

**DATE:** February 21, 2023

**BILL NO.:** Senate Bill 445

**COMMITTEE:** Senate Education, Energy and the Environment Committee

**TITLE:** Appraisal Gap from Historic Redlining Financial Assistance Program - Alterations

**SPONSORS:** Sen. Hayes

### **Letter of Support**

#### **Description of Bill:**

Senate Bill 445 would bring the Appraisal Gap from Historic Redlining Financial Assistance Program's "affordable" definition in line with existing definitions for limited income families, add the "sustainable community" definition to eligibility requirements, allow nonprofits to be eligible applicants, and allow additional input from local governments to specify areas of priority investments while expanding the list of eligible construction expenses to include infrastructure.

#### **Background and Analysis:**

With the passage of Senate Bill 859 and House Bill 1239 in the 2021 General Assembly session, the Appraisal Gap from Historic Redlining Financial Assistance Program was created within the Maryland Department of Housing and Community Development. The program provides financial assistance to affordable housing developers working in low-income census tracts in order to help close "appraisal gaps" in home values that often occur in historically redlined neighborhoods.

Because of decades of disinvestment as a result of policies that geographically reinforced racial segregation, property values for homes in these communities are significantly less than comparable properties in other areas. While these properties present opportunities for homeownership that will stabilize neighborhoods, they are often in disrepair. The appraisal gap further exacerbates disinvestment as the cost to rehabilitate these properties is significant in comparison to their appraised value, discouraging redevelopment opportunities.

The program was created to counteract the costs of rehabilitating these properties to revitalize housing stock and provide homeownership opportunities desired by local residents. Through the program, an individual or business entity that pays or incurs "eligible construction expenses" related to the construction or substantial rehabilitation of residential property in low-income areas to create affordable housing may apply for financial assistance. By supporting the rehabilitation costs, the program removes a major barrier to reclaiming these properties and making them attractive and viable as both an investment for affordable housing developers and sustainable homeownership for local residents.

Senate Bill 445 would update the program statute to synchronize State of Maryland definitions based on HUD and IRS requirements, expand eligible expenses, and provide localities with increased input on priority investment areas. Specifically, it will update the "affordable" definition to bring it in line with the IRS definition of limited income families, a requirement for the use of private, tax-exempt bonds for

mortgage financing. It would add the “sustainable community” definition to the Fund’s eligibility requirements and allow nonprofits as eligible applicants which aligns program requirements with other existing State of Maryland revitalization programs. It would additionally allow input from local governments to specify areas of priority investments and expand the list of eligible construction expenses to include infrastructure which increase feasibility for projects in areas most in need of investment. Furthermore, this update would help the program align with requirements of other future federal legislation that may be passed out of Congress in the near future, including the Neighborhood Homes Investment Act.

### **DHCD Position**

The Appraisal Gap from Historic Redlining Financial Assistance Program represents a concerted effort to reduce and reverse the results of historic policies that contributed to ongoing disinvestment in redlined communities. By clarifying definitions, expanding eligible uses, and increasing local input, this legislation will enhance the program, making it a more effective tool to achieve its stated goals. For these reasons, the Maryland Department of Housing and Community Development respectfully requests a **FAVORABLE** report.