

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE

Third Reader - Revised

House Bill 106

(Chair, Environment and Transportation Committee)(By
Request - Departmental - Housing and Community
Development)

Environment and Transportation

Education, Health, and Environmental Affairs

**Department of Housing and Community Development - Homebuyer Education
Requirements**

This departmental bill modifies the homebuyer education requirement of the Down Payment and Settlement Expense Loan Program (DSELP) such that a program participant must only complete a homebuyer education requirement that meets the requirements of the Department of Housing and Community Development (DHCD) in order to access program funds. The bill also specifies requirements that DHCD's homebuyer education program must meet, including that a loan recipient receive homebuyer education before signing a contract of sale. The bill specifies that State law does not alter or preempt the authority of a political subdivision to establish homebuyer education or counseling requirements for a down payment assistance program operated by the political subdivision. Finally, the bill authorizes DHCD to use the Housing Counseling and Foreclosure Mediation Fund to support housing counselors and other nonprofit entities that provide homebuyer education, housing advice, or financial counseling to low- and moderate-income households.

Fiscal Summary

State Effect: Nonbudgeted revenues and expenditures for the Maryland Mortgage Program (MMP) within DHCD decrease, potentially significantly, due to an anticipated reduction in the number of homebuyers receiving assistance from the program. DHCD can handle any administrative changes resulting from the bill with existing resources.

Local Effect: None.

Small Business Effect: DHCD has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: DHCD's homebuyer education requirements must:

- allow a program loan recipient to use the online homebuyer education for a product approved by the federal Department of Housing and Urban Development (HUD) and contact a HUD-approved counseling agency to receive a certificate;
- enable one political subdivision's certificate to be used in another political subdivision; and
- require a program loan recipient to receive homebuyer education before signing a contract of sale.

Current Law:

Down Payment and Settlement Expense Loan Program

DSELP 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.

Recipients of a program loan are required to complete homebuyer education that meets the requirements of DHCD. However, if the political subdivision in which a loan recipient will use the loan administers its own down payment or settlement expense loan program that also requires homebuyer education, then the loan recipient must complete the more stringent local homebuyer education requirement.

Housing Counseling and Foreclosure Mediation Fund

The Housing Counseling and Foreclosure Mediation Fund supports a number of services related to home purchases and foreclosure activities, including supporting nonprofit and government housing counselors and other nonprofit entities with providing (1) legal assistance to homeowner or occupants who are trying to avoid foreclosure or manage foreclosure proceedings and (2) homebuyer education, housing advice, or financial counseling for homeowners and prospective homeowners.

Maryland Mortgage Program

MMP, administered by the Community Development Administration within DHCD, 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.”

“Targeted Areas” are established by the U.S. Census Bureau and are geographic zones inside of which there are fewer restrictions for homebuyers using MMP. Maryland’s counties fall into three categories when it comes to Targeted Areas: some counties are fully Targeted Areas; some counties have no Targeted Areas in them at all; and other counties have some areas that are Targeted Areas, and others that are not. The **Appendix – Maryland Mortgage Program Income Limits** shows income limits by county and by Targeted Areas.

Background:

Down Payment and Settlement Expense Loan Program

The department advises that altering the education requirement for the program creates a single standard across the State for accessing required counseling. Currently, if a county operates a program that has a housing counseling requirement that is more stringent than DHCD’s standard, the county requirement becomes the *de facto* State requirement in that jurisdiction, even if the borrower is only seeking State funds. DHCD advises that the current requirement leads to a patchwork of requirements to access State funds, depending on where the homebuyer is purchasing a home. Moreover, in some situations, if a homebuyer completes an education program in one county but chooses to purchase in another county, the homebuyer might not qualify for assistance. Thus, the department advises that the bill standardizes education requirements for accessing State funds; county requirements for accessing county funds are not affected under the bill.

Housing Counseling and Foreclosure Mediation Fund

Currently, counseling that is funded through the Housing Counseling and Foreclosure Mediation Fund is available only to homeowners and prospective homeowners. DHCD believes that, by expanding the purpose for which existing funds can be used to include low- and moderate-income Marylanders, the department can increase financial literacy in the State and prepare participants for future homeownership.

