Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 3 (The Speaker, *et al.*)
Environmental Matters Education, Health, and Environmental Affairs

Hurricane Isabel Disaster Relief Act

This emergency bill establishes the Hurricane Isabel Housing Rehabilitation and Renovation Program in the Department of Housing and Community Development (DHCD).

The bill remains in effect through May 31, 2005.

Fiscal Summary

State Effect: Total expenditures for the affected programs would not change. However, the bill expands the eligibility and requirements for use of existing funds; availability of those funds for other programs and their recipients may be significantly diminished. Special fund revenue from loans provided under the bill will be lower than standard loan revenue due to the reduced interest rate required.

Local Effect: Minimal.

Small Business Effect: Construction companies, as well as construction trades (*e.g.*, carpenters, electricians) will benefit to the extent that the program accelerates or expands home repair. These companies are predominantly small businesses or self-employed.

Analysis

Bill Summary: Under this program, DHCD must provide:

- low-interest loans for first or subordinate mortgages to rehabilitate or renovate primary residences;

- credit enhancements for privately obtained loans to rehabilitate or renovate primary residences; or
- financial assistance under a buy-down program.

Any of the programs authorized by the bill can also be used for repairing or replacing water and sewer systems, including septic. The department must adopt guidelines and procedures for implementing the program to expedite assistance to families whose primary homes were damaged by Hurricane Isabel. The bill directs the department to use funds from: (1) the Maryland Housing Rehabilitation Program (MHRP); (2) the Maryland Housing Fund (MHF) (for credit enhancements, subject to the reserve balance); and (3) any other State or federal housing or community development program or fund. The requirements for loans and credit enhancements are described below. The department is not required to issue regulations for the program, but must make all reasonable efforts to publicize eligibility requirements and the availability of benefits.

Low-interest Loans

The bill provides low-interest loans for first or subordinate mortgages to rehabilitate or renovate primary residences. After income eligibility requirements are met, DHCD must give priority to families who have been relocated into temporary housing or have received (or are eligible to receive) rental assistance from FEMA. DHCD may require a loan applicant to demonstrate that all possible governmental or commercial assistance was applied for, as well as an affidavit confirming other governmental or commercial sources of aid. Also, the department may require local governments to demonstrate a contribution of resources before approving a loan. The terms and provisions of such a loan must satisfy the terms and provisions of the program or fund used to provide the loan, with five exceptions:

- the interest rate must be set by DHCD between 0.0% and 2.5%;
- the payment of the principal must be deferred until the sale or transfer of the primary residence refinancing of the first lien mortgage or deed of trust on that residence;
- the recipient’s income cannot exceed 125% of the maximum income limits under the MHRP for the Washington, DC Metropolitan Statistical Area;
- priority must be given to families who have been relocated into temporary housing by, or have received rental assistance from, the Federal Emergency Management Agency (FEMA) and to families who have not obtained any aid from FEMA, but otherwise qualify for such aid; and

- the availability of comparable private-market financing may not be an impediment to obtaining the loan.

Credit Enhancements for Private-market Loans

This program is designed to facilitate availability and use of private-market loans to rehabilitate or replace primary residences damaged by Hurricane Isabel by a family who:

- otherwise meets the qualifications for a loan offered by a financial institution; and

- has been relocated into temporary housing by or has received rental assistance from FEMA, or who has not obtained any assistance from FEMA but otherwise qualifies for such assistance; or

- whose primary residence has been found to be partially or totally uninhabitable.

A loan for which the department serves as guarantor may include the refinancing of existing mortgage loans on the primary residence but may not include a home-equity line of credit. The bill prohibits DHCD from charging a premium or administrative fee for credit enhancement under the program.

