



# SENATE OPERATING BUDGET HEARING

Thursday, February 11, 2016

# HOUSE OPERATING BUDGET HEARING

Thursday, February 18, 2016

---

Presentation by the

Maryland Department of Housing and Community Development

Secretary: Kenneth C. Holt

Deputy Secretary: Ellington E. Churchill Jr.



100 *Community Place* • *Crownsville, MD 21032*  
1-800-756-0119 • [www.mdhousing.org](http://www.mdhousing.org)

LAWRENCE J. HOGAN JR.  
*Governor*

BOYD K. RUTHERFORD  
*Lt. Governor*

KENNETH C. HOLT  
*Secretary*

**Table of Contents**

**DHCD Highlights** ..... 2

**Recommended Budget Reduction** ..... 3

    1. Contractual cost increase related to 2.5 new contractual full-time equivalents..... 3

**Issues** ..... 4

    1. Energy Audit Finds Unethical Practices at Weatherization Agencies..... 4

    2. Loan Tracking Software Enters Fourth Decade..... 6

    3. Provide Unique Subprogram Codes for All Department Programs..... 7

    4. Foreclosure Rate Remains High ..... 7

**Appendices**

- **Economic Impact of DHCD’s Programs**
- **Maps of DHCD Program Activity**

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Response to Department of Legislative Services (DLS) FY 2017 Operating Budget Analysis*

**DHCD Highlights**

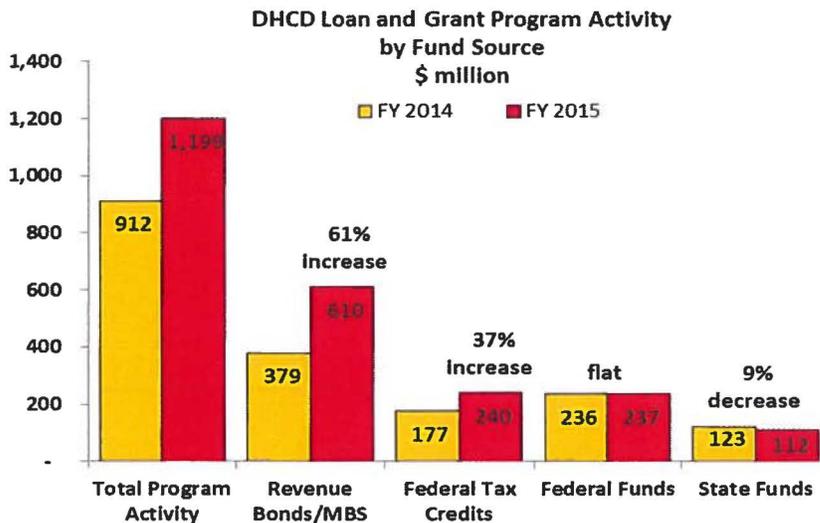
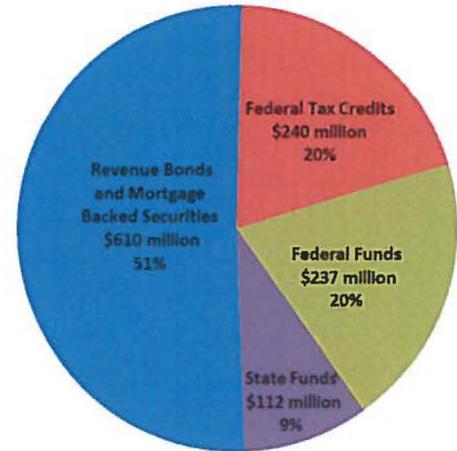
**DHCD works with partners** to finance and support affordable and energy-efficient homeownership, rental housing, small businesses, neighborhood revitalization and municipal infrastructure projects that change Maryland for the better.

**DHCD is unique in its ability to leverage limited State funds to raise significant amounts of private capital** -- spurring economic growth, creating jobs, providing safe affordable rental housing and sustainable homeownership while also revitalizing communities.

**State funds have comprised less than 10% percent of DHCD's total loan and grant program activity for the past five years**, enabling DHCD to generate a total of \$4.6 billion worth of housing, small business, local government infrastructure and revitalization financing using only \$430 million of State funds. FY 2015 program activity by fund source is shown on the chart.

**DHCD's \$1.2 billion of FY 2015 program activity was 31% higher than FY 2014's \$0.9 billion.** The FY 2015 increase was due a 61% increase in capital raised through revenue bond and mortgage-backed securities and a 37% increase in Federal tax credit equity investment, offset by a 9% reduction in State funds.

**FY 2015 Loan and Grant Program Activity**



**DHCD's programs consistently generate significant total economic impact for Maryland using limited State funding.** In FY 2015, every dollar of State funding generated \$23 of economic impact in Maryland - \$2.6 billion in total, supporting more than 16,000 jobs and generating over \$45 million in State and local tax revenues. The additional activity from non-State fund sources generated more economic impact than in FY 2014, when there was economic impact of \$17 per dollar of State funding and total economic impact of \$2.0 billion.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Response to Department of Legislative Services (DLS) FY 2017 Operating Budget Analysis*

**FY 2016 program activity is on pace for further significant increases, particularly in multifamily and single family housing.** In the first 6 months of FY 2016, DHCD financed 3,535 affordable rental housing units, 19% more than the 2,965 units financed during the whole of FY 2015. Year to date Maryland Mortgage Program loan activity is also up 57% compared to FY 2015. The bulk of this higher FY 2016 activity is again funded through revenue bonds and mortgage-backed securities.

**DHCD's revenue bond and mortgage-backed security issuances and portfolios are self-supporting, without any debt service costs to the State or operating cost burden to taxpayers.** The capital raised by DHCD through its revenue bond and mortgage-backed securities issuances amounts to half of the total capital raised by the State of Maryland through its General Obligation Bond issuances during the same period, with no debt services costs to the State or reliance on the good faith and credit of the State.

DHCD also manages a \$3 billion portfolio of Community Development Administration assets and liabilities, including single family and multifamily mortgage revenue bonds with underlying mortgage-backed securities, mortgage loans and investments. DHCD has a fiduciary responsibility to private market investors to carry out ongoing transactional servicing and portfolio management of these asset and debt securities, provide U.S. Securities and Exchange Commission-mandated disclosures and ensure federal tax law compliance for up to 30-40 years. DHCD also manages a \$745 million portfolio of State and federally-funded loans.

**DHCD has achieved these FY 2015 results and carried out the ongoing portfolio management with just over 400 positions. In FY 2015 alone, almost \$3 million of new program activity was generated per DHCD authorized position.**

**In addition, DHCD's administrative expense ratio (administrative operating expenses as a percentage of loan and grant program activity) is consistently less than 5%, with no General Funds used to support personnel or other operating costs that cover new production and asset management of the existing portfolio.**

### **Recommended Budget Reduction**

1. **Contractual cost increase related to 2.5 new contractual full-time equivalents (pages 4 & 17 of DLS Operating Analysis)**

**DLS Recommendation:** The Department of Legislative Services (DLS) recommends deleting \$125,000 in special funds intended for the increase in Object 2 contractual costs due to 2.5 contractual full-time equivalents that are unjustified.

**DHCD Response:** DHCD respectfully **does not concur** with the recommendation to cut \$125,000 of Special Fund costs for the additional 2.5 full-time equivalents in the FY 2017 Governor's Allowance.

**DHCD believes that the \$300 million increase in FY 2015 program activity and the anticipated significant additional increase in FY 2016 activity described in the previous DHCD Highlights section provide very strong justification for the very modest 4% increase of 2.5 contractual FTE.**

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Response to Department of Legislative Services (DLS) FY 2017 Operating Budget Analysis*

The 2.5 contractual positions include 2 Loan/Insurance Underwriter II Multi-family and an increase from a part time to a full time contractual position in the Division of Credit Assurance for an Administrative Specialist II.