State Fiscal Effect: According to DHCD, the bill's requirement that a homebuyer receive housing counseling *prior* to signing a sale of contract in order to participate in DSELP could significantly decrease the number of program participants in MMP and, thus, significantly affect nonbudgeted revenues and expenditures for MMP.

DHCD advises that there are currently two jurisdictions in the State that require a borrower to receive housing counseling *prior* to signing a contract in order to receive DSELP under MMP. However, the bulk of the MMP portfolio is comprised of program participants who received housing counseling *after* signing a contract.

Typically, a prospective homebuyer finds a home, signs a contract (pending financing), and then arranges for financing. Under this common scenario, most prospective buyers do not know about MMP until speaking with a lender about financing. If, at that point, they have already signed a contract, they are then precluded from the program under the bill. In theory, the buyer could seek to have the contract amended, but many sellers may not agree to do so in a seller's market.

DHCD estimates that mortgage issuances under MMP could decrease significantly as a result of the bill's requirement. Although a precise estimate cannot be made at this time, DHCD expects about 750 fewer homebuyers to participate in the program under the bill.

In addition, DHCD also anticipates expanding MMP's marketing budget in order to reach potential buyers before they sign a contract; currently, MMP's marketing budget is primarily focused on informing lending partners about program requirements and providing them with information to pass on to consumers seeking mortgage financing.

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 27, 2017
fn/mcr Third Reader - April 3, 2017
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Appendix – Maryland Mortgage Program Income Limits

County	Targeted Area	Household Size	Income Limits		Maximum Prices	
			Nontargeted	Targeted	Nontargeted	Targeted
Allegany	Full	1 or 2		\$107,400		\$289,705
		3 or more		125,300		
Anne Arundel	Partial	1 or 2	\$104,040	107,400	\$429,620	525,091
		3 or more	121,380	125,300		
Baltimore City	Full	1 or 2		107,400		525,091
		3 or more		125,300		
Baltimore	Partial	1 or 2	104,040	107,400	429,620	525,091
		3 or more	121,380	125,300		
Calvert	No	1 or 2	130,320		429,620	
		3 or more	152,040			
Caroline	Full	1 or 2		107,400		289,705
		3 or more		125,300		
Carroll	No	1 or 2	104,040		429,620	
		3 or more	121,380			
Cecil	No	1 or 2	89,500		346,601	
		3 or more	102,925			
Charles	No	1 or 2	130,320		429,620	
		3 or more	152,040			
Dorchester	Full	1 or 2		107,400		289,705
		3 or more		125,300		
Frederick	Partial	1 or 2	130,320	130,320	429,620	525,091
		3 or more	152,040	152,040		
Garrett	Full	1 or 2		107,400		312,368
		3 or more		125,300		
Harford	Partial	1 or 2	104,040	107,400	429,620	525,091
		3 or more	121,380	125,300		
Howard	No	1 or 2	104,040		429,620	
		3 or more	121,380			
Kent	Full	1 or 2		107,400		335,301
		3 or more		125,300		
Montgomery	Partial	1 or 2	130,320	130,320	429,620	525,091
		3 or more	152,040	152,040		
Prince George's	Partial	1 or 2	130,320	130,320	429,620	525,091
		3 or more	152,040	152,040		
Queen Anne's	No	1 or 2	104,040		429,620	
		3 or more	121,380			
St. Mary's	No	1 or 2	97,000		327,470	
		3 or more	111,550			
Somerset	Full	1 or 2		107,400		361,611
		3 or more		125,300		
Talbot	No	1 or 2	89,500		334,125	
		3 or more	102,925			
Washington	Partial	1 or 2	89,500	107,400	255,574	312,368
		3 or more	102,925	125,300		
Wicomico	Partial	1 or 2	89,500	107,400	295,863	361,611
		3 or more	102,925	125,300		
Worcester	No	1 or 2	89,500		298,193	
		3 or more	102,925			

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: DHCD – Housing Counseling

BILL NUMBER: HB 106

PREPARED BY Department of Housing and Community Development

PART A. ECONOMIC IMPACT RATING

X 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