

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

House Bill 1188
Economic Matters

(Delegate Krysiak)

Education, Health, and Environmental Affairs

**Department of Housing and Community Development - Settlement Expense
Loan Program - Homebuyer Education**

This bill requires all homebuyers who receive loans from the Department of Housing and Community Development (DHCD) through the Settlement Expense Loan Program to receive homeownership counseling or education. If the local jurisdiction, in which the home is being purchased, does not administer a program that requires education or counseling, a program loan recipient must complete homebuyer education or housing counseling that meets standards established by DHCD. If the local jurisdiction does administer an education or counseling program, the loan recipient must complete the State or local program that is more stringent. Local jurisdictions that administer the settlement expense program are required to inform DHCD of their homebuyer education or housing counseling requirements.

The bill defines homebuyer education or housing counseling as instruction on preparing for homeownership, shopping for a home, obtaining a mortgage, loan closing, and life as a homeowner.

Fiscal Summary

State Effect: The bill's requirements could be handled with existing resources.

Local Effect: None. The bill's requirements could be completed with existing resources.

Small Business Effect: None.

Analysis

Current Law: The purpose of the Downpayment and Settlement Expense Loan Program (DSELP) is to provide financing for settlement expenses to eligible homebuyers for the purchase of either single-unit homes or residential buildings with no more than four units, none of which will be rented to households with income exceeding the limits established by the Secretary of DHCD. Expenses eligible for DSELP funds are those that must be paid at the time of the purchase of real estate, such as:

- fees or premiums for title examination, title insurance, or similar expenses;
- fees for preparation of a deed, settlement statement, or other documents;
- payments owed at the time of settlement for property taxes or hazard insurance coverage;
- escrows for future payments of taxes and hazard insurance; and
- appraisal fees.

A loan made under DSELP must be secured by a mortgage lien, which may be subordinate to other mortgage liens and include loan terms that DHCD deems necessary to make housing purchases affordable to eligible homebuyers, including deferred payment of principal and interest. DHCD may delegate administration of the program to local jurisdictions. Applicants for loans under DSELP are not required by State law to participate in homebuyer education or counseling programs.

However, DHCD advises that as a matter of departmental policy, it requires homebuyers who are receiving a first mortgage loan to receive counseling or education. Furthermore, many of the mortgage loans are insured by the Federal Housing Administration, Fannie Mae, or Freddie Mac, all of which require counseling. The programs vary by insurer, but most require counseling before loan closing and are conducted through approved agencies, lenders, or nonprofit organizations. All the programs cover topics such as life as a homeowner and home financing.

Background: Created by the General Assembly in 1988, the Downpayment and Settlement Expense Loan Program provides low interest loans for settlement expenses to eligible low- and moderate-income homebuyers who do not have sufficient resources to purchase an affordable home. Pursuant to the proposed Budget Reconciliation Act (SB 323/HB 424), \$6.5 million is transferred from the Home Ownership Programs Fund, which includes DSELP, to the general fund in fiscal 2002. DHCD has shut down DSELP due to the anticipated lack of funding. The transfer would deplete all available funds by the close of fiscal 2002. Prior to the transfer, DHCD indicated to the General Assembly that it would allocate \$2.5 million of fiscal 2002 funds for DSELP.

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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