Loan/Insurance Underwriter Multi-family

The Multifamily Loan Insurance Underwriters in the Division of Development Finance are responsible for underwriting financing for all DHCD rental housing financing programs, including: The Emergency Shelter and Transitional Housing Grant Program; Partnership Rental Housing Program; Multifamily Energy Efficiency and Housing Affordability Program; Multifamily Bond Program; HOME loans; FHA Risk Share program; and all Rental Housing funds.

Administrative Specialist III

The REO (Real Estate Owned) Assistant provides administrative support to the REO Manager; develops and maintains the REO database; tracks REO valuations, rehabilitation of properties and management of the properties by the REO sales contractors. This position also assists with property inspections to determine what remediation is needed in order to market and sell the property. This position also serves as the liaison between REO Manager, staff and contractors.

Issues

1. **Energy Audit Finds Unethical Practices at Weatherization Agencies** (*pages 3, 13-16 of DLS Operating Budget Analysis*)

**DLS Recommendations:** DHCD should comment on the DOE audit findings and provide to the committees any further changes it has made to the operations of any energy programs. DHCD should also comment on the increasing size of its energy efficiency portfolio and its ability to provide energy efficiency services to the State.

**DHCD Response:** DHCD has reached an agreement with the Department of Energy regarding the Office of Inspector General findings. **DHCD and the Department of Energy have agreed that non-federally funded weatherization work meeting the standards and requirements of the Department of Energy Weatherization Assistance Program will be credited to resolving the audit findings of \$1.8 million.**

DHCD has a legacy of successfully providing weatherization assistance to eligible Maryland citizens since 1987. **The Department of Energy continued to fund the Department because of its history of quality production and continued improvement of weatherization services to Maryland's energy burdened low-income residents.** Since 2009, the Department has provided comprehensive and cost-effective energy retrofits for over 30,000 low-income Maryland households.

**In October of 2015, the Department of Energy awarded \$4.7 million of Weatherization Assistance Program funds to the Department, based upon DHCD's internal control improvements. The Public Services Commission confirmed their confidence in the Departments services in May 2015, by ordering the continuation for the Department to administer the low-income weatherization services for EmPOWER's Limited Income Energy Efficiency Program.**

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Response to Department of Legislative Services (DLS) FY 2017 Operating Budget Analysis*

DHCD had already begun making improvements, including mandatory retraining of administrative and financial staff for our Local Weatherization Agencies and changes requiring improved recordkeeping and submission of financial reports.

**DHCD made significant staffing improvements in the Energy unit. Since April 2015, the Department has hired a new Director, Deputy Director, Senior Program Manager, Compliance Officer, and reassigned an existing position to assist the Compliance Auditor. DHCD has also retrained qualified staff to create capacity for growth and full compliance in the programs.**

In the fall of 2015, the Department sent staff to a training workshop regarding Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and to the National Association for State Community Services Programs conference to strengthen their understanding of programmatic and fiscal responsibilities for the Department of Energy Weatherization Assistance Program on a national level.

DHCD currently maintains a schedule for on-site compliance visits that requires comprehensive programmatic and fiscal monitoring. This ensures prompt adherence to Federal regulations. DHCD also continues to work closely with Department of Energy Program Officers through bi-weekly conference calls and in-person meetings on a quarterly basis.

**In August 2015, the Department completed the Maryland Weatherization Program Operations Manual, which was reviewed by Department of Energy officers and approved as meeting all program requirements.** It includes detailed sections addressing financial management regulations and technical specifications. This manual is part of a collection of program guidelines and governing documents outlined in each contractual agreement with our sub-grantees.

**DHCD instituted changes in the Department's grant agreement which requires adequate staffing to enforce sub-contractors to retain control and responsibility for all activities instead of sub-contracting certain tasks with limited liability. The grant agreement changes also require enforcement of the Department of Energy's flow down provisions to retain control and responsibility for all activities instead of sub-contracting certain tasks.**

**All of these policy changes have been reviewed and approved by the Department of Energy.**

Additionally, to better prepare the Department staff members who conduct the monitoring of sub-grantees, the Department procured the services of a financial training consultant from the Department of Energy for further assistance. Specifically, the Department of Energy consultant discussed the uniform administration requirements, cost principles and audit requirements for federal awards with Compliance Auditors and also reviewed and provided positive feedback on the Department's updated Program Operations Manual. DHCD has a request pending for additional training and technical assistance from the Department of Energy consultant for continuing education to allow for immediate responses to inquiries and additional third-party verification to ensure processes are implemented correctly.

A network meeting was provided to all of our network partners. Training was designed to prepare business owners, directors, and managers to effectively implement the programs. DHCD staff provided training covering the new job cost caps, how to use the new price list, utility usage verification process, how to enhance homeowner education, and discussed the upcoming program goals. In total, over 175 energy efficiency professionals attended the network training.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Response to Department of Legislative Services (DLS) FY 2017 Operating Budget Analysis*

In order to meet the production goals set forth by Department of Energy and the Public Service Commission, the Department staff has engaged local governments, non-profit organizations, and other groups who work with or advocate on behalf of low income Marylanders. These efforts have already increased participation in both programs.

DHCD also increased the number of network partners implementing the program. DHCD issued a Request for Proposals to build a network adequate enough to successfully implement both programs. For the Department of Energy program the Department selected eight non-profit organizations. For the Public Service Commission EmPOWER program, 16 groups were selected. DHCD believes it has the adequate resources in place to effectively implement and manage its weatherization programs.

**2. Loan Tracking Software Enters Fourth Decade** *(pages 3 & 16 of DLS Operating Budget Analysis)*

**DLS Recommendations:** DHCD should comment on the status of the RFP for new single-family loan tracking software.

**DHCD Response:** DHCD is finalizing the scope of services and expects to submit the draft Request for Proposals to the Department of Information Technology by the end of February. It will be published as soon as their review is complete and is expected to be awarded this summer.

The functionality of the current software is much broader than single-family loan tracking and includes other vital functional areas for the Department such as (1) single family loan origination and ongoing loan administration and servicer reconciliation; (2) general ledger, investment and mortgage-backed security management, bond portfolio management and debt service, cash management and trustee bank reconciliation for all of the Community Development Administration multifamily and single family revenue bond and mortgage-backed securities programs; and (3) foreclosure and insurance management for asset management and accounting for the Maryland Housing Fund mortgage insurance program. The software enables the Department to perform daily and monthly processing of its loan administration, investment and debt management transactions with direct reconciliation through data interface with its trustee bank.

These software modules were originally implemented in 1985 and since then underwent considerable amount of business intelligence development and customization to fit the complex computing needs of the housing finance agencies nation-wide and specifically the Department. All software modules are updated semi-annually by the vendor to incorporate changes within the national industry of State Housing Finance Agencies, as well as to incorporate technology enhancements.

