Senate Bill 937 – Housing and Community Development – Mortgage, Down Payment, and Settlement Expense Assistance

Position: Support

The Maryland REALTORS® supports SB 937 which seeks to increase the assistance provided by the Department of Housing and Community Development (DHCD) mortgage programs.

Specifically, SB 937 requires DHCD to incorporate student debt more directly in their consideration of applicants for Maryland Mortgage Programs, authorizes DHCD to create refinancing programs, and establishes greater downpayments for buyers.

The National Association of REALTORS® (NAR) conducts an annual survey of homebuyers and sellers and noted that first-time buyers are at a historically smaller share of the market than at any time in the last 30 years. The percentage of first-time buyers fell from an average of 40% to 33 % nationally in 2015 and has remained in the low thirties since, dropping to 31% in 2020. One of the biggest barriers to homeownership is not an individual's ability to pay mortgage rates (which are still historically low) but from saving enough money to pay down payment and closing costs.

The NAR survey stated that for first-time buyers the down payment is the third most difficult step in a home purchase. Finding the right property and understanding the process were the only two items deemed more difficult. DHCD mortgage programs, particularly their down payment programs, help homebuyers with this cash barrier to home ownership and SB 937 directs a doubling of the down payment assistance.

The Maryland REALTORS® believes increasing down payment assistance is important but would recommend giving DHCD flexibility in targeting that assistance. Two of the recommendations made in the "Maryland Housing Needs Assessment & 10-Year Strategic Plan (Housing Needs Assessment) included increasing funding for these programs and creating more flexible standards. The "Housing Needs Assessment" made clear that not all regions of the state have the same housing needs and flexibility would allow the DHCD to target their assistance to regional needs.

Importantly, the DHCD programs are not only an important tool for first-time buyers but these programs outperform the commercial market in terms of providing homeownership opportunities for people of color. 50 years after the passage of the Fair Housing Act, African-American homeownership rates still lag the white homeownership rate in Maryland by 26%. The national gap is even higher. Expanding these MMP programs can make even greater progress in closing the homeownership gap by providing the critical assistance buyers need in realizing their homeownership goals.

For these reasons, the Maryland REALTORS® recommend a favorable report.

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Exhibit 1–16 First-Time Home Buyers

(Percent of all Home Buyers)

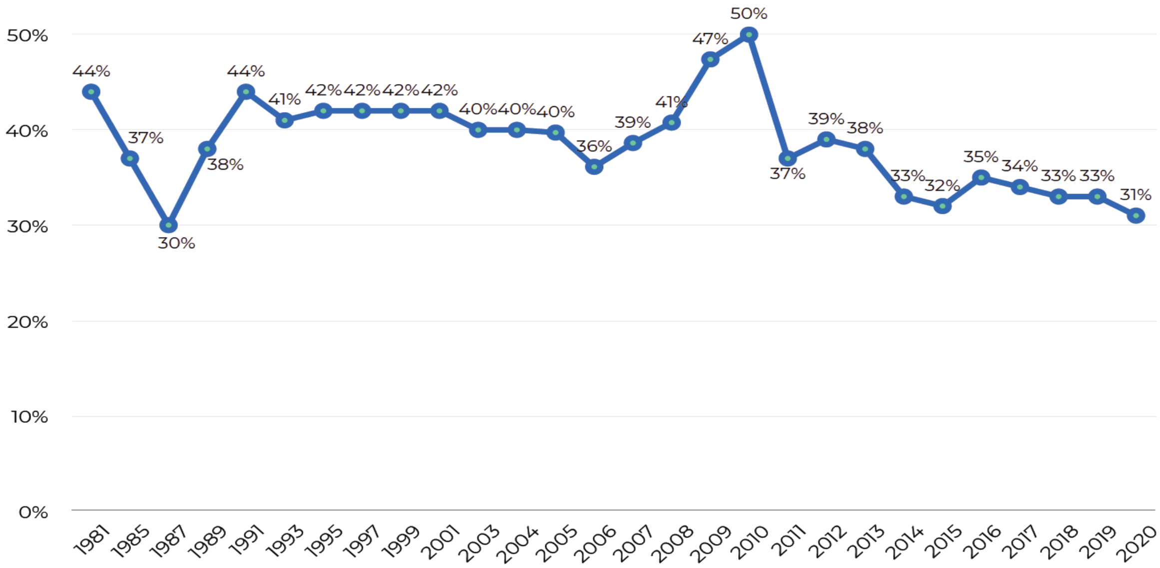

Exhibit 3–10 Most Difficult Steps of Home Buying Process by First-Time and Repeat Buyers and Buyers of New and Previously Owned Homes

(Percentage Distribution)