Buy-down Program

The bill also authorizes DHCD to develop a buy-down program that provides aid to reduce the interest rate or amount a borrower pays on a loan for a defined period of time. The buy-down program may be funded from the Special Loan or Homeownership Programs funds or any other source of funds available. DHCD may set the terms and conditions for financial assistance under the buy-down program. The amount of financial assistance a borrower may receive under the buy-down program may be adjusted at the discretion of the department, based on the borrower's income.

Other Provisions

DHCD must issue a preliminary report to the General Assembly by September 30, 2004 on implementation of the bill, including the amounts of loans and other financial assistance provided and the borrowers' counties of residence, as well as the names of financial institutions that provided loans for which DHCD offered credit enhancement. A final report is due September 30, 2005.

DHCD must provide to prospective borrowers a list of approved financial institutions that are willing to offer loans for which it may serve as guarantor and determine that the terms and provisions of a loan that it guarantees are reasonable and reflective of the mortgage market. The department must serve as guarantor of a loan for the amount of the loan proceeds that is over 80% and up to 115% of the expected fair-market value of the home after the rehabilitation and renovation is completed, as determined by an appraisal.

The payment of the principal and interest on loan proceeds may be deferred until all loan proceeds have been paid out or until 12 months after the first disbursement of loan proceeds, whichever occurs first. However, no further deferrals are allowed, and the principal and interest must then be amortized over the remaining term of the loan.

The bill directs DHCD to continue to explore opportunities to provide reverse-equity mortgages to those families who may choose to use this method of financing home-renovation projects, particularly those whose homes were damaged by the hurricane.

Current Law: Housing and other types of assistance for home owners and renters is provided by federal and State programs. FEMA offers cash grants of up to $25,000 per individual or household, which includes lodging or rental costs, and up to $5,000 for home repair. State aid to rehabilitate housing or provide mortgage assistance stems from the following sources:

(1) MHRP, which preserves owner-occupied one- to four-unit dwellings by making low-interest loans for repair and renovation. Recipients must meet income guidelines set by the Secretary of Housing and Community Development. It is supported by general obligation bonds, general funds, and repayments on outstanding loans;

(2) Maryland Home Financing Program, which gives below-market loans targeted at households with annual income under $27,650. It is supported by general funds and a revolving fund from prior loans;

(3) HOME Program, which finances construction, acquisition, and rehabilitation of rental housing, owner-occupied housing, and special needs housing, such as group homes; and

(4) Maryland Housing Fund, which offers mortgage insurance and other credit enhancements to low- and moderate-income individuals to secure housing.

In addition, the Reverse Equity Mortgage Program was created in 1986 and enables older Maryland home owners to gain access to the accumulated equity in their homes without having to sell or move. No repayment of the loan is required until the eligible borrower dies, sells the house, or permanently moves out of the home.

State insurance law prohibits an insurer from canceling or refusing to renew coverage for home owner's insurance based on a weather-related claims history unless there were three or more such claims in the three preceding years. However, an insurance company may consider cancellation or nonrenewal if it provided a written repair notice to the policy holder for previous damage and the insured failed to make those repairs, which would have prevented the loss for which a claim was made. The notice must be for reasonable or customary repairs or replacement specific to the insured's premises.

Background: Hurricane Isabel struck Maryland's shores on September 18, 2003, and destroyed or seriously damaged homes in several areas, particularly in Baltimore, Queen Anne's, and Anne Arundel counties, where flooding reached as high as eight or nine feet. Approximately 17,000 Maryland residents have applied for federal assistance. The Department of Budget and Management estimates the total cost of the hurricane to be $275 million, of which $55 million will be borne by State agencies; those costs include emergency repairs and aid, lost revenue, and damage to public property. Most of the remainder will be the responsibility of local jurisdictions. The storm also caused $69 million of shoreline erosion on private property and contaminated soil for at least 500 homes through flooding.

According to the Maryland Department of Planning, FEMA has distributed $30 million in housing and other types of aid to Maryland residents and the Small Business Administration has provided $60 million in loans to citizens whose businesses or homes were damaged by the storm. FEMA is also providing temporary housing to 200 residents or families in trailers, pending rehabilitation of their homes. Federal authorization for use of the trailers expires in March; however, local governments can apply for an extension.