The software modules have been modified on a regular basis to incorporate enhancements specifically requested by the Department, plus enhancements required by other Housing Finance Agencies. These enhancements have been developed according to customer specifications, and generally these enhancements are then absorbed into the base-code of their software. This has enabled the software modules to meet the current unique functional needs for Housing Finance Agencies. DHCD relies on these software solutions to ensure uninterrupted delivery of accurate monthly, quarterly and annual required reports to the SEC, IRS, national rating agencies and State auditors used in the preparation of the Comprehensive Annual Financial Report.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Response to Department of Legislative Services (DLS) FY 2017 Operating Budget Analysis*

**3. Provide Unique Subprogram Codes for All Department Programs:** *(pages 4 & 17 of DLS Operating Budget Analysis)*

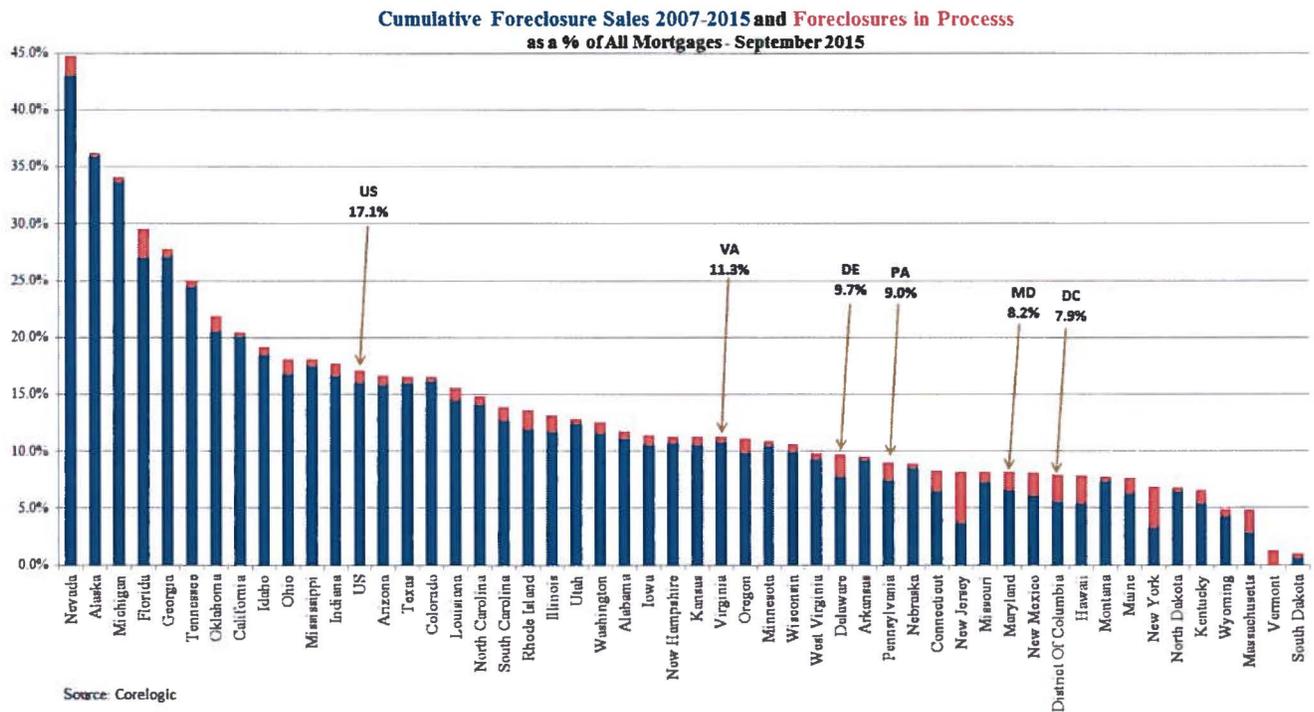
**DLS Recommendations:** DHCD should provide all programs with a unique, eight-digit program and subprogram code in its budget preparation beginning with the fiscal 2018 budget. The budget committees are concerned about the Department of Housing and Community Development’s budgeting process and a potential lack of transparency due to many programs not having their own eight-digit program and subprogram code.

**DHCD Response:** DHCD concurs with the recommendation and will implement these changes for the FY 2018 budget, utilizing alpha codes in the subprograms to work around the current numeric limitations. There should be no concerns about transparency, since DHCD maintains accounting and budget records at the PCA level for all programs in the State’s Financial Management Information System and can readily report on them as required in the interim.

**4. Foreclosure Rate Remains High** *(page 18 of DLS Operating Budget Analysis)*

**DHCD Response:** Contrary to press reports based upon Realty Trac data which show Maryland foreclosures at a high level, Maryland Judiciary court data shows that new foreclosure filings continue to decline from the high levels of calendar 2013 – dropping by 20% in 2014 and another 14% in 2015.

The cumulative CoreLogic Foreclosure Sales and Foreclosures in Process chart below also shows that Maryland has been impacted less by foreclosures relative to the nation as a whole, as well as to neighboring states. The lower the State’s ranking on this chart, the more likely it is that homeowners have remained in their home – Maryland’s ranking is the 13<sup>th</sup> best in the nation.



**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Response to Department of Legislative Services (DLS) FY 2017 Operating Budget Analysis*

RealtyTrac’s Foreclosure Events statistics overstate foreclosures by counting the same foreclosure multiple times during the foreclosure process – at the time of the initial foreclosure filing (Notice of Default), if there is a foreclosure sale (Notice of Sale) and again if the lender rather than a third party purchases the property at foreclosure sale (Lender Purchase), while the CoreLogic cumulative foreclosure statistic shows a more accurate picture of completed and in-process foreclosures since 2007.

**DHCD believes that Maryland’s positive foreclosure sale standing relative to neighboring states and the nation is due to:**

- The fact that Maryland homeowners have the time to work with lenders, and
- That homeowners at risk of foreclosure have been encouraged through DHCD outreach and support of housing counseling and legal services to:
  - Participate in programs that provide sustainable alternatives to foreclosure, and
  - Obtain better outcomes by having the support of these advocates.

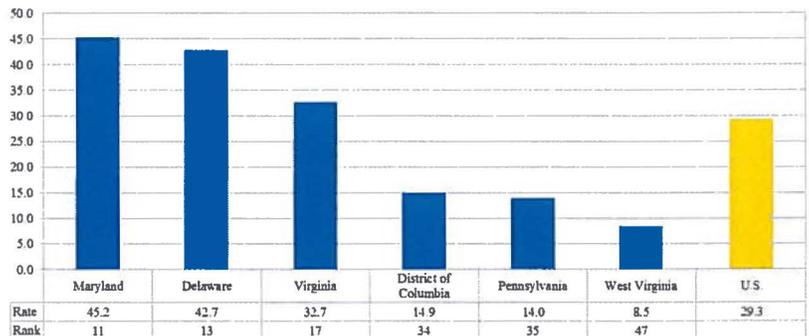
**DHCD’s investment in locally-based housing counseling has been critical to helping so many homeowners achieve the best available outcome** and continued support of these programs remains an essential component of achieving the best outcomes for Marylanders as lenders work through the foreclosure pipeline. Consistent with prior studies, a December 2014 study conducted by the Urban Institute on the impact of housing counseling on households in danger of foreclosure shows that *housing counseling continues to result in significantly better outcomes for counseled homeowners than non-counseled homeowners:*

- Counseled homeowners are nearly three times as likely to receive a loan modification compared to non-counseled households
- Counseled homeowners are 70 percent more likely to remain current on their mortgage after receiving a loan modification.

As shown by the following charts, Maryland has consistently achieved high national ranking with respect to consumer relief, while having only 2.5% of nationwide mortgages. As a result, over 30% of Maryland homeowners have been able to obtain a mortgage loan modification or refinance their mortgage *during a period of historically low interest rates.*

**Cumulative Non-Government Bank Mortgage Modifications per 1,000 Households  
December 2009 through September 2015**

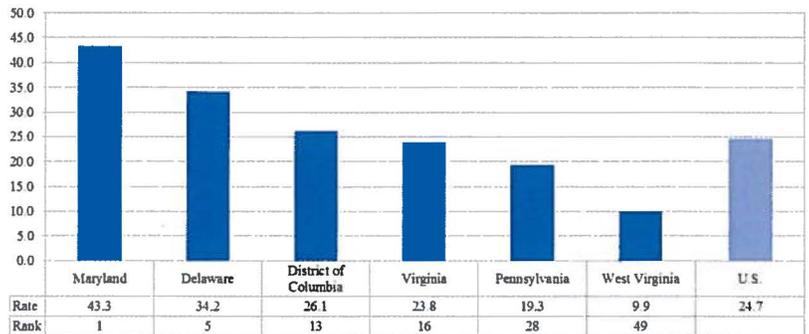
HOPE NOW ranks *Maryland 1st in the nation in the percentage of homeowners who have received non-government private bank modifications* for the period from 2009 to September 2015 with 92,158 Maryland homeowners receiving a modification which are not part of government programs.