				BUYERS OF	
	ALL BUYERS	FIRST-TIME BUYERS	REPEAT BUYERS	NEW HOMES	PREVIOUSLY OWNED HOMES
Finding the right property	53%	56%	52%	44%	55%
Paperwork	17%	23%	15%	20%	17%
Understanding the process and steps	15%	33%	7%	15%	15%
Saving for the down payment	11%	25%	5%	10%	12%
Getting a mortgage	7%	10%	6%	9%	7%
Appraisal of the property	4%	5%	4%	3%	5%
Inability to move forward in process due to COVID-19	2%	2%	2%	3%	2%
No difficult steps	20%	9%	25%	26%	19%
Other	6%	4%	7%	7%	6%

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Uploaded by: Pickels, Hunter

Position: INFO

Maryland
DEPARTMENT OF HOUSING
AND COMMUNITY DEVELOPMENT

LARRY HOGAN
Governor
BOYD K. RUTHERFORD
Lt. Governor
KENNETH C. HOLT
Secretary
OWEN McEVOY
Deputy Secretary

DATE:	**March 23, 2021**
BILL NO.:	**Senate Bill 937**
COMMITTEE:	**Senate Education, Health, and Environmental Affairs Committee**
TITLE:	**Housing and Community Development – Mortgage, Down Payment, and Settlement Expense Assistance**
SPONSORS:	**Sen. Ellis**

Letter of Information

Description of Bill:

Senate Bill 937 1) requires DHCD to take into consideration student loan debt and educational attainment when providing down payment assistance, 2) sets a $10,000 minimum award of financial assistance from the Down Payment and Settlement Expense Loan Program (DSELP), and 3) allows DHCD to provide financial assistance from the DSELP on refinances.

Background and Analysis:

While the intent of this bill is not clear, we believe the implied goal of Senate Bill 937 is duplicative of work we are already doing to assist prospective homebuyers with significant student loan debt and the effect of its substantial unintended consequences would undermine the Department's ability to execute on our mission to assist low and moderate income first time homebuyers, resulting in fewer Maryland households being assisted and increased General Fund costs.

Expanding sustainable homeownership opportunities is a key component of the Department of Housing and Community Development's mission. The department's Maryland Mortgage Program has been the state's flagship homeownership assistance program for over 30 years. The Maryland Mortgage Program provides fixed-rate mortgages to first time homebuyers along with other down payment and closing cost assistance. Senate Bill 937 would impact the Department's use of DSELP, which is state appropriated down payment assistance, secured as a junior lien, in conjunction with a Maryland Mortgage Program first mortgage.

For many income-qualified prospective first time homebuyers, the challenges associated with saving for a down payment are significant. This is especially true in in areas with high costs of living and rents and this is the problem the Department's down payment assistance programs address by providing low or no interest deferred loans to first time homebuyers, so that they may purchase a home. In FY20, the Maryland Mortgage Program assisted more than 4,700 Marylanders in the purchase of their first home. Some form of down payment assistance was provided in conjunction with 93% of Maryland Mortgage Program loans and the average amount of down payment assistance provided was approximately $7,300 per borrower. DSELP is currently limited to the greater of $5,000 or 3% of purchase price, in order to ensure borrowers with lower mortgage amounts are able to receive necessary assistance.

This bill would increase the floor for DSELP assistance to $10,000, while leaving the funding mechanism finite. This would result about 1,250 fewer first time homebuyers receiving assistance through the Maryland Mortgage Program annually, delaying their ability to purchase a home indefinitely and, perhaps, permanently.

In addition, while this bill does not explicitly state its intent, there appears to be an attempt to connect ever increasing student loan debt with a decreased ability for young people to purchase homes. We believe this is an important consideration, which is why the Hogan Administration created the SmartBuy program in 2016 to assist Marylanders saddled with loan debt. The SmartBuy program, now in its third iteration, gives homebuyers an opportunity to purchase any home in Maryland that meets Maryland Mortgage Program guidelines while paying off the borrower's student loan debt. Eligible homebuyers must have an existing student loan debt with a minimum balance of $1,000. Maryland SmartBuy 3.0 financing provides 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. In order to reduce a borrower's overall monthly obligations, the full student debt for at least one of the borrowers must be paid off at the time of the home purchase, and homebuyers must meet all eligibility requirements for the Maryland Mortgage program.

Finally, Senate Bill 937 would not only have a significant negative impact on Maryland homebuyers, it would also strain operational funding for the Community Development Administration (CDA), which operates the Department's development finance programs. In order to compensate for DHCD Special Fund losses, as a result of this bill, DHCD anticipates that we would need to request a commensurate amount of General Funds. Based on an estimated $250 million reduction in MMP loans to first time homebuyers, we expect approximately $3 million in General Funds would be required.