SB 381

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 381 (The President, *et al.*) (By Request - Administration)

Education, Health, and Environmental Affairs and Finance | Environment and Transportation and Ways and Means

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Housing and Community Development - Community Development Administration - Student and Residential Mortgage Loans

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This Administration bill authorizes the Community Development Administration (CDA) within the Department of Housing and Community Development (DHCD) to provide financial assistance to homeowners for purchasing a primary residence and making payments on the homeowner's student loan debt. The bill makes other conforming changes and establishes a reporting requirement for DHCD.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: DHCD can implement the bill's requirements with existing resources. The bill likely reduces proceeds from the sale of State-owned residential properties by redirecting a portion to pay off homeowners' student loan debt. This has no practical effect on DHCD operations but may reduce future funding available for mortgage assistance programs. In addition, the bill's broad authority for DHCD to provide financial assistance to homeowners to pay off student loan debt through existing mortgage assistance programs may also reduce resources available for mortgage assistance.

Local Effect: The bill does not materially affect local government operations or finances.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: CDA is authorized (but not required) to make, participate in making, and undertake a commitment for specified financial assistance to a homeowner for:

- purchasing the homeowner's primary residence and making payments on the homeowner's student loan debt; or
- making payments on the homeowner's student loan debt in conjunction with the homeowner obtaining separate financial assistance from a source other than CDA for purchasing the homeowner's primary residence.

The Secretary of Housing and Community Development must determine the terms and qualifications for specified forms of financial assistance, including commitments for residential mortgage loans to families of limited income. The bill also authorizes the Secretary to waive the requirement for a mortgage lender's certificate attesting that the mortgagor could not get a mortgage loan in the unassisted private lending market for a residential mortgage loan to a homeowner for (1) the purchase of the homeowner's primary residence and making payments on the homeowner's student loan debt or (2) the purchase of the homeowner's primary residence in conjunction with the homeowner obtaining separate financial assistance from CDA for making payments on the homeowner's student loan debt. Finally, the bill authorizes CDA to purchase notes, mortgages, partial interests in notes or mortgages, and loans issued to a homeowner for (1) purchasing a primary residence and making payments on the homeowner's student loan debt or (2) purchasing the homeowner's primary residence in conjunction with the homeowner obtaining separate financial assistance from CDA for making payments on the homeowner's student loan debt.

In providing financial assistance to a homeowner that includes the purchase of the homeowner's primary residence and payments on the homeowner's student loan debt, CDA must give priority to selling residential property that it owns.

By December 31, 2018, DHCD must report to the General Assembly on the implementation of the bill, including (1) information about the location and source of residential properties sold by DHCD as part of any financial assistance provided under the bill and (2) recommendations for expanding the scope of financial assistance provided under the bill.

Current Law: CDA (a division within DHCD) issues revenue bonds backed by income-generating mortgage loans to raise capital, which is then used to make below-market interest rate mortgage loans. CDA may purchase or issue securities that are backed by mortgage loans and guaranteed by the Government National Mortgage Association or a government-sponsored enterprise to finance community development projects, public purpose projects, or residential mortgage loans. The issuance, terms, and conditions of a security that CDA issues may be as CDA finds necessary or desirable for guaranty by the Government National Mortgage Association or a government-sponsored enterprise.

Background:

Maryland Mortgage Program

The Maryland Mortgage Program (MMP), administered by CDA, provides below-market fixed-rate mortgages through private lending institutions to low- and moderate-income households. The program is financed through the sale of mortgage revenue bonds, targeted to first-time homebuyers, and includes eligibility limits on both household income and the cost of the home. CDA provides eligible borrowers with a wide variety of mortgage products to meet workforce housing needs. As of June 30, 2013, the portfolio of outstanding mortgages made under this program totaled $1.7 billion. Since fiscal 2014, MMP has been funded primarily through secondary market sales of Ginnie Mae and Fannie Mae mortgage-backed securities. These sales of securities into the secondary market allowed 4,187 eligible borrowers to purchase homes with loans totaling $725.1 million over the three fiscal years ending June 30, 2013.

MMP has annual income requirements limiting who can apply for a loan through the program, as shown in **Exhibit 1**. If household income falls within the range in which a homebuyer "may be eligible," then eligibility for a MMP loan depends on the location of the property that will be purchased.