**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Response to Department of Legislative Services (DLS) FY 2017 Operating Budget Analysis*

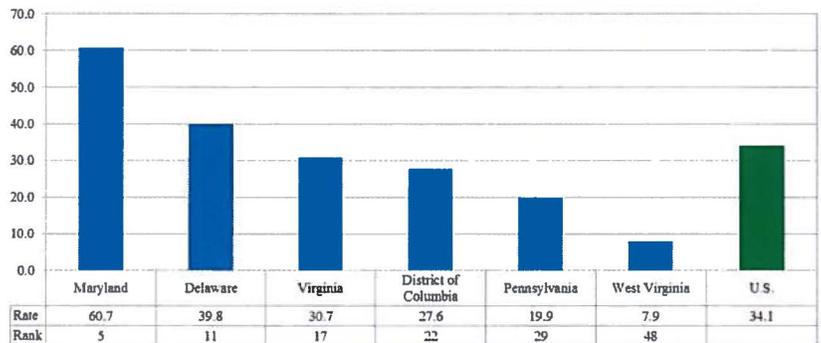
Cumulative HAMP Mortgage Modifications per 1,000 Households  
 January 2009 through September 2015

*Maryland has the 5th highest utilization rate in the United States of the federal Home Affordable Modification Program (HAMP), with Maryland homeowners benefiting from 129,156 HAMP modifications, according to the US Treasury.*



Cumulative HARP Mortgage Refinances per 1,000 Households  
 March 2009 through September 2015

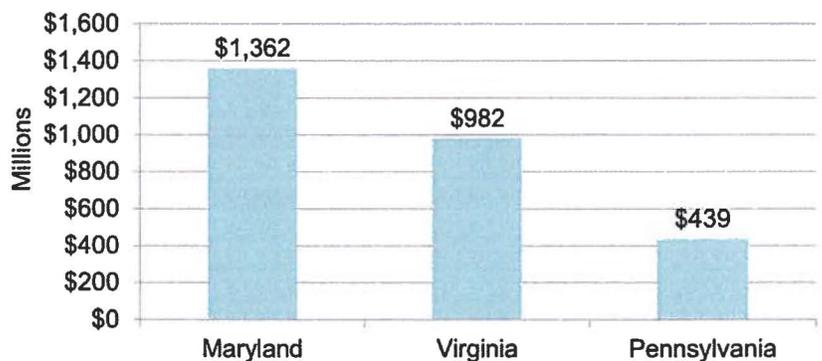
The Federal Housing Finance Agency reported that *Maryland has the 11th highest nationwide utilization rate of the federal Making Home Affordable mortgage refinancing program, the Home Affordable Refinance Program (HARP), with 96,206 Maryland homeowners using HARP.*



The HARP program made it possible for “underwater borrowers” (who owed more on their mortgages than the resale value of the home) to refinance and benefit from historically low interest rates. This made their mortgage more affordable and also decreased the possibility of strategic defaults, where homeowners walk away from their mortgages and homes.

Direct Financial Relief from  
 National Attorney General Mortgage Settlement  
 March 2012 through March 2014

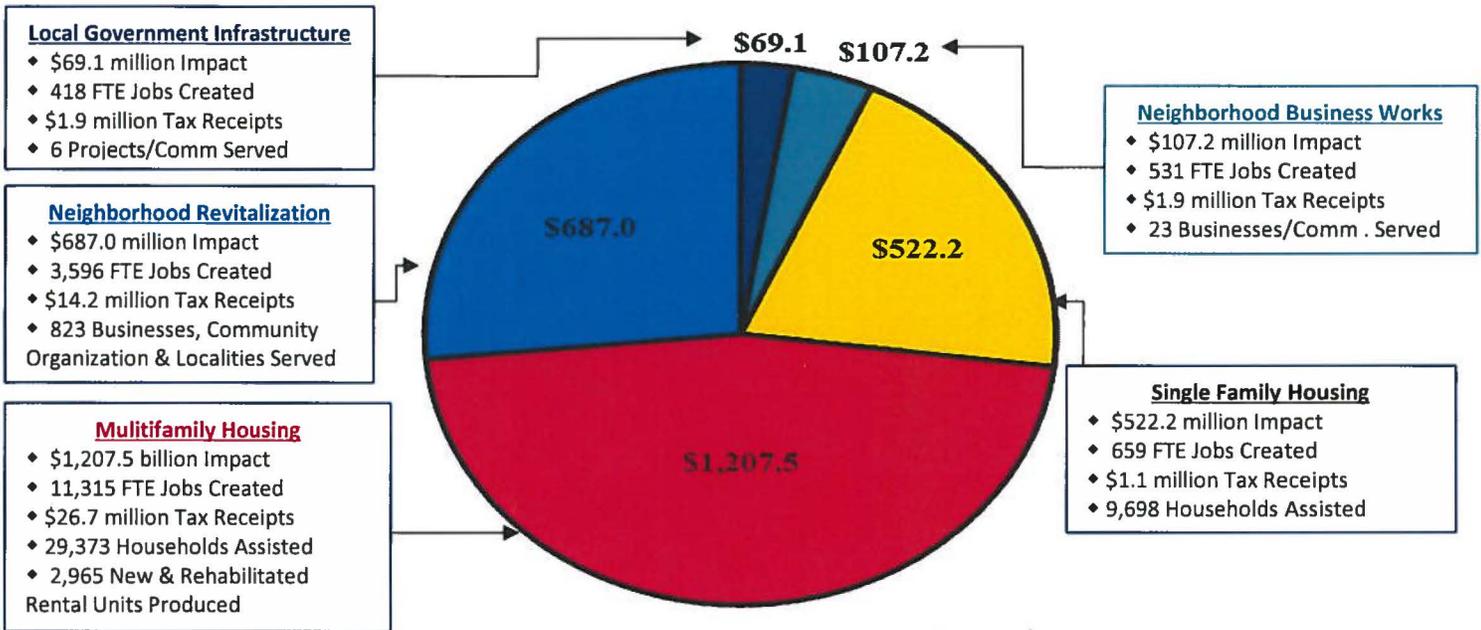
The Office of Mortgage Settlement Oversight report showed that *direct relief to Maryland homeowners as a result of the National Attorney General Mortgage Settlement is roughly equivalent to the relief received in Pennsylvania and Virginia combined, despite the fact that these two states together have almost three times as many mortgages as Maryland.*



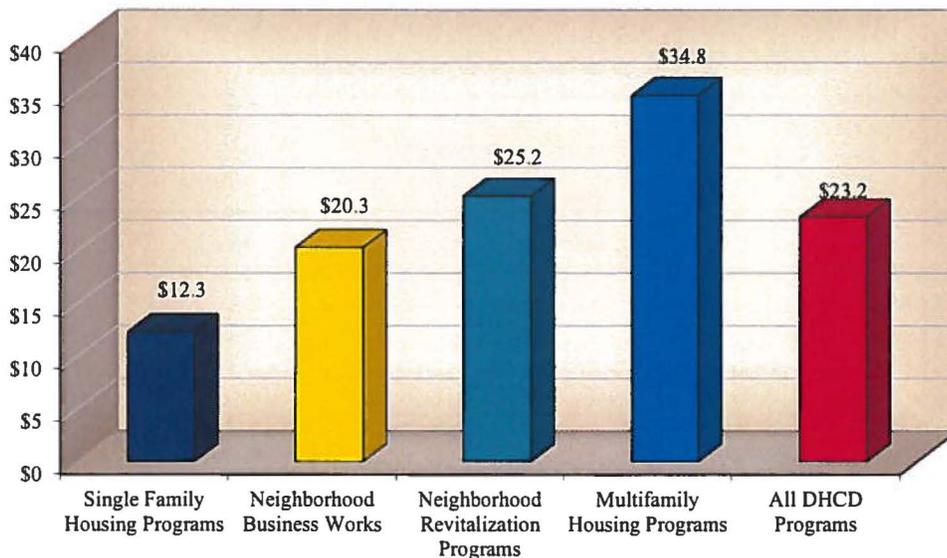
*In the end, \$1.3 billion in relief was received by Maryland homeowners from mortgage servicers and lenders - an additional \$500 million, or 60% higher than the initial estimate.*

