$800 million in quality of life bonds approved by 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 1-800-642-4178. According to Mackinac Center senior policy analyst Gary Wolfram, the program is difficult to assess because the state has been deliberately vague about some of HOST's aspects.

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

RESTRICTING THE SALE of bonds to first-time home buyers

would discriminate against others and limits the bonds' marketability — neither of which is allowed by the bond implementation acts.

Bowman said HOST is an investment program and although the bond sale is not limited to first-time home buyers, it has been tailored for them.

"It's designed that way, but if 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 homeowners are already building equity in their homes, and people with money to invest are less likely to purchase the bonds because 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 saving, Bowman said.

"This isn'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 said the program could also be dangerous because the HOST program variable rate bonds are guaranteed to match the state housing inflation rate.

Historically, statewide housing inflation rates have hovered near 8 percent, but a sharp increase in housing inflation could boost those rates considerably, and taxes would need to be diverted to pay the higher interest rates, Wolfram said.

"Should we be put in this position?" Wolfram asked. People should be aware that the state is putting the general fund at risk, he said.

Bowman said the Mackinac Cen-

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

Wolfram also called the state's decision to sell the quality of life bonds allocated to HOST program to residents instead of Wall Street questionable. Wolfram said the state could have sold bonds at a lower interest rate on Wall Street and the state's interest indebtedness would have been less.

HOWMAN DISAGREES. Institutional bonds are sold by bond brokers on Wall Street for commission. "We're saving money by cutting out the middle man."

Bowman also said institutional bonds pay the same or a higher interest rate than the state expects to pay HOST participants. "So if we're going to pay the interest, why not let the people of Michigan benefit from it?"

Greg Kaza, Mackinac Center's vice president for policy research, said the basic underpinnings of his group's argument is state government has no business guaranteeing home ownership loans.

"What's next? Is 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 philosophies. "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 banded 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."

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 in an area with 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."

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 historically 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 HOST program has been gradually refined from its earlier incarnations and will continue to be refined.

The program's concept was deliberately 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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