SB 937

Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 937 (Senator Ellis)
Education, Health, and Environmental Affairs

Housing and Community Development – Mortgage, Down Payment, and Settlement Expense Assistance

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This bill requires loans provided by the Department of Housing and Community Development (DHCD) under the Down Payment and Settlement Expense Loan Program (DSELP) be at least $10,000 each. The bill also makes several changes to applicant eligibility requirements for mortgage lending programs overseen by DCHD. DHCD may not restrict the ability of an eligible homebuyer to use the proceeds of a DSELP loan for settlement expenses. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: No direct effect on total capital expenditures; however, fewer loans may be issued in any given year beginning in FY 2022. Special fund revenues from loan repayments may decrease beginning in FY 2022, and general fund expenditures may be necessary to backfill lost special fund revenues, as discussed below.

Local Effect: The bill is not anticipated to materially affect local government operations or finances.

Small Business Effect: Minimal or none.

Analysis

Bill Summary: The Secretary of Housing and Community Development must take into consideration a family's student loan debt when developing income eligibility requirements for financial assistance under the department's residential mortgage loan programs.

The Community Development Administration's (CDA) existing authority to purchase residential mortgages issued to limited-income families from specified eligible mortgage lenders includes, under the bill, the authority to purchase a new residential mortgage loan for the refinancing of an existing residential mortgage loan. New mortgage loans that CDA purchases must be loans to families of limited income, *including families of limited income who use the new residential mortgage loan to refinance an existing residential mortgage loan*.

DHCD must establish eligibility standards for DSELP loans that consider student debt burdens. In establishing eligibility standards for homeowners under the program, DHCD must consider education level and student loan debt, in addition to household income. In addition to using proceeds of a program loan to make a down payment or pay settlement expenses for an eligible homebuyer to purchase a personal residence, proceeds of a program loan may also be used to pay settlement expenses for an eligible homebuyer to *refinance* a personal residence. In reviewing an application for a program loan, DHCD must consider the eligible homebuyer's education level and student loan debt.

Current Law:

Commitment for a Residential Mortgage Loan, Generally

CDA may make, participate in making, and undertake a commitment for a residential mortgage loan and financial assistance to a family of limited income. Such loans must be (1) for a family that has a disabled family member who will reside in the dwelling; (2) for an emergency housing need as determined by the Secretary of Housing and Community Development; (3) for settlement and down payment costs; or (4) made in conjunction with a loan funded with State appropriated funds if the loan comprises at least 20% of the total amount loaned.

In addition, CDA may offer (1) financial assistance to a family of limited income for maintaining or modifying its existing residential mortgage loan, or that is made in conjunction with a new residential mortgage loan to enable a homeowner to refinance an existing residential mortgage loan; (2) the refinancing of a residential mortgage loan of a homeowner if the loan was made by DHCD or CDA; and (3) financial assistance to a homeowner for purchasing the homebuyer's primary residence and making payments on the homeowner's student loan debt or making payments on the homeowner's student loan debt in conjunction with the homeowner obtaining separate financial assistance from a source other than CDA for purchasing the homeowner's primary residence. The Secretary must determine the terms and qualifications for financial assistance.

Mortgage Purchases and Loans

CDA may purchase or commit to purchase, from specified mortgage lenders a note, mortgage, or partial interest in a note or mortgage that evidence (1) a residential mortgage loan to a family of limited income; (2) a mortgage loan to a sponsor of a community development project or a public purpose project; (3) a residential mortgage loan to a homeowner for the purchase or rehabilitation of the homeowner's primary residence if the primary residence is located in a sustainable community; (4) a residential mortgage loan for the refinancing of a residential mortgage loan made by DHCD or CDA; or (5) a specified residential mortgage loan to a homeowner. CDA may make a loan to an eligible mortgage lender, and finance, with proceeds of its revenue bonds or notes, all or part of a mortgage purchase program or a loan to a mortgage lender program. CDA may also take any action necessary or convenient to carry out these duties, as specified.

Commitment to Purchase Mortgage Loans

New mortgage loans that CDA purchases must be loans to families of limited income, sponsors of community development projects, or homeowners (1) with primary residences located in sustainable communities; (2) who refinance a residential mortgage loan made by DHCD or CDA; or (3) who use the loan proceeds for specified purposes.