# ANNUAL ECONOMIC IMPACT OF DHCD PROGRAMS 2015 FISCAL YEAR

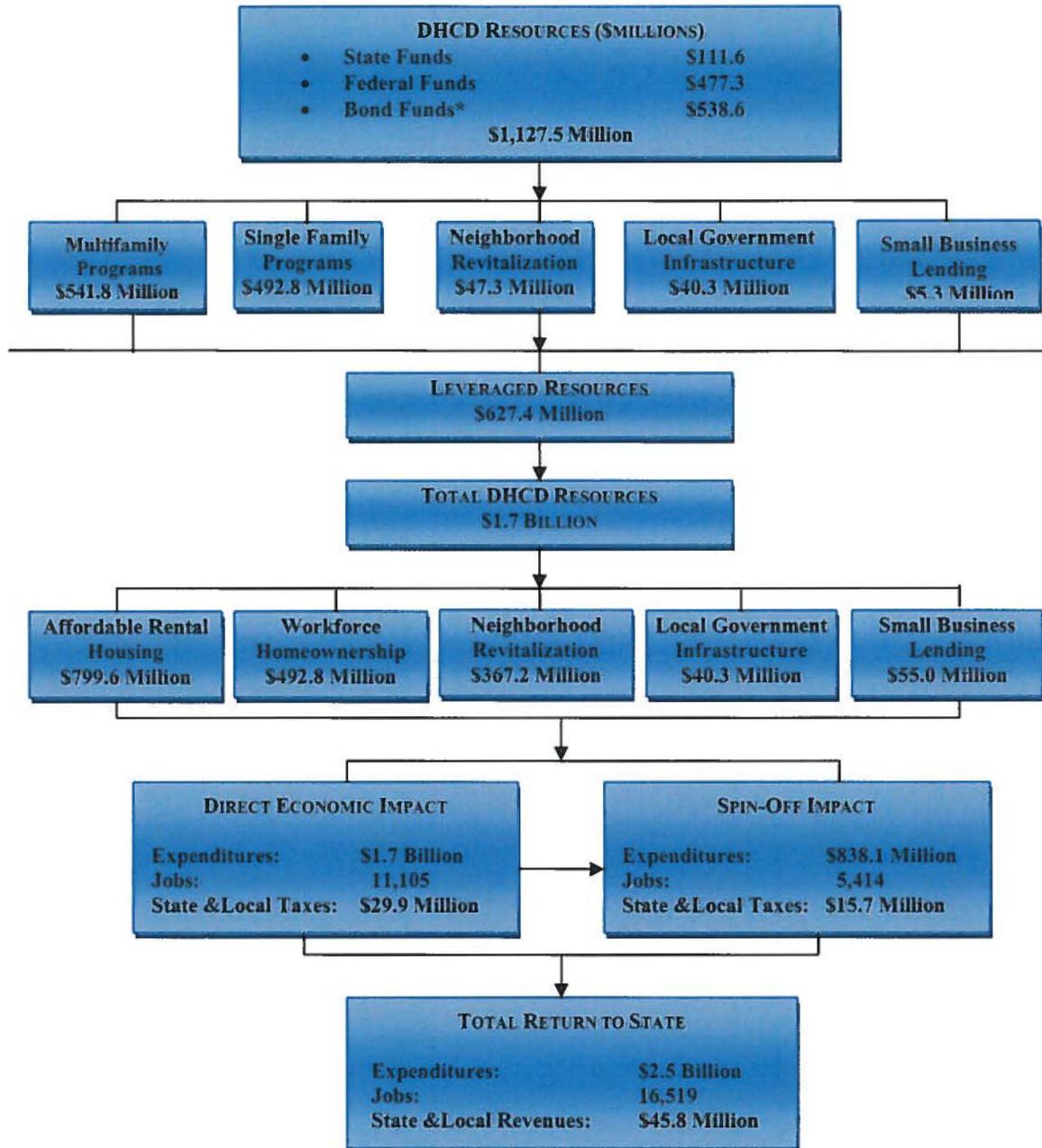
**\$2,593.0 MILLION  
ECONOMIC IMPACT IN MARYLAND**



## EVERY DOLLAR OF STATE FUNDS INVESTED IN DHCD PROGRAMS GENERATED \$23.2 OF ECONOMIC IMPACT IN MARYLAND



## ECONOMIC FLOW OF DHCD PROGRAMS FISCAL YEAR 2015



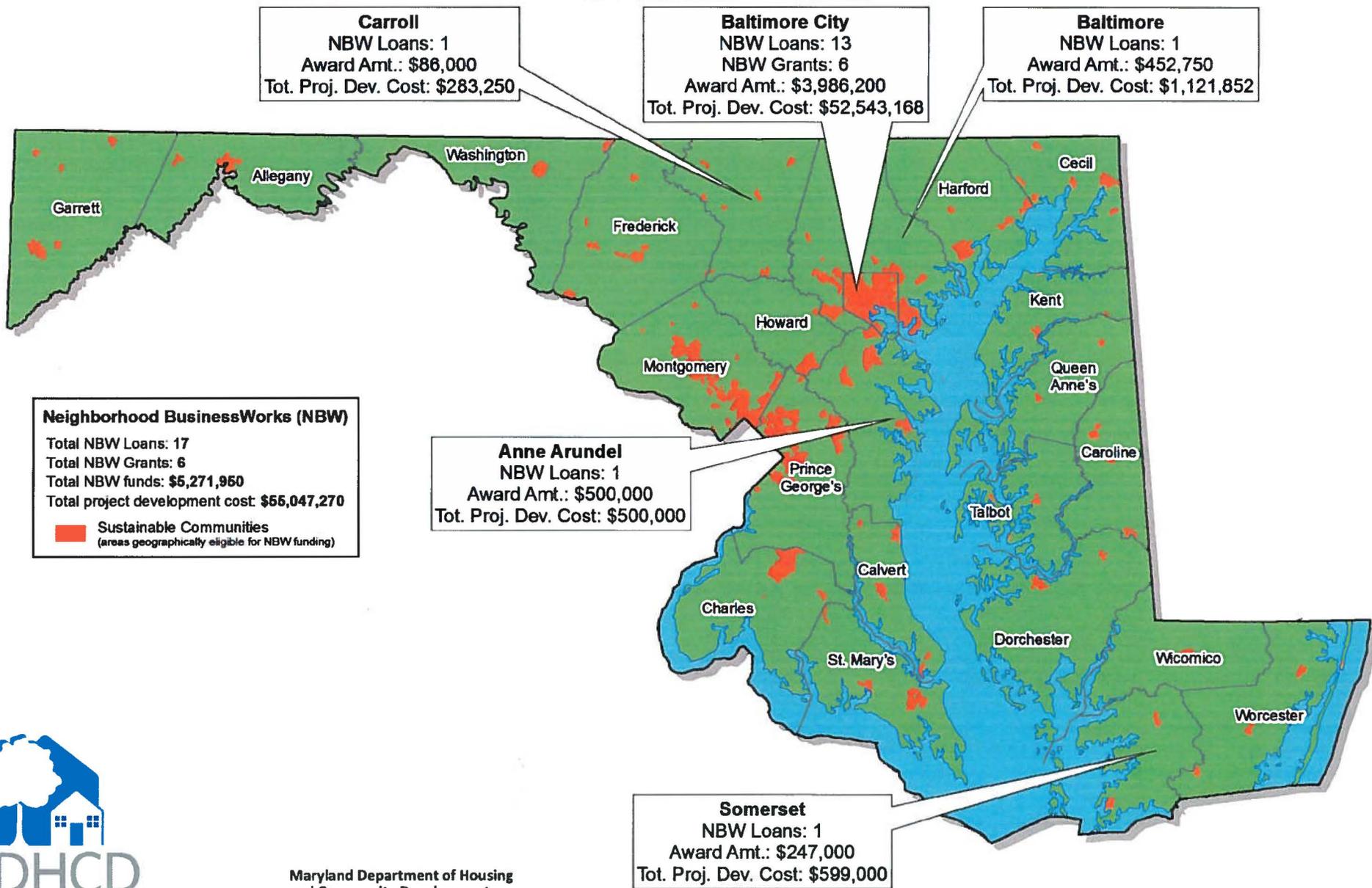
\* Excludes \$71.8 million of short-term bonds issued by Multifamily