Exhibit 1
Eligibility Criteria for the Maryland Mortgage Program

Household Size	Eligible	May Be Eligible	Not Eligible
1 or 2	Less than $88,400	Between $88,400 and $128,760	Greater than $128,760
3 or more	Less than $101,300	Between $101,300 and $150,220	Greater than $150,220

Source: Department of Housing and Community Development

Nationally – Student Loans and Associated Debt

Many students finance higher education through loans from the federal government or private financial institutions, such as banks or credit unions. Federal loans made directly to the student have, compared to privately sourced loans, generous repayment terms. By default, new federal loans enter a 10-year loan repayment plan. If a student can demonstrate a partial financial hardship, using criteria set by the U.S. Department of Education (ED), the student is eligible to enroll in more generous loan repayment plans, with payments based on income and family size.

Federal loans constitute the majority of student loan debt. The Federal Reserve Bank of New York in the second quarter of 2015 reported the federal government had issued about $1.2 trillion in total outstanding student loans. It is important to note that total outstanding student loans includes all active student loans, including currently enrolled students who have deferred payment because they are in school at least half time (six credits). On the other hand, this figure only accounts for the original loan amount and does not include any capitalized interest, which is not currently tracked by ED or any other agency.

Maryland – Student Loan Debt Continues to Grow

The most recent Maryland data reported for undergraduates at public and private, nonprofit four-year institutions by the Project on Student Debt (PSD), covering 2014 graduates, reports that 58% had student debt with an average debt (of those with loans) of $27,457. This is slightly below the national average of 61% of students with student debt and slightly above the national average of $27,022 for debt. Maryland ranks thirty-fourth in the country for the percent graduating with debt and twentieth for the per capita amount of debt. PSD's 2014 report enabled a look back at changes over the debt data. While PSD noted the steady participation of Maryland institutions in the survey, it summarized Maryland this way:

> The 10-year change for Maryland is not only large in scale but also highly robust. The average reported debt of Maryland's new graduates more than doubled in 10 years, rising a striking 118 percent from the Class of 2004 to the Class of 2014. That is more than twice the national growth rate for the same period, and more than four times the rate of inflation.

State Fiscal Effect: DHCD advises that the bill is intended to help student loan borrowers overcome barriers to homeownership, which primarily include student loan payment obligations that decrease the ability of otherwise creditworthy homebuyers to qualify for a mortgage. The program would offer State-owned residential real estate at market value, with financing provided through MMP. The program would pay off student loan debt, through a seller contribution, up to 20% of the loan value, although this limit is not specified in the bill.

DHCD advises that the department has approximately 150 properties acquired through foreclosures on MMP-funded loans that would be available for purchase under the student loan assistance provisions established by the bill. For example, a buyer who purchases a State-owned home valued at $200,000 using MMP financing could either (1) receive a seller contribution of up to $40,000 for student loan repayment at the time of purchase or (2) have DHCD make monthly payments on the student loans from the homeowner's monthly mortgage payments. The Department of Legislative Services notes that, although the bill requires CDA to give *priority* to selling residential property that it owns, the bill does not *limit* the program to the sale of State-owned properties. To the extent that DHCD uses the bill's broad authority to provide financial assistance to pay off student loan debt through existing mortgage assistance programs, it may reduce resources available for future mortgage assistance.

Because DHCD advises that implementation of the program revolves around the sale of State-owned residential properties, any "seller contribution" or deductions from mortgage payments made by program participants represent a reduction in proceeds from the sale of those properties. In the case of "seller contributions," it represents foregone proceeds because the State is not getting full value for the sale of the home. In the case of redirected mortgage payments being used to make student loan debt payments, less money is available (1) for the revolving loan fund to be used for additional mortgage assistance payments or (2) as backing for the issuance of revenue bonds.

Additional Information

Prior Introductions: None.

Cross File: HB 460 (The Speaker, *et al.*) (By Request - Administration) - Environment and Transportation and Ways and Means.

Information Source(s): Department of Housing and Community Development, Federal Reserve Bank of New York, Project on Student Debt, Department of Legislative Services

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Housing and Community Development – Community Development Administration – Student and Residential Mortgage Loans

BILL NUMBER: SB 381/HB 460

PREPARED BY Department of Housing and Community Development

PART A. ECONOMIC IMPACT RATING

_X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

_____WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This proposed legislation will have minimal economic impact.