Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

House Bill 1217 (Delegate Shriver, *et al.*)
Economic Matters Education, Health, and Environmental Affairs

Housing and Community Development - Maryland Home Financing Program - Mortgage Sales

This bill allows the Department of Housing and Community Development (DHCD) to sell mortgage loans financed by the Maryland Home Financing Program (MHF) on terms acceptable to the department, including selling loans at a discount. The bill also authorizes DHCD to transfer money received from mortgage loan sales to the Homeownership Programs Fund or to use money in that fund to repurchase or pay the costs for servicing a loan that was sold. It declares that it is the General Assembly's intent for proceeds from the sale of a mortgage that was provided to an individual with a disability be used for future loans to individuals with disabilities.

The bill is effective June 1, 2002.

Fiscal Summary

State Effect: Special fund revenues could increase significantly (one time) from the sale of any mortgage loans. However, the revenues may be less than the value of the loans sold; any loss from the sale would be absorbed by DHCD. Special fund expenditures would increase as the number of loans financed by the proceeds of the initial sale would increase; additional staff or contractual services may also be needed.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: MHF provides preferred interest rate loans to low-income individuals and is supported by general fund appropriations and a revolving fund derived from payments for prior loans. The program provides short-term construction loans to developers, emergency loans to households that cannot make mortgage payments, and reverse equity loans to elderly households of limited income. DHCD also offers loans with a 3% interest rate through the Homeownership for Individuals with Disabilities Program (within MHF) to individuals whose total household income does not exceed $38,170.

State law authorizes DHCD to: (1) assign an MHF mortgage for value; (2) release or foreclose an MHF mortgage; (3) acquire property securing a loan in default; or (4) encumber, sell, or otherwise dispose of property acquired in connection with a loan in default. Approval from the Board of Public Works is not required.

DHCD must use the Homeownership Programs Fund to make loans and to pay MHF expenses, including reserves for anticipated future losses. At any time following the first eight months of any fiscal year, DHCD may transfer unencumbered monies in the Homeownership Programs Fund to other housing assistance funds subject to any restrictions in the State budget. Money that is received as repayment of principal or interest on program loans and is not appropriated in the State budget may be used to pay the principal or interest on monies borrowed by the State and appropriated to the program.

Background: The fiscal 2003 appropriation for the Homeownership Program, which includes the Maryland Home Financing Program, is $7.6 million. The Budget Reconciliation and Financing Act of 2002 (SB 323) transfers $6.5 million from the Homeownership Programs Fund to the general fund. Accordingly, DHCD expects to reduce the number of loans provided. The Department of Legislative Services advises that the $6.5 million transfer will deplete all available funds by the close of fiscal 2002 based on projected encumbrances. In fiscal 2002, DHCD earmarked $2.5 million of its appropriation to issue mortgage loans for borrowers with disabilities and intends to do so in fiscal 2003.

State Fiscal Effect: The bill could generate additional short-term revenue for the program, but could result in significant longer term losses for DHCD depending upon market interest rates, the number of loans issued, and the discount required to sell the loans. Expenditures may also be needed for legal assistance to arrange the sale land and for any personnel needed to handle additional loans that could be available from the proceeds of the sale. However, because the bill authorizes DHCD to sell mortgage loans, but does not require them to do so, DHCD can elect not to sell the loans, particularly if the sale would incur a substantial loss.

DHCD estimates that the total value of the Maryland Home Financing Program is approximately $40 million, including the loans for borrowers with disabilities, but advises that it is very unlikely that it would sell that amount at one time. Instead, mortgages would be bundled in smaller pieces and sold over time. Because these loans are considered a higher risk of default than traditional commercial loans, DHCD assumes that the loans would have to be sold at a discount to provide the buyer a higher rate of return. DHCD estimates that purchasers such as Fannie Mae will require a minimal interest rate of 7%.

For example, if all the loans under the Homeownership for Individuals with Disabilities Program were sold in one year, it may generate a one-time special fund revenue increase of $5.2 million. However, the value of all the loans that would be sold is $8 million. DHCD would absorb a $2.8 million loss as a result of the discount provided on the sale of the loans. The program loans are provided at a 3% interest rate over 25 years. The new revenue would enable DHCD to issue about $1.3 million in loans annually (over four fiscal years), which equals about 17 additional loans per year.

The discount would be less for other loans under MHF because those loans have a slightly higher interest rate. If $32 million of those loans were sold (the value of the portfolio excluding borrowers with disabilities), DHCD advises that it may only have to absorb a $6 million loss.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Housing and Community Development, Department of Legislative Services

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