Note: Totals may not add up due to rounding

Source: Maryland Department of Housing and Community Development

# Neighborhood BusinessWorks

## Loans and Grants: State FY 2015

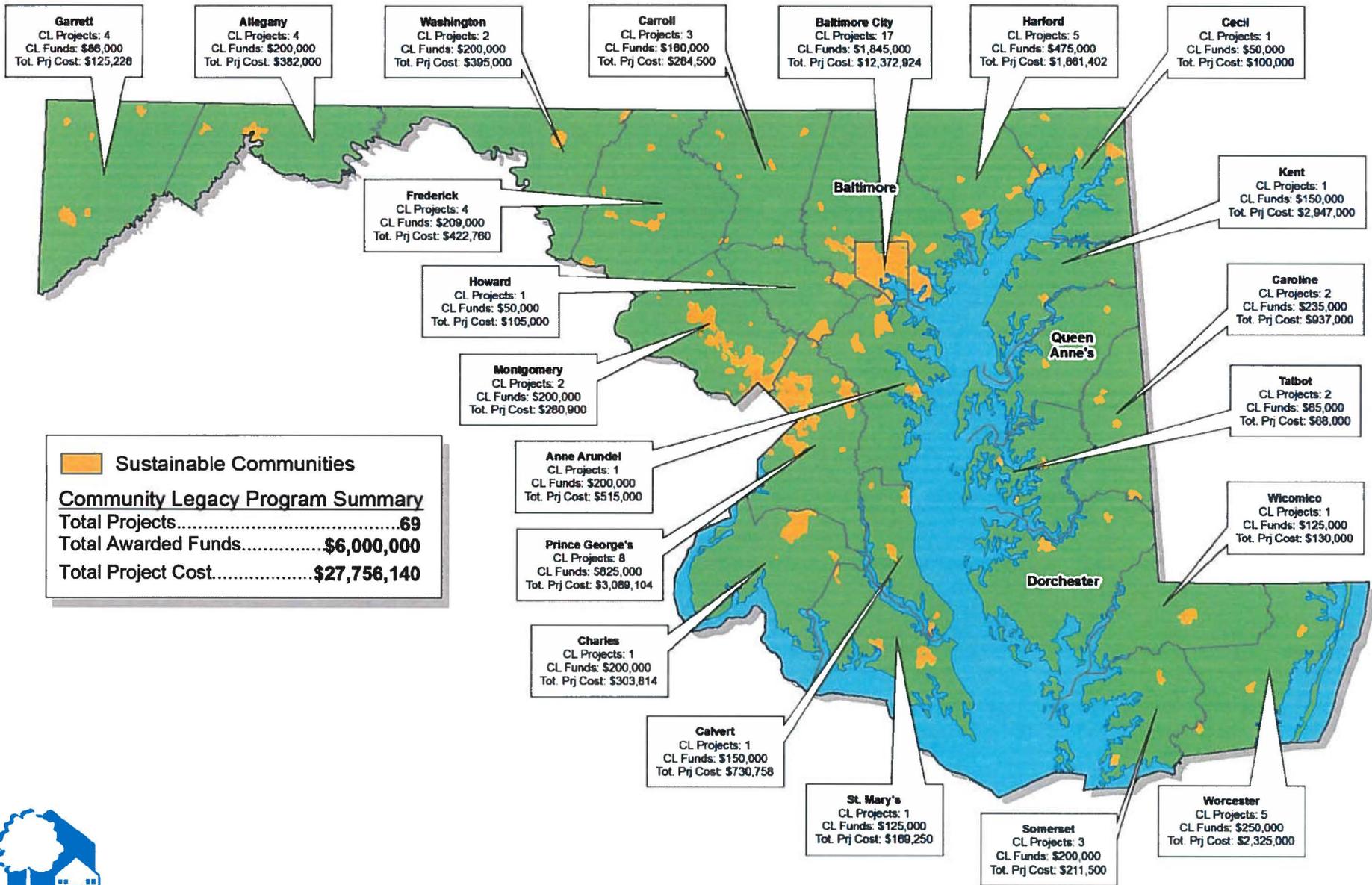


**DHCD**  
 Maryland Department of Housing  
 and Community Development

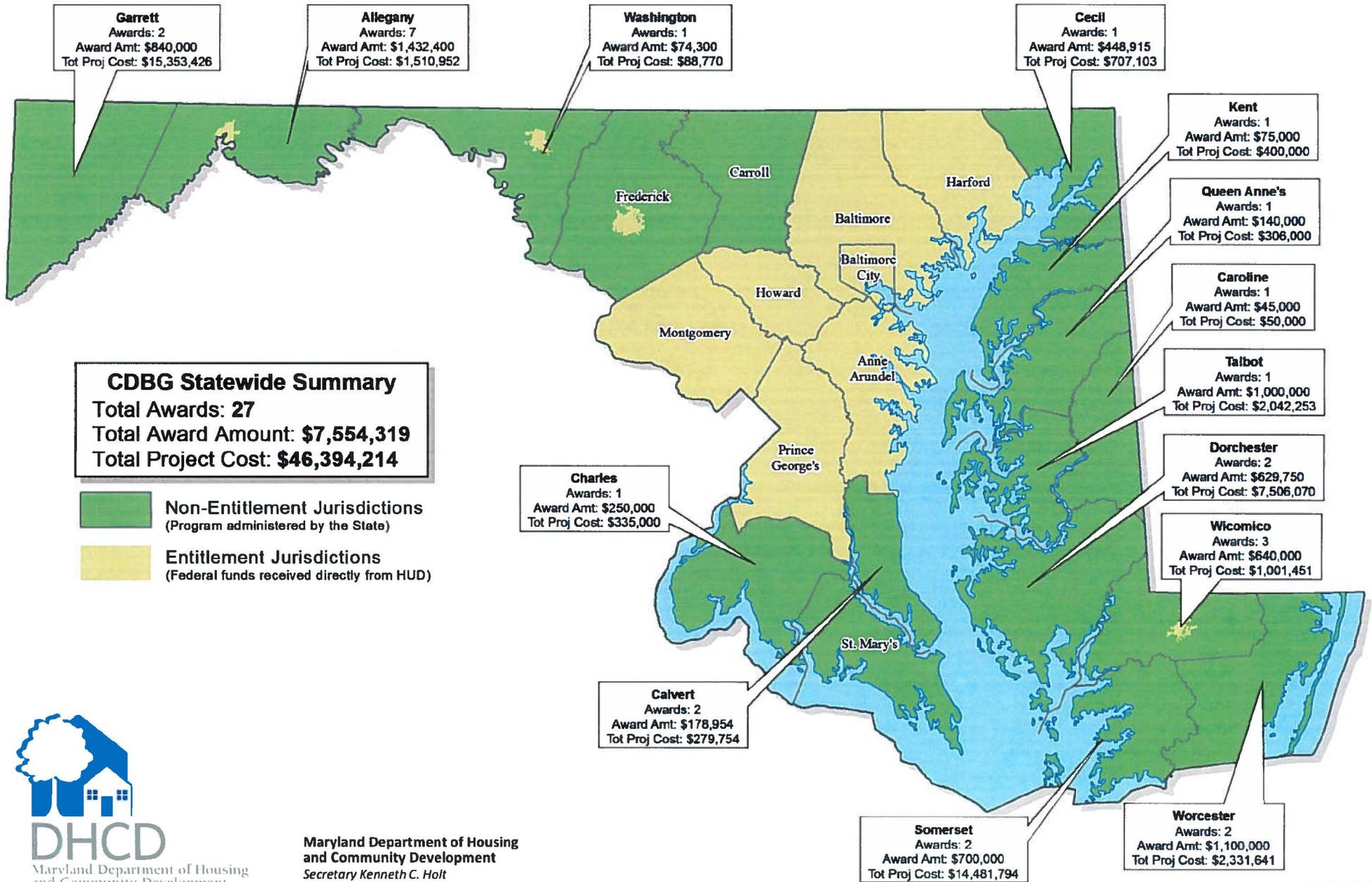
Maryland Department of Housing  
 and Community Development  
 Secretary Kenneth C. Holt

