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THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

Testimony in Support of HB 1098
Maryland Homeowner Protection Act
Testimony by Delegate Vaughn Stewart
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Introduction

Maryland is a state of extraordinary wealth and ambition. We have one of the highest median household incomes in the nation and among the most valuable housing markets in the country — with a statewide median home value now approaching \$450,000. And yet, when a Maryland homeowner faces the most frightening financial crisis of their life — a medical catastrophe, a job loss, a divorce, a business failure — our state offers them one of the weakest protections of any state in the Union.

House Bill 1098 closes that gap.

What the Bill Does

HB 1098 makes three targeted, carefully considered changes to Maryland law governing homestead exemptions in bankruptcy proceedings:

1. **Raises the exemption ceiling.** The bill sets the bankruptcy homestead exemption at \$150,000 for most Maryland homeowners — nearly five times the current cap of approximately \$31,575. For homeowners who are veterans, or who are at least 60 years old with a qualifying disability lasting 12 or more months, the exemption rises to \$300,000. These amounts will be indexed to the Consumer Price Index annually, so they will not erode with inflation as the current exemption has.

2. **Extends protection to homes held in revocable trusts.** Many Marylanders, particularly retirees and older homeowners engaged in estate planning, hold their primary residence in a revocable living trust. Under current law, a trustee in bankruptcy could argue that such a property does not qualify for the homestead exemption. HB 1098 clarifies that residential real property held in a

revocable trust by the settlor who lives there as their primary residence is entitled to the same protection as any other owner-occupied home.

3. **Clarifies joint-debtor rules.** Where multiple individuals in the same bankruptcy proceeding claim the exemption on the same property, the total combined exemption may not exceed \$300,000. This ensures equitable treatment without creating a loophole for excess protection.

The Problem: Maryland's Homestead Protection Is Deeply Inadequate

Maryland's homestead exemption in bankruptcy is currently capped at the federal inflation-adjusted floor under 11 U.S.C. § 522(d)(1) — a figure that, as of April 2025, stands at just \$31,575. For the average Maryland homeowner, that number is almost meaningless.

Consider the math. The median home value in Maryland today is approximately \$420,000 to \$450,000, depending on the data source. Most long-term homeowners carry significantly more equity than \$31,575. That means that when a Marylander who owns their home free and clear — or who has paid down most of their mortgage — is forced into bankruptcy by a medical emergency, a predatory contract, or an economic shock, a Chapter 7 trustee can liquidate their home, hand the debtor just \$31,575, pay off any mortgage balance, and distribute the rest to creditors. A family that spent 25 years building equity could lose everything above that threshold.

This outcome is not hypothetical. It is the lived experience of Maryland homeowners today, and it is the predictable result of a statutory scheme that has not been updated to reflect the reality of the modern housing market.

Maryland Lags Far Behind the Rest of the Country

The contrast between Maryland and other states is striking. A survey of homestead exemptions across the country reveals that Maryland's current protection is not merely modest — it is among the lowest in the nation, and it is wildly out of step with our housing market.

- Texas and Florida offer unlimited homestead protection in bankruptcy. A Texan or Floridian can have \$2 million in home equity and keep every dollar of it in bankruptcy proceedings.
- Massachusetts provides an automatic homestead protection of at least \$125,000, rising to \$500,000 for those who file a declaration, and also to \$500,000 for elderly or disabled homeowners.
- Montana protects up to \$350,000 in home equity.

- Mississippi protects up to \$75,000.
- Michigan protects \$40,475 for most homeowners, rising to \$60,725 for seniors and those with disabilities.
- Arizona protects \$150,000 in home equity.
- Arkansas, Iowa, Kansas, Oklahoma, South Dakota, and the District of Columbia all offer unlimited or near-unlimited protection in many circumstances.

Maryland's \$31,575 cap is not a floor — it is a ceiling, and a cruelly low one. The \$150,000 base exemption proposed in HB 1098 would bring Maryland into alignment with states like Arizona and move us meaningfully closer to the protections that our residents deserve.

Who This Affects: The Real Faces of Bankruptcy in Maryland

It is important to be clear about who files for bankruptcy in Maryland. The overwhelming majority of bankruptcy filers are not people who gamed the system or lived recklessly. They are working- and middle-class Marylanders who encountered catastrophe. The three most common causes of bankruptcy in the United States are medical debt, job loss, and divorce — events that can strike anyone, regardless of their financial discipline.

