

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1594 (Delegate Jones)
Appropriations

Maryland Housing Fund - Unallocated Reserves - Transfers

This bill requires that any balance of the Maryland Housing Fund at the end of any fiscal year exceeding the amount of reserves necessary to provide backing for the insurance issued by the fund by more than \$10 million be transferred by the Department of Housing and Community Development to support specified existing programs. Thus, the Homeownership Programs Fund, Rental Housing Programs Fund, and Special Loan Programs Fund would each receive one-third of the excess balance transferred.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: Maryland Housing Fund revenues of \$14.0 million would be transferred to three programs within DHCD beginning in FY 2009. Expenditures would not be directly affected.

Local Effect: None.

Small Business Effect: None.

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 has 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, \$14.0 million would be transferred to the following three programs • \$4.67 million to the Homeownership Programs Fund; • \$4.67 million to the Rental Housing Programs Fund; and • \$4.67 million to the Special Loan Programs Fund. This estimate includes the following facts and assumptions:

- The fiscal 2007 ending fund balance for “unallocated reserves” total \$28.2 million.
- The Maryland Housing Fund will be allocated \$5.8 million in interest income during fiscal 2008; the fund received \$4.1 million in interest income in fiscal 2006 and \$5.5 million in fiscal 2007.
- DHCD will design a credit-enhancement product with \$10.0 million coming from the Maryland Housing Fund reserves for the purpose of providing homeowners with mortgage insurance so they may refinance their subprime mortgage on the private market. This amount will be subtracted from the ending fund balance for fiscal 2007.

Additional Information

Prior Introductions: None.

Cross File: SB 983 (Senator DeGrange) – Budget and Taxation.

Information Source(s): Department of Legislative Services

Fiscal Note History: First Reader - March 14, 2008
mll/hlb

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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
Balance at June 30, 2007	\$44.7	\$32.3	\$2.2	\$0.5	\$28.2	-\$3.1	\$104.8

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
