



Howard County

Internal Memorandum

Subject: Testimony – Revisions to Settlement/Downpayment Loan Program

To: Lonnie R. Robbins, Chief Administrative Officer

From: Stacy L. Spann, Director
Housing and Community Development

Date: August 27, 2009

Council Resolution 80 -2009 approves revisions to the rules governing the Settlement/Downpayment Loan Program (“SDLP”) which, among other things, (a) creates five new loan product types; (b) creates four tiers of income eligibility, from 80% of the Baltimore regional median income to 110% of the Howard County median income; (c) increases the maximum purchase price; (d) increases loan amounts to up to \$40,000; (e) defers loan repayments until resale, refinance or default; and (f) creates a “workforce initiative” loan for Howard County workers that can be forgiven in 10 years.

Background

The SDLP program rules, which establish the criteria and procedures for settlement expense loans for first-time homebuyers, were first enacted in 1992 (CR 46-1992), and revised in 1996 (CR 38-1996), 1998 (CR 102-1998), and 2000 (CR 152-1999). Since 1992, the Department has lent \$2,506,390 and made 1,180 SDLP loans.

Since FY03, however, the program has made only 15 loans due, in large part, to the explosion in home prices and settlement costs. With its limited loan amounts, purchase price limits, and other restrictive requirements, the program simply did not keep pace with the changing market.

The Proposed Revisions

The proposed program revisions expand its scope and offer would-be homebuyers a choice of five different loan products, depending on the homebuyer’s income and circumstances, such as:

- The “HomeStarter” Loan provides settlement and downpayment assistance of up to \$40,000 to families with incomes at or below 80% of the Baltimore area median income (currently about \$64,000 for a family of four) who are purchasing a home for the first time;
- First-time homebuyer families with incomes at or below 80% of the Howard County median (currently about \$81,338 for a family of four) can obtain a “HomeSteadier” Loan of up to \$25,000 for settlement and downpayment costs;

- The “DreamMaker” Loan can assist first-time homebuyers with incomes as high as 100% of the Howard County median (\$101,672 for a family of four) by paying up to \$15,000 of their settlement and downpayment costs.

In addition, the new SDLP program will offer a new loan product geared specifically for those who work in Howard County. For any family with at least one member working full-time in Howard County, the “Workforce Initiative” Loan will pay the buyer’s transfer and recordation taxes up to a maximum of \$4,300. For these loans, the homebuyer’s income can be as high as 110% of the County median (currently \$111,840 for a family of four) and the borrower need not be a first-time homebuyer.

Additionally, in order to address those areas of the County impacted by high foreclosure rates, the new SDLP program will offer the “Revitalization” Loan. With this product, a homebuyer seeking to purchase a property that is being foreclosed can receive a loan of up to \$25,000 to be used toward settlement expenses and/or downpayment. For these loans, the homebuyer’s income can be as high as 110% of the County median (currently \$111,840 for a family of four) and the borrower need not be a first-time homebuyer. By providing these loans, we can both assist the individual homebuyer and preserve homeownership in communities that have been affected by the foreclosure crisis.

For each of the five loan products, repayment of the loans is deferred until resale, refinance or default. Interest rates are set at 2% below the rate of the first mortgage, except that the Workforce Initiative Loan rate is 0%. In addition, the Workforce Loan is reduced by 10% each year and forgiven after 10 years.

All SDLP loans may be used to purchase homes of up to \$429,620 in price. Borrowers must agree to occupy the home as their primary residence.

If approved by the County Council, the program will begin offering loans in October. The Department has initially set aside \$500,000 to fund the program in FY2010. Interested borrowers will be able to apply directly to participating first mortgage lenders.

Attached are (a) a chart describing the major differences between the old and new programs, and (b) a chart of the income limits for the proposed SDLP program.

Fiscal Impact

The Department anticipates \$500,000 in loan disbursements in FY2010. Loan funds are derived from the Department’s Community Renewal Fund, which is made up entirely of transfer tax revenues dedicated to housing programs.

The Howard County Department of Housing and Community Development recommends approval of this legislation.

cc: Ken Ulman, County Executive
Jennifer Sager, Legislative Coordinator