

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 83

(Chair, 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 - Group Home Financing
Program - Refinancing

This departmental bill authorizes the Department of Housing and Community Development (DHCD) to use a Group Home Financing Program (GHFP) loan to refinance an existing mortgage loan on a group home and use the loan proceeds to finance certain closing costs. The bill further allows DHCD to modify the terms of a GHFP loan that is at risk of default.

Fiscal Summary

State Effect: No overall impact on the Special Loan Programs Fund. To the extent that State funds are used to refinance existing group homes, fewer resources would be available to finance the acquisition, construction, and rehabilitation of group homes.

Local Effect: None.

Small Business Effect: DHCD has determined that this bill has minimal or no economic impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: GHFP provides loans to group home sponsors to finance the costs of acquiring, constructing, and rehabilitating buildings as group homes for low-income individuals, elderly households, individuals with disabilities, and other State residents with special housing needs. A group home sponsor may also use GHFP loan proceeds

for financing closing costs associated with the construction or purchase of a group home; certain engineering, legal, title, survey, or architectural fees associated with the development of a group home; and other development costs DHCD deems reasonable.

A group home loan provided through GHFP must be secured by a mortgage lien on the property. These loans are designed to provide affordable group housing to low-income individuals and typically limit the return on equity allowed to a group home sponsor. If a GHFP loan is in default, DHCD may modify its terms, including the interest rate, the time or amount of the mortgage payment, or any other term to facilitate repayment and achieve the purposes of GHFP.

The program is funded through the Special Loan Programs Fund within DHCD.

Background: In order to finance the acquisition, construction, and rehabilitation of group homes, DHCD combines State funds provided through GHFP with proceeds from the sale of tax-exempt mortgage revenue bonds through the department’s Special Housing Opportunities Program. However, under current law, DHCD is prohibited from refinancing existing group home loans with State funds.

As shown in **Exhibit 1**, the percentage of total group home funding that was State funds varied from about 40% to about 58% during the past three fiscal years.

Exhibit 1
DHCD Group Home Financing Program
Fiscal 2007-2009

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Group Home Applications Received	25	27	11
Applications Committed	25	17	9
Applications Cancelled/Rejected	0	3	8
Total Funding	\$6,606,755	\$5,123,173	\$2,470,261
Bond Sale Proceeds	\$2,773,812	\$3,060,695	\$1,151,750
State Funds	\$3,832,943	\$2,062,478	\$1,318,511
% State Funds	58.0%	40.2%	53.3%
Number of Beds Provided	80	58	27

Source: StateStat, DHCD – Special Loan Programs: Vol. 2, No. 6 and Vol. 3, No. 2.

In fiscal 2009, eight applications containing requests to refinance existing group home mortgages were subsequently withdrawn, as State law prevents refinancing through GHFP. According to DHCD, six of the prospective applications, totaling \$1.4 million in funding, would have provided 26 individuals with specialized housing. DHCD notes that refinancing existing GHFP mortgages and restructuring existing GHFP loans prior to default would preserve existing affordable housing units while mitigating potential foreclosure costs for DHCD and group home sponsors.

Through the department's lending arm, the Community Development Administration, DHCD has facilitated more than \$78.7 million in financing to 520 group homes, totaling 1,844 units, since 1987. These group homes typically receive operating support from the Department of Human Resources and the Department of Health and Mental Hygiene. However, due to broad economic and budgetary challenges, increases in funding to cover rising operational costs have not occurred. This bill authorizes DHCD to combine bond sale proceeds and State funds to refinance existing loans at lower interest rates, thereby reducing operating costs for group home sponsors.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 15, 2010
a/lgc

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Department of Housing and Community Development – Group Home Financing Program - Refinancing

BILL NUMBER: SB 83

PREPARED BY: Maryland Department of Housing and Development

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.