

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 822 (Senator McCray)
Education, Health, and Environmental Affairs

Housing and Community Development – Down Payment and Settlement Expense
Loan Program – Homebuyer Education Requirements

This bill requires that a recipient of a loan from the Down Payment and Settlement Expense Loan Program (1) take a homebuyer education course, either in person or online, and (2) receive one-on-one counseling from a U.S. Department of Housing and Urban Development (HUD)-approved counseling agency before signing a contract of sale for a property. The bill also requires the Secretary of Housing and Community Development to report to the General Assembly by December 31 of each year on specified information relating to program participation and the effectiveness of the program.

Fiscal Summary

State Effect: Special fund revenues and expenditures decrease, potentially significantly, to the extent that fewer homebuyers qualify for loans under the Down Payment and Settlement Expense Loan Program, as discussed below.

Local Effect: The bill is not anticipated to materially affect local finances or operations.

Small Business Effect: None.

Analysis

Current Law/Background:

HUD Counseling Agencies

HUD sponsors housing counseling agencies throughout the country to assist individuals with, among other things, advice on buying a home. HUD also maintains a listing of

department-approved counseling agencies. As of February 2020, there were 48 HUD-approved [housing counseling agencies](#) in the State.

Maryland Mortgage Program, Generally

The Maryland Mortgage Program (MMP), administered by the Community Development Administration within the Department of Housing and Community Development (DHCD), 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. MMP has annual income requirements limiting who can apply for a loan through the program. Income requirements vary by location and whether the home is in a “targeted area.”

Chapter 104 of 2018 required MMP participants to complete homebuyer education prior to closing on a loan. DHCD advises that it uses agencies through HUD, the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac), to administer counseling services.

Down Payment and Settlement Expense Loan Program

The Down Payment and Settlement Expense Loan Program, a supplementary program to MMP, provides financing for down payment and settlement expenses to enable eligible homebuyers to purchase homes. Settlement expenses include (1) fees and premiums for title examination, title insurance, and similar expenses; (2) fees for preparing deeds, settlement statements, and other documents; (3) payments owed at settlement for property taxes and hazard insurance coverage; (4) escrows for future payments of taxes and hazard insurance; (5) fees for notarizing deeds and other documents; (6) appraisal fees; (7) fees for credits reports; (8) transfer and recordation taxes and fees; (9) fees and premiums for mortgage insurance; and (10) loan discount points and origination fees.

Recipients of a program loan are required to complete homebuyer education that meets the requirements of DHCD. However, if the political subdivision in which a loan recipient will use the loan administers its own down payment or settlement expense loan program that also requires homebuyer education, then the loan recipient must complete the more stringent local homebuyer education requirement. DHCD advises that in fiscal 2019, 1,822 individuals used the program.

Housing Counseling and Foreclosure Mediation Fund

The Housing Counseling and Foreclosure Mediation Fund supports a number of services related to home purchases and foreclosure activities, including supporting nonprofit and

government housing counselors and other nonprofit entities that provide (1) legal assistance to homeowner or occupants who are trying to avoid foreclosure or manage foreclosure proceedings and (2) homebuyer education, housing advice, or financial counseling for homeowners, prospective homeowners, and low- and moderate-income households. DHCD advises that the balance of the fund at the end of fiscal 2019 was \$2.46 million.

State Fiscal Effect: DHCD advises that requiring prospective homebuyers to take HUD-approved homebuyer education prior to signing a contract of sale may result in lower overall participation in MMP. Under current program requirements and procedures, prospective homebuyers learn about the program and the homebuyer education requirement when they apply for a mortgage from a mortgage lender, which typically occurs *after* they have signed a contract for a house. To the extent that some homebuyers are unaware of the homebuyer education and counseling requirement when they sign a contract for a new home, they will no longer be eligible to participate in the program. As a result, DHCD advises that participation in MMP may decrease and special fund revenue may decrease accordingly, as the program derives income from loan repayments, interest, and fees generated by the loans. To the extent that DHCD special fund revenues decrease, special fund expenditures and staffing may decrease as well, but any such effect cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 1099 (Delegate Stein) - Environment and Transportation.

Information Source(s): U.S. Department of Housing and Urban Development; Maryland Department of Housing and Community Development; Department of Legislative Services

Fiscal Note History: First Reader - February 23, 2020
rh/mcr

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