

**Department of Legislative Services**  
Maryland General Assembly  
2009 Session

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

Senate Bill 1045 (Senator Harrington)

Education, Health, and Environmental Affairs

Environmental Matters

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**DHCD - Community Development Administration - Financing Instruments -  
Mortgage Loans Guaranteed by Government-Sponsored Enterprises**

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This bill authorizes the Community Development Administration (CDA) to purchase mortgage-backed securities from a government-sponsored enterprise (GSE). A GSE is defined as the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”), the Federal Home Loan Bank, or other agency chartered by the federal government with similar powers.

The bill takes effect June 1, 2009.

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**Fiscal Summary**

**State Effect:** Nonbudgeted CDA bond issues may increase to the extent that the purchase of federal mortgage-backed securities increase demand from investors and facilitate loan issuance to Maryland mortgage borrowers. CDA mortgage revenue bonds are not backed by the full faith and credit of the State.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** CDA is responsible for financing six types of projects: (1) community development projects; (2) public purpose projects; (3) home improvement projects; (4) infrastructure projects; (5) energy conservation projects; and (6) solar energy projects. In order to arrange financing for these projects, one source of money CDA utilizes is the

proceeds of investments in mortgage-backed securities. In addition, the general authorization for CDA bond issuance specifies that bond proceeds are to be used for several purposes including purchase of loans, local obligations, and mortgage-backed securities.

CDA is authorized to issue, but not purchase, securities backed by mortgage loans guaranteed by the Government National Mortgage Association (GNMA or “Ginnie Mae”) in support of community development projects.

**Background:** The Department of Housing and Community Development advises that CDA does not currently have authority to purchase mortgage-backed securities from a GSE in support of the Single Family Housing Division, as it does for Multi-Family Housing. In previous years, CDA was able to obtain affordable interest rates from investors on the tax-exempt bonds it issued because of the Aa2 rating on the bonds. However, over the past year, because of a combination of factors including: rating downgrades of private bond insurers, a general reluctance to invest in mortgage-backed securities, and a federal initiative to lower overall mortgage rates, CDA is unable to provide competitive rates for its mortgage customers.

With authority to purchase mortgage-backed securities from a GSE, CDA can, for a fee, obtain a bond rating of AAA and guarantee timely payment of principal and interest for investors. The reduction in interest rates CDA must pay on a bond with a rating of AAA more than covers the fee paid to a federal GSE for the mortgage-backed security under current financial market conditions. In addition, CDA is able to sell existing loans insured by the downgraded private insurers and purchase federally guaranteed mortgage-backed securities.

Although Fannie Mae securities are currently rated AAA, and guarantee timely payment of principal and interest, the Fannie Mae guaranty is not backed by the full faith and credit of the United States government.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1546 (Delegate Niemann) - Environmental Matters.

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

**Fiscal Note History:** First Reader - March 23, 2009

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