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Governor
BOYD K. RUTHERFORD
Lt. Governor
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Secretary
OWEN McEVOY
Deputy Secretary

DATE:	**March 23, 2021**
BILL NO.:	**Senate Bill 937**
COMMITTEE:	**Senate Education, Health, and Environmental Affairs Committee**
TITLE:	**Housing and Community Development – Mortgage, Down Payment, and Settlement Expense Assistance**
SPONSORS:	**Sen. Ellis**

Letter of Information

Description of Bill:

Senate Bill 937 1) requires DHCD to take into consideration student loan debt and educational attainment when providing down payment assistance, 2) sets a $10,000 minimum award of financial assistance from the Down Payment and Settlement Expense Loan Program (DSELP), and 3) allows DHCD to provide financial assistance from the DSELP on refinances.

Background and Analysis:

While the intent of this bill is not clear, we believe the implied goal of Senate Bill 937 is duplicative of work we are already doing to assist prospective homebuyers with significant student loan debt and the effect of its substantial unintended consequences would undermine the Department's ability to execute on our mission to assist low and moderate income first time homebuyers, resulting in fewer Maryland households being assisted and increased General Fund costs.

Expanding sustainable homeownership opportunities is a key component of the Department of Housing and Community Development's mission. The department's Maryland Mortgage Program has been the state's flagship homeownership assistance program for over 30 years. The Maryland Mortgage Program provides fixed-rate mortgages to first time homebuyers along with other down payment and closing cost assistance. Senate Bill 937 would impact the Department's use of DSELP, which is state appropriated down payment assistance, secured as a junior lien, in conjunction with a Maryland Mortgage Program first mortgage.

For many income-qualified prospective first time homebuyers, the challenges associated with saving for a down payment are significant. This is especially true in in areas with high costs of living and rents and this is the problem the Department's down payment assistance programs address by providing low or no interest deferred loans to first time homebuyers, so that they may purchase a home. In FY20, the Maryland Mortgage Program assisted more than 4,700 Marylanders in the purchase of their first home. Some form of down payment assistance was provided in conjunction with 93% of Maryland Mortgage Program loans and the average amount of down payment assistance provided was approximately $7,300 per borrower. DSELP is currently limited to the greater of $5,000 or 3% of purchase price, in order to ensure borrowers with lower mortgage amounts are able to receive necessary assistance.

This bill would increase the floor for DSELP assistance to $10,000, while leaving the funding mechanism finite. This would result about 1,250 fewer first time homebuyers receiving assistance through the Maryland Mortgage Program annually, delaying their ability to purchase a home indefinitely and, perhaps, permanently.

In addition, while this bill does not explicitly state its intent, there appears to be an attempt to connect ever increasing student loan debt with a decreased ability for young people to purchase homes. We believe this is an important consideration, which is why the Hogan Administration created the SmartBuy program in 2016 to assist Marylanders saddled with loan debt. The SmartBuy program, now in its third iteration, gives homebuyers an opportunity to purchase any home in Maryland that meets Maryland Mortgage Program guidelines while paying off the borrower's student loan debt. Eligible homebuyers must have an existing student loan debt with a minimum balance of $1,000. Maryland SmartBuy 3.0 financing provides up to 15% of the home purchase price for the borrower to pay off their outstanding student debt with a maximum payoff amount of $30,000. In order to reduce a borrower's overall monthly obligations, the full student debt for at least one of the borrowers must be paid off at the time of the home purchase, and homebuyers must meet all eligibility requirements for the Maryland Mortgage program.

Finally, Senate Bill 937 would not only have a significant negative impact on Maryland homebuyers, it would also strain operational funding for the Community Development Administration (CDA), which operates the Department's development finance programs. In order to compensate for DHCD Special Fund losses, as a result of this bill, DHCD anticipates that we would need to request a commensurate amount of General Funds. Based on an estimated $250 million reduction in MMP loans to first time homebuyers, we expect approximately $3 million in General Funds would be required.