

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 66 (Chairman, Education, Health, and Environmental Affairs Committee)
(By Request – Departmental – Housing and Community Development)

Education, Health, and Environmental Affairs

Environmental Matters

**Department of Housing and Community Development - Community
Development Administration - Grants to Home Buyers**

This departmental bill authorizes the Community Development Administration (CDA) to provide grants directly to home buyers for settlement expenses.

Fiscal Summary

State Effect: None. The bill expands eligibility for the proceeds of existing premium revenue bonds.

Local Effect: None.

Small Business Effect: The Department of Housing and Community Development (DHCD) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: The General Assembly created CDA in 1970 and transferred it to DHCD in 1987. CDA oversees programs that increase home ownership, improve rental housing, build group homes, and assist owners with rehabilitated housing. Programs are funded by: (1) tax-exempt revenue bonds; (2) taxable bonds; (3) State general obligation bonds; (4) general funds; (5) special funds generated through loan repayments, fees, and charges; and (6) federal housing subsidies. CDA also issues essential function bonds for the Local Government Infrastructure Program.

State law allows CDA to give grants of land or money only to local governments, local development agencies or corporations, and certain nonprofit organizations, unless the grant is awarded under federal law. State-funded grants cannot be given directly to individuals.

The CDA Maryland Mortgage Program provides low-interest mortgage loans to primarily first-time home buyers with low- to moderate-income households through private lending institutions. Loan applicants must not have owned a home within the last three years, except in certain targeted areas. The Downpayment and Settlement Expense Loan Program (DSELP) is used in conjunction with the mortgage program and offers 0.0% deferred loans of up to \$3,000 for downpayment and settlement costs. The borrower must make a minimum equity capital contribution.

Background: Settlement costs, also called closing costs, are administrative and loan fees that must be paid by a home buyer. They include fees for a title search, document preparation, inspection, and an appraisal, as well as private mortgage insurance (if required) and transfer and property taxes. Closing costs can add 3% to 5% to the purchase price of the home. Maryland housing costs continue to escalate in most areas of the State. For example, the average home price in December 2003 was \$260,126, a 16.1% increase over the average home price in December 2002, and the median home price was slightly lower at \$216,230. The U.S. Department of Housing and Urban Development is proposing changes to federal law that would reduce settlement costs for home buyers.

Several states, including California, Delaware, Michigan, Oregon, and Oklahoma, use bond proceeds to help home buyers with settlement costs or down payments or both.

State Fiscal Effect: DHCD advises that it currently must use a separate loan program (DSELP) to help home buyers pay closing costs. The bill would allow borrowers who receive loans under the Maryland Mortgage Program to receive a grant for closing cost assistance in exchange for a higher interest rate on their mortgage loans. The mortgage program is funded by revenue bonds and does not receive any general fund appropriations. DHCD estimates that CDA will have 18,200 mortgages in its fiscal 2005 single-family insured loans portfolio.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Housing and Community Development,
National Conference of State Housing Agencies, Maryland Association of Realtors,
Department of Legislative Services

Fiscal Note History: First Reader - February 3, 2004
ncs/ljm

Analysis by: Ann Marie Maloney

Direct Inquiries to:
(410) 946-5510
(301) 970-5510