Approximately 50,000 Maryland families and businesses had federal flood insurance at the time Hurricane Isabel arrived. However, many home owners affected by the storm discovered that their insurance either did not cover flood damage or does not cover all of the costs. The National Flood Insurance Program provides up to $250,000 of insurance for homes and up to $100,000 for the contents of the home.

State Expenditures: The fiscal 2005 budget allocates $3 million to support the Hurricane Isabel Housing Rehabilitation and Renovation Program and directs DHCD to use $3.1 million of its other appropriations for this program, for a total of $6.1 million. DHCD anticipates that 3,946 home owners may qualify for loans and an additional 1,944 will qualify for loan guarantees. FEMA estimates that property damage not covered by federal aid is almost $17.0 million; however, some of this amount will be covered by private insurance. If DHCD were to fill the entire gap, it would require approximately $10.5 million in low-interest loans and $6.5 million of loan guarantees.

The Department of Legislative Services advises that if DHCD provides loans to all eligible home owners under the bill, it will likely place significant pressure on departmental programs that are the source of the loans until repayment begins. Loan proceeds on MHRP loans will be lower than usual as the interest rate required by the bill (0.0% to 2.5%) is below the minimum 4.5% now required. The department may not be able to meet the demand for loans that are now requested through its housing programs;

accordingly, other home owners would be required to obtain assistance elsewhere or would not receive any assistance.

The number and amounts of the loans cannot be estimated at this time. Approximately 300 to 362 homes will require replacement, and an estimated 820 homes will need repairs between $10,000 and $20,000. Another 874 homes will require $5,000 to $10,000 of repairs. The majority of the homes affected by Hurricane Isabel are expected to need repairs of $5,000 or less; presumably, most of them would be covered by federal aid. The Maryland Insurance Administration cautions that there may be an unknown number of home owners who have not asked for FEMA assistance and, therefore, are not included in these estimates. (The deadline to apply for federal aid was December 8, 2003.)

The bill will allow DHCD to tap into any program for hurricane relief. However, bond revenue pledged for specific programs such as rental housing is not available, and only a portion of the Maryland Home Financing Program would be available. The main programs that will be used to support loans or guarantees under the bill and their fiscal 2005 appropriations are shown below:

Program	**FY 2005 Appropriation**
Maryland Housing Rehabilitation*	$3 million (est.)
Maryland Housing Fund	$1.6 million (estimated reserve) No GO bond authorization for FY 05
Homeownership Programs	$2 million
HOME	$1.2 million (federal)
Special Loan Program	$4.8 million

* DHCD typically transfers $3 million annually from the Special Loan Program to MHF; however, this is not budgeted.

Demand for these program funds often outstrips the supply, and the revolving loan programs are close to being fully encumbered by the close of fiscal 2005. Loan guarantees will not require a cash expenditure but do call for a cash reserve to support the guarantee. DHCD anticipates using the existing reserve in MHF; the estimated reserve for fiscal 2005 can support $16.0 million of loan activity at a 10:1 leverage ratio. DHCD advises that private lenders may be willing to increase the ratio to 15:1, which would support $24 million of loan activity. However, it is unknown whether this will be sufficient to support normal loan-guarantee activity in addition to that generated by the bill ($6.5 million).

Local Fiscal Effect: Local housing agencies process MHRP loans but do not provide the funds for them. The agencies are under contract to DHCD to underwrite and close loans and may charge a closing fee that is financed through the loan. Anne Arundel County advises that it does not expect the bill to have an operational impact or increase expenditures.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Housing and Community Development, Department of Budget and Management, Department of Planning, Maryland Insurance Administration, Maryland Emergency Management Agency, Anne Arundel County, Department of Legislative Services

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