

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 983

(Senator DeGrange)

Budget and Taxation

Appropriations

**Maryland Housing Fund - Unallocated Reserves - Transfers**

This bill requires that beginning in fiscal 2010, any unallocated reserve balance of the Maryland Housing Fund at the end of any fiscal year exceeding \$10 million be transferred by the Governor to support the Homeownership Programs Fund, Rental Housing Programs Fund, and the Special Loan Programs Fund. The distribution of the transferred funds would be at the discretion of the Secretary of Housing and Community Development. The bill also requires the Governor to transfer, by June 30, 2008, \$5,600,000 to the Rental Housing Programs Fund, \$1,800,000 to the Homeownership Programs Fund, and \$2,600,000 to the Special Loan Programs Fund.

The bill takes effect June 1, 2008.

**Fiscal Summary**

**State Effect:** Contingent on the enactment of this bill, FY 2009 budget bill language reduces general fund appropriations for three housing programs within DHCD by \$5.05 million in FY 2009 and authorizes equivalent special fund appropriations through the budget amendment process. \$10.0 million from the unallocated reserves of the Maryland Housing Fund would be transferred to the three programs in FY 2008. The out years' impact would depend on the availability of unallocated reserves of the Maryland Housing Fund, which cannot be reliably estimated at this time.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	(5,050,000)	-	-	-	-
SF Expenditure	5,050,000	-	-	-	-
Net Effect	\$0	\$0	\$0	\$0	\$0

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

**Current Law:** The Maryland Housing Fund (MHF) is used to • insure loans accepted by DHCD; • insure bonds or notes issued to finance an eligible project; and • provide credit enhancement products. The fund consists of • money appropriated by the State; • proceeds of authorized State loans; • fees and premiums in connection with insurance or other credit enhancement products; and • all other money made available from any other source.

The Homeownership Programs provide below-market interest rate mortgage loans with minimum down payments to low- and moderate-income first-time homebuyers. Two programs comprise the Homeownership Programs • the Maryland Home Financing Program (MHFP) makes direct loans to very low-income households for home purchases; and • the Downpayment and Settlement Expense Loan Program (DSELP) assists limited-income families in meeting settlement closing costs associated with home purchases. The maximum loan amounts are \$2,500 for DSELP and for MHFP up to the appraised value of the property. The loans may be offered at as low as 0% for a term not to exceed 40 years.

Five programs are funded through the Rental Housing Programs • Rental Housing Production Program; • Elderly Rental Housing Program; • Maryland Housing Rehabilitation Program-Multi-family; • Nonprofit Rehabilitation Program; and • Office and Commercial Space Conversion Program. The programs provide low-interest or deferred payment loans for rental housing developments targeting very low-income households. In general, projects serve families with incomes below 60% of the area median, with priority given to projects serving families with incomes below 30% of the area median. The maximum loan amount generally is \$1.5 million per project, with an interest rate as low as 4% for as many as 40 years.

Programs under the Special Loan Programs include the • Maryland Housing Rehabilitation Program (MHRP), • Indoor Plumbing Program (IPP), • Lead Hazard Reduction Program (LHRP), and • Group Home Financing (GHF) Program. The programs provide preferred interest rate loans and grants to • families of low- and moderate-income; • sponsors whose small rental properties are leased substantially by

limited-income families; and • nonprofit sponsors of housing facilities. In general, the funds may be used to construct or rehabilitate single-family homes and multi-family housing with four or fewer units or to acquire properties for use as group homes or shelters.

**Background:** A portion of MHF is restricted in order to maintain the reserves necessary to pay lenders should a loan insured by MHF default. These reserves enhance the credit rating of MHF as assessed by credit rating services, and a diminished reserve could potentially jeopardize the MHF credit rating. In the budget analysis for DHCD, Legislative Services recommended a transfer of funds from MHF unallocated reserves to the Homeownership, Rental Housing, and Special Loan programs, to enhance these programs and to prevent the need for \$5.1 million in general funds in fiscal 2009.

**State Fiscal Effect:** The Maryland Housing Fund had a total fund balance of \$104.8 million as of June 30, 2007. Of this amount, \$28.2 million is designated as “unallocated reserves” and is not needed to provide backing for the insurance issued by the fund. **Exhibit 1** shows the fund balances for the Maryland Housing Fund for fiscal 2007.

It is anticipated that the amount of “unallocated reserves” will total approximately \$24.0 million at the end of fiscal 2008. Pursuant to this legislation, \$10.0 million would be transferred to the following three programs • \$1.8 million to the Homeownership Programs Fund; • \$5.6 million to the Rental Housing Programs Fund; and • \$2.6 million to the Special Loan Programs Fund. The fiscal 2009 budget directs that \$5.05 million in general fund appropriations for the three programs be reduced contingent on the enactment of this bill and authorizes the appropriation of an equivalent amount of special funds for the programs through the budget amendment process.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1594 (Delegate Jones) – Rules and Executive Nominations.

**Information Source(s):** Department of Legislative Services

**Fiscal Note History:** First Reader - March 12, 2008  
ncs/hlb Revised - Enrolled Bill - April 22, 2008  
Revised - Updated Budget Information - May 5, 2008  
Revised - Clarification - May 16, 2008

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**Exhibit 1**  
**Maryland Housing Fund**  
**Statements of Changes in Net Assets**  
**Year Ended June 30, 2007**  
(\$ in Millions)

	<u>Multi-family Reserves</u>	<u>Regular Single-family Reserves</u>	<u>Revitalization (PILOT) Reserves</u>	<u>Home and Energy Loan Reserves</u>	<u>Unallocated Reserves</u>	<u>Unrestricted Accumulated Deficit</u>	<u>Total</u>
Balance at June 30, 2006	\$44.7	\$32.3	\$2.2	\$0.5	\$22.7	-\$3.8	\$98.6
Interest income allocation	0.0	0.0	0.0	0.0	5.5	-5.5	0.0
Changes in net assets	0.0	0.0	0.0	0.0	0.0	6.2	6.2
<b>Balance at June 30, 2007</b>	<b>\$44.7</b>	<b>\$32.3</b>	<b>\$2.2</b>	<b>\$0.5</b>	<b>\$28.2</b>	<b>-\$3.1</b>	<b>\$104.8</b>

Note: Numbers may not sum to total due to rounding.

Source: Department of Housing and Community Development; Maryland Housing Fund Financial Statements for the year ending June 30, 2007

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