SB 644

Department of Legislative Services

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FISCAL AND POLICY NOTE
Revised

Senate Bill 644 (Senators Jimeno and Stone)

Education, Health, and Environmental Affairs Environmental Matters

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Maryland Housing Rehabilitation Program - Regular Rehabilitation Program - Residential Building Reconstruction

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This bill permits loans under the Regular Rehabilitation Program of the Maryland Housing Rehabilitation Program (MHRP) to be used to reconstruct residential buildings providing four or fewer dwellings.

The bill is effective June 1, 2005 and terminates November 30, 2006.

Fiscal Summary

State Effect: None. The bill primarily alters the purposes for which existing funds may be used. The Department of Housing and Community Development (DHCD) could handle any additional administrative costs with existing resources.

Local Effect: None. However, expanding eligibility for the program could reduce the amount of rehabilitation loan funds available to counties.

Small Business Effect: Owners of small rental properties could benefit from increased access to financial assistance for reconstruction; however, overall as there is no increased funding for the Regular Rehabilitation Program (RRP) associated with this bill, this could result in fewer clients served.

Analysis

Current Law: Loans made by DHCD under the MHRP for rehabilitation, but not reconstruction, of residential buildings providing four or less dwelling units may be known as the RRP. Loans must be made to families of limited income, owning and occupying the building to be rehabilitated, or to sponsors or nonprofit sponsors. The sponsor or nonprofit sponsor must provide a minimum number of dwelling units restricted for occupancy by families of lower income.

The exact number of units depends on whether the project was financed: (1) solely through DHCD funding; (2) through use of federal low income housing tax credits; or (3) financed in part with government issued federally tax-exempt bonds. The housing must be restricted to lower income families for the greater of: (1) the number of years imposed by federal requirements if funded by federal money; or (2) 15 years.

DHCD must annually allocate and reallocate the monies under the RRP to ensure that all areas of the State are served, taking into account: (1) the number of families of limited income within each county; (2) the need for rehabilitation of buildings in each county; (3) the extent of the capacity of the county to administer a rehabilitation program, and (4) any other criteria DHCD deems relevant to make a fair and equitable distribution of funds among the counties. Each county (including Baltimore City) certified by DHCD as capable of administering a rehabilitation program may originate and administer loans under regulation by DHCD.

Background: The MHRP Regular Rehabilitation Program (RRP) is intended to preserve and improve single family properties and one to four unit rental properties. Household income of owner-occupants of single family homes and all financed rental housing may not exceed 80% of the statewide or the District of Columbia Metropolitan Statistical Area (MSA) median income. The minimum interest rate on these loans is 4.5% and is determined based on ability to repay the loan. Loans benefiting families with incomes that are 60% or less of the median income for the State or the District of Columbia MSA have interest rates lower than 4.5%.

RRP is funded through the Special Loan Programs (SLP) capital appropriation. The SLP capital appropriation for fiscal 2006 is $10.3 million, including $2.75 million in general obligation bonds. The only other time that general obligation bonds were allocated to the SLP was in fiscal 2004. In fiscal 2005, the SLP will transfer out $2.8 million to the Homeownership Program to fund Hurricane Isabel rehabilitation loans. The increase in fiscal 2006 bond funding restores the program's fund balance to support other rehabilitation loans that were deferred in fiscal 2005 to fund Hurricane Isabel loans. DHCD advises it will allocate $3.4 million to the RRP. DHCD assisted 56 projects through this program in fiscal 2004, and estimates that it will finance 65 projects in fiscal 2006. DHCD advises that the average loan through this program is approximately $26,000.

DHCD currently administers two other programs which can be used to finance the reconstruction of existing homes. The Maryland Housing Financing Program (MHFP) loan funds can be used for this purpose. Many of the rebuilds financed by DHCD under the Hurricane Isabel Rehabilitation, Renovation, and Replacement Housing Program have received a MHFP loan.

The other DHCD program which can be used for rebuilding is the HOME program. This is a federally funded program which is used to support various affordable housing programs in the department including rehabilitation and reconstruction. There are certain federal limitations on the use of these funds including, for example, lower income limits than some of the State programs.

State Fiscal Effect: None. DHCD would use funds already allocated to the RRP and could process applications for reconstruction loans with existing resources.

DHCD was not able to predict the number of additional applications it would receive for housing reconstruction as opposed to housing rehabilitation; however, allowing RRP to finance housing reconstruction could increase the amount of the loan and therefore reduce the total number of loans made, assuming a level appropriation. Reconstruction is more involved than rehabilitation, and involves virtually rebuilding a house. Whereas the average rehabilitation loan is $26,000, DHCD projects the costs of the average housing reconstruction to be close to $100,000, and reconstructing a one to four unit rental structure could cost $400,000.

Local Fiscal Effect: None. Although loans are originated, packaged, and closed by DHCD's network of local administering agencies, DHCD is the organization that makes the final determination on loan approval and provides the funding.

DHCD is required to allocate the number of loans it issues among the 24 local jurisdictions based on need. Expanding the eligibility for program loans could reduce the amount of funding available for loans for rehabilitation projects. It is unlikely that local jurisdictions would choose to fund rehabilitation projects if DHCD offers larger loans to reconstruction projects. DHCD advises that currently, due to the deferment of projects in RRP due to funding of Hurricane Isabel projects, local jurisdictions are waiting to start projects until DHCD funding is once again available.

Small Business Effect: An individual who owns a rental property with one to four dwelling units that needs to be reconstructed would be eligible to receive assistance under this program. However, the program is administered on a "first come, first serve" basis; therefore, if DHCD were to choose to make several larger loans early in the fiscal year, that would decrease the number of clients that could be served overall, negatively impacting small businesses that applied for rehabilitation loans later in the fiscal year.

Additional Information

Prior Introductions: None.

Cross File: HB 583 (Delegate Cadden, *et al.*) – Environmental Matters.

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

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