# Community Legacy Program

## Community Legacy (CL) Awards by County FY 2015



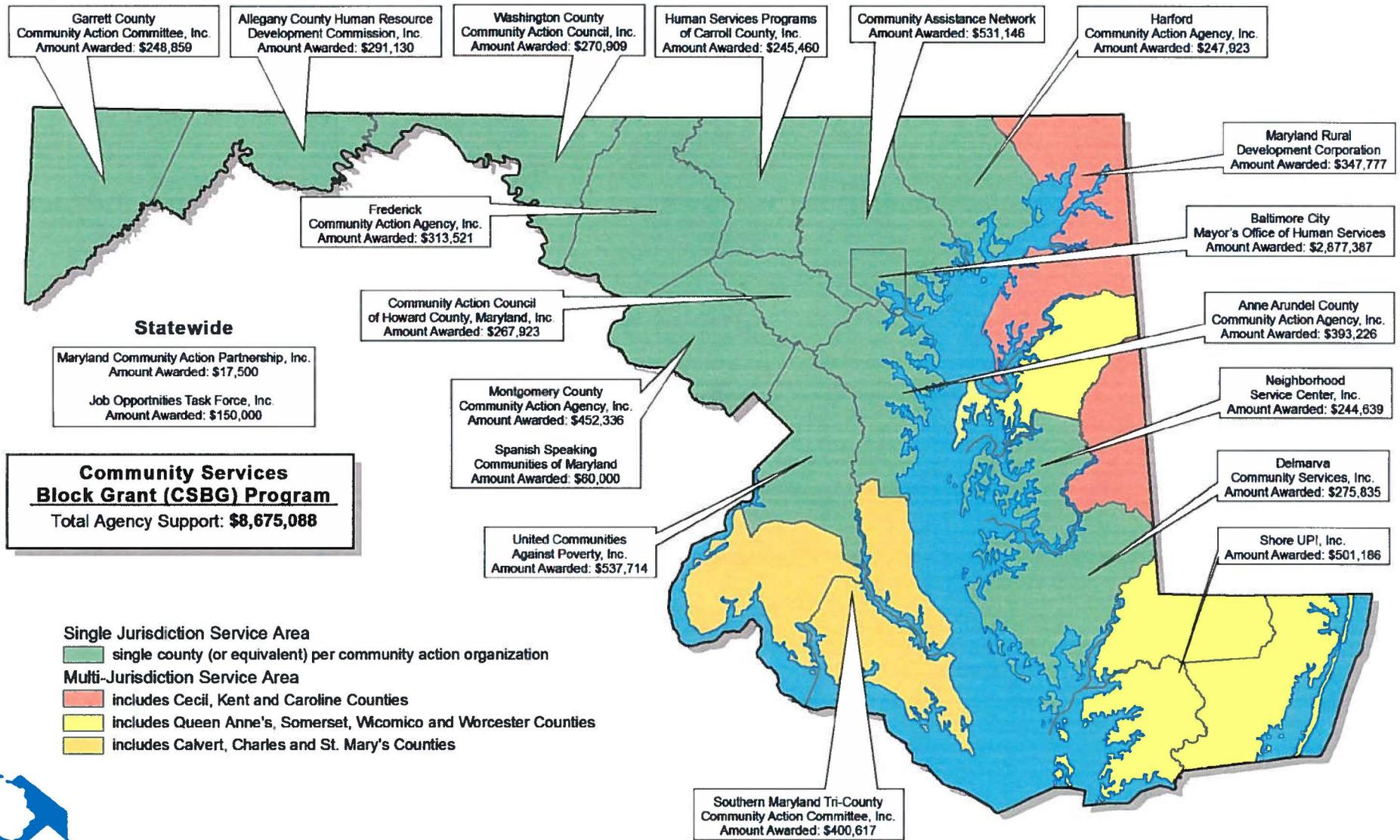
# Community Development Block Grant by Jurisdiction: FY 2015



Maryland Department of Housing and Community Development  
 Secretary Kenneth C. Holt

# Community Services Block Grant Program: Awards By Community Action Organization

## Federal FY 2015



# Foreclosure Prevention Counseling Awards FY 2015

## Western Maryland

Allegany Human Resources Development Comm., Allegany Law Foundation, Frederick Community Action Agency, Frederick, City of, Garrett County Community Action Committee, Hagerstown Neighborhood Development, Washington County, Washington County Community Action Council

## Baltimore Metro

Anne Arundel Community Action Agency, Arundel Community Development Services, Belair Edison Neighborhoods, Comprehensive Housing Assistance, Diversified Housing Development, Inc., Druid Heights Community Development Corporation, Eastside Community Development Corporation, Garwyn Oaks Northwest Housing Resource Center, Home Partnership, Neighborhood Housing Services of Baltimore, Park Heights Renaissance, Southeast Community Development Corporation

## Eastern Shore

Cecil County Housing Agency, Delmarva Community Services, Mid-Shore Pro Bono, Inc, Salisbury Neighborhood Housing Service, Shore-Up!