Under the current law, these individuals are forced to choose between discharging their debts and keeping their homes. That is a false choice — a policy failure that punishes misfortune rather than fraud. The home is not simply an asset to a family; it is their community, their children's school district, their support network, their stability. Forcing families to surrender the home they built over decades in order to satisfy the claims of institutional creditors is not justice. It is a wealth transfer from working families to financial institutions.

The elevated protection for veterans and seniors with disabilities recognizes a specific vulnerability. Many older Marylanders have most of their net worth tied up in a paid-off or near-paid-off home. Their income may be fixed — Social Security, a pension, disability benefits. They are not positioned to rebuild financially if stripped of their primary asset. The \$300,000 cap for this population is not a gift; it is a recognition that their home may be the only thing standing between them and destitution.

The Policy Rationale: Exemptions Serve Society, Not Just Debtors

Homestead exemptions exist not to frustrate creditors, but to prevent outcomes that are bad for society as a whole. When a family is displaced from their home in bankruptcy, the consequences are not contained to that household. Children are uprooted from schools. Neighborhoods are destabilized. Foreclosed and liquidated properties can depress local home values. Displaced families often require public assistance. The costs of homelessness — emergency shelter, social services, health system strain — fall on taxpayers.

Research consistently shows that generous homestead exemptions support economic recovery. Debtors who retain their homes after bankruptcy are better positioned to re-enter the workforce, maintain their health, and contribute to their communities. The bankruptcy system's core purpose is to give people a fresh start — not to reduce them to destitution while multi-billion-dollar creditors collect.

Maryland's current exemption structure does the opposite. It functions as a mechanism to strip equity from struggling families and redistribute it upward to institutional creditors. HB 1098 corrects that imbalance.

The Revocable Trust Clarification: Closing a Critical Gap

The bill's extension of the homestead exemption to homes held in revocable trusts addresses a legal ambiguity that has caused real harm to Maryland homeowners — particularly those engaged in sensible estate planning.

Revocable living trusts are a standard, widely recommended estate planning tool. Elder law attorneys routinely advise clients to place their primary residence in a revocable trust to avoid probate, simplify administration, and protect their heirs. There is nothing unusual or aggressive about this practice; it is conventional, prudent financial planning.

Yet under Maryland's current bankruptcy law, a homeowner who has done exactly what their attorney advised — placed their home in a revocable trust while retaining full control and continuing to live there as their primary residence — may find that their home does not qualify for the homestead exemption. This is a trap that disproportionately harms older Marylanders who followed conventional legal advice. HB 1098 eliminates that trap by making clear that beneficial ownership and continuous occupation by the settlor are what matter, not the technical form of title.

Addressing Potential Concerns

Will this harm creditors? The exemption applies only to a debtor's primary, owner-occupied residence. It does not apply to investment properties, rental properties, or second homes. Creditors retain full recourse against all non-exempt assets — vehicles, bank accounts, non-homestead real property, and personal property above applicable exemptions. The bill does not impair the ability of secured creditors to enforce valid liens. It simply ensures that the equity a family has built in their home is not the first thing sacrificed to pay unsecured debts.

Will this encourage abuse? The bill eliminates the prior provision that barred an individual from claiming the exemption if they had previously claimed it within the prior eight years. This is a reasonable modernization: the prior rule penalized people who faced multiple financial crises over time, which is not an uncommon experience for those dealing with serious illness, disability, or prolonged unemployment. Bankruptcy courts have robust tools to address fraud and abuse, including clawback provisions and objections to claimed exemptions.

Are the new amounts fiscally responsible? Yes. A \$150,000 base exemption is calibrated to protect a meaningful share of a typical Maryland homeowner's equity without providing blanket immunity from debt. Against a median home value of roughly \$420,000 to \$450,000, this exemption protects about a third of a typical home's value — a reasonable balance between debtor protection and creditor recovery. The CPI-indexed adjustment mechanism ensures the amounts do not become obsolete again.

Conclusion

Maryland is a wealthy state that asks a great deal of its residents. We have high home prices, high property taxes, and a high cost of living. We ask our residents to invest in their communities and their homes. We should not then strip them of that investment the moment financial hardship strikes.

The homestead exemption is not a handout. It is a recognition that a home is different from a car or a savings account — that the family home is the foundation of stability, the anchor of a household's economic and social life. Every state in our region and most states in the country have recognized this truth with far more generous protections than Maryland currently provides.

House Bill 1098 does not ask Maryland to become Texas or Florida. It asks Maryland to stop being an outlier — to give hardworking, homeownership Marylanders a fighting chance to keep the homes they built, even in the worst moments of their financial lives. It is a modest, targeted, carefully drafted bill that will make a real difference for real families.

I urge the Committee to vote favorably on HB 1098.