Maryland Mortgage Program

The Maryland Mortgage Program (MMP), administered by CDA, provides below-market, fixed-rate mortgages through private lending institutions to low- and moderate-income households. The program is financed through the sale of mortgage revenue bonds, targeted to first-time homebuyers, and includes eligibility limits on both household income and the cost of the home. MMP has annual income requirements limiting who can apply for a loan through the program. Income requirements vary by location and whether the home is in a "targeted area."

SmartBuy 2.0, a program within MMP, offers qualified homebuyers up to 15% of the home purchase price for the borrower to pay off their outstanding student debt with a maximum payoff amount of $30,000. To qualify for the program, homebuyers must have an existing student debt with a minimum balance of $1,000, and the full outstanding student loan balance of at least one of the homebuyers must be paid off at the time of purchase.

Down Payment and Settlement Expense Loan Program

DSELP, a supplementary program to MMP, provides financing for down payment and settlement expenses to enable eligible homebuyers to purchase homes. Settlement expenses include (1) fees and premiums for title examination, title insurance, and similar expenses;

(2) fees for preparing deeds, settlement statements, and other documents; (3) payments owed at settlement for property taxes and hazard insurance coverage; (4) escrows for future payments of taxes and hazard insurance; (5) fees for notarizing deeds and other documents; (6) appraisal fees; (7) fees for credits reports; (8) transfer and recordation taxes and fees; (9) fees and premiums for mortgage insurance; and (10) loan discount points and origination fees.

DHCD must administer DSELP and, among other things, establish eligibility standards for program loans, considering State, regional, and county housing costs, median incomes, and household sizes. An individual qualifies as an eligible homebuyer if the individual (1) will purchase and occupy a single-unit principal residence and has household income not exceeding upper limits established by the Secretary of Housing and Community Development or (2) will purchase and occupy a residential building with no more than four units and agrees to rent all units other than the owner's unit to households with income not exceeding upper limits established by the secretary.

Proceeds of a program loan must be used only to make a down payment or pay settlement expenses for an eligible homebuyer to purchase a personal residence.

In reviewing an application for a program loan, DHCD must (1) consider the eligible homebuyer's financial resources, as specified, and (2) give high priority to eligible homebuyers of low income within income limits established pursuant to the eligibility standards adopted by DHCD.

State Fiscal Effect: Funding for MMP and DSELP is primarily from general obligation (GO) bond revenue allocated in the capital budget. There is no direct effect on total expenditures under the State's capital budget, which is determined annually by the Governor and the General Assembly through the budget process. The proposed fiscal 2022 capital budget includes $26.0 million for Homeownership Programs within DHCD ($22.0 million in GO bonds and $4.0 million in special funds), which includes loans for MMP and DSELP. DHCD advises that it typically exhausts all available funding each fiscal year.

DHCD advises that for fiscal 2020, the department issued almost 4,500 MMP loans, of which about 75% included support from DSELP. The average amount of DSELP assistance was about $7,000. As the bill establishes a minimum loan amount of $10,000 under DSELP, fewer loans may be issued beginning in fiscal 2022. *For illustrative purposes only*, if DHCD were to issue the *same number* of DSELP loans at the minimum loan amount of $10,000 for each applicant, DHCD would require an increase in budgeted GO bond funds of about $10.0 million in fiscal 2022.

DHCD uses special funds generated from loan repayments under the department's Homeownership Programs for administrative expenses. As the bill increases the minimum loan amount issued under DSELP (which are zero-interest and typically have deferred principal and interest payments), it is possible that fewer loans may be issued under MMP (which uses the same GO bond funds and are interest bearing). To the extent this occurs, loan activities yield fewer loan repayments for administrative costs, resulting in DHCD either (1) requiring additional funding sources, including general funds, to cover outstanding administrative expenses or (2) scaling back program activities and staffing costs. Any such effect cannot be reliably estimated, but lost special fund revenues could be significant. It should be noted, however, that any potential loss in special fund revenue depends on how DHCD chooses to implement the bill and may not materialize.

DHCD advises that current law already authorizes the department to refinance mortgages and that DSELP loans may be used in their entirety for settlement expenses. DHCD further advises that the department can implement the bill's income eligibility requirements regarding student loan debt and take into account an eligible homebuyer's education level when issuing loans with existing resources.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - March 19, 2021
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