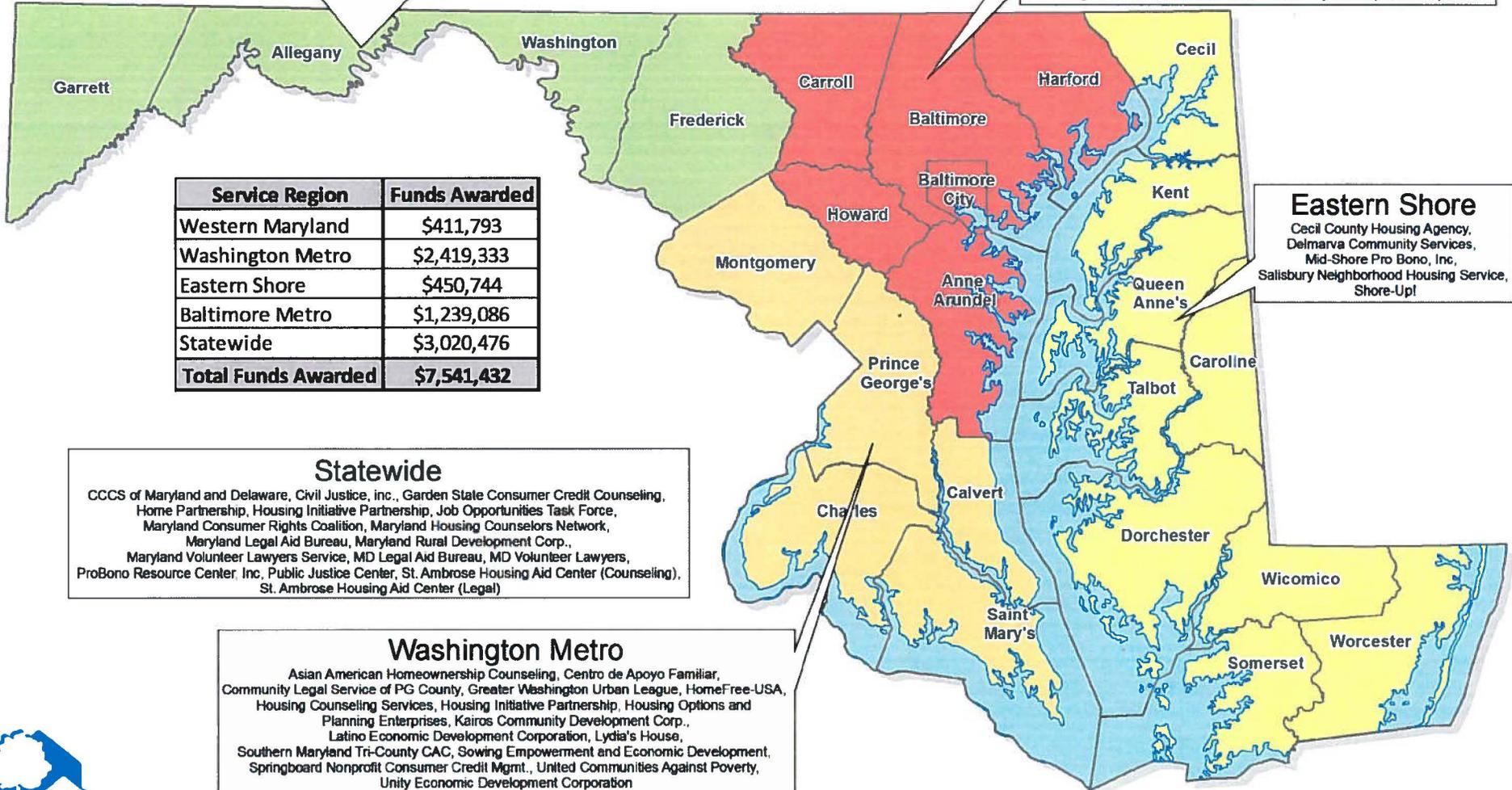
## Statewide

CCCS of Maryland and Delaware, Civil Justice, inc., Garden State Consumer Credit Counseling, Home Partnership, Housing Initiative Partnership, Job Opportunities Task Force, Maryland Consumer Rights Coalition, Maryland Housing Counselors Network, Maryland Legal Aid Bureau, Maryland Rural Development Corp., Maryland Volunteer Lawyers Service, MD Legal Aid Bureau, MD Volunteer Lawyers, ProBono Resource Center, Inc, Public Justice Center, St. Ambrose Housing Aid Center (Counseling), St. Ambrose Housing Aid Center (Legal)

## Washington Metro

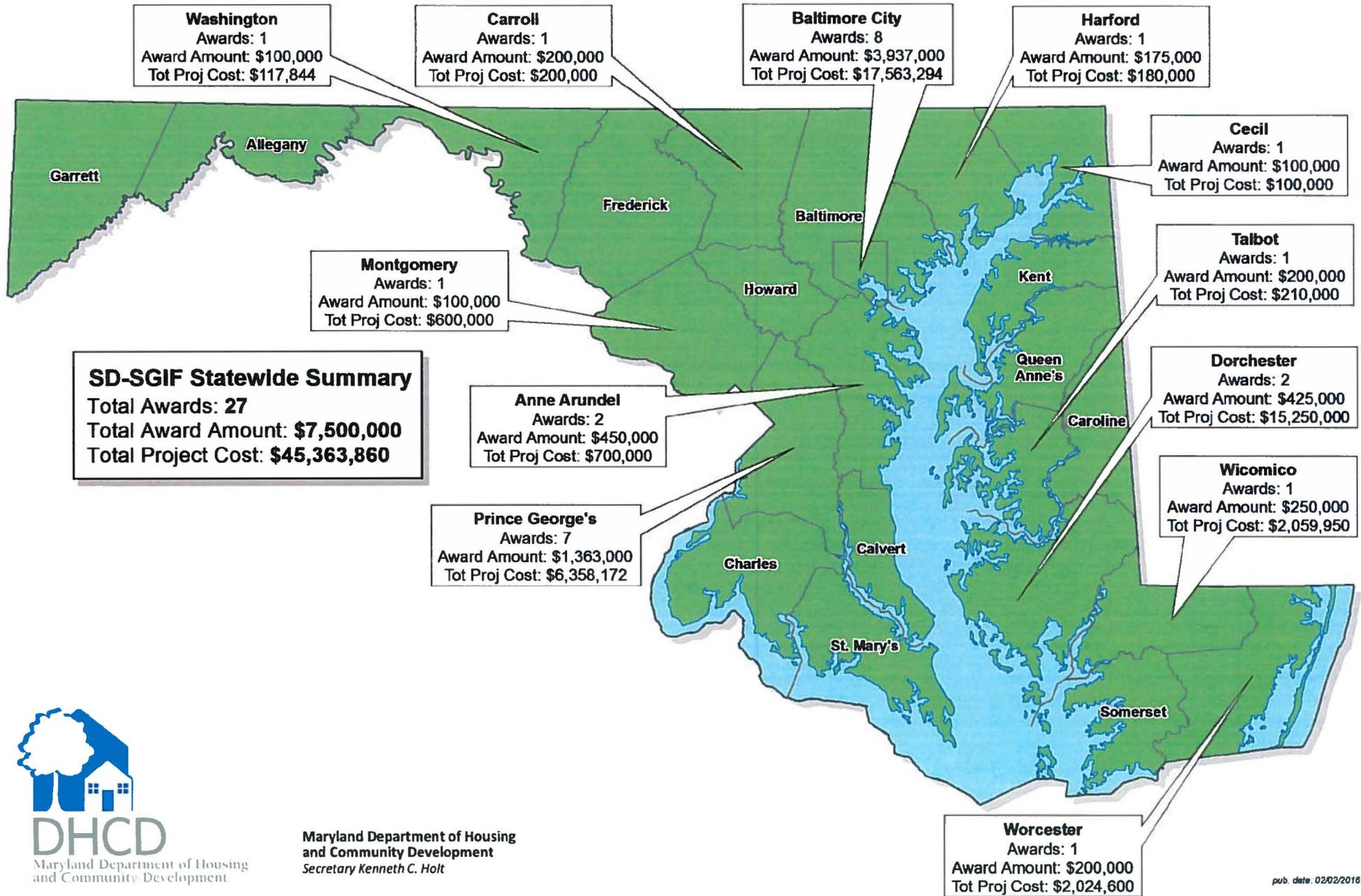
Asian American Homeownership Counseling, Centro de Apoyo Familiar, Community Legal Service of PG County, Greater Washington Urban League, HomeFree-USA, Housing Counseling Services, Housing Initiative Partnership, Housing Options and Planning Enterprises, Kairos Community Development Corp., Latino Economic Development Corporation, Lydia's House, Southern Maryland Tri-County CAC, Sowing Empowerment and Economic Development, Springboard Nonprofit Consumer Credit Mgmt., United Communities Against Poverty, Unity Economic Development Corporation

Service Region	Funds Awarded
Western Maryland	\$411,793
Washington Metro	\$2,419,333
Eastern Shore	\$450,744
Baltimore Metro	\$1,239,086
Statewide	\$3,020,476
<b>Total Funds Awarded</b>	<b>\$7,541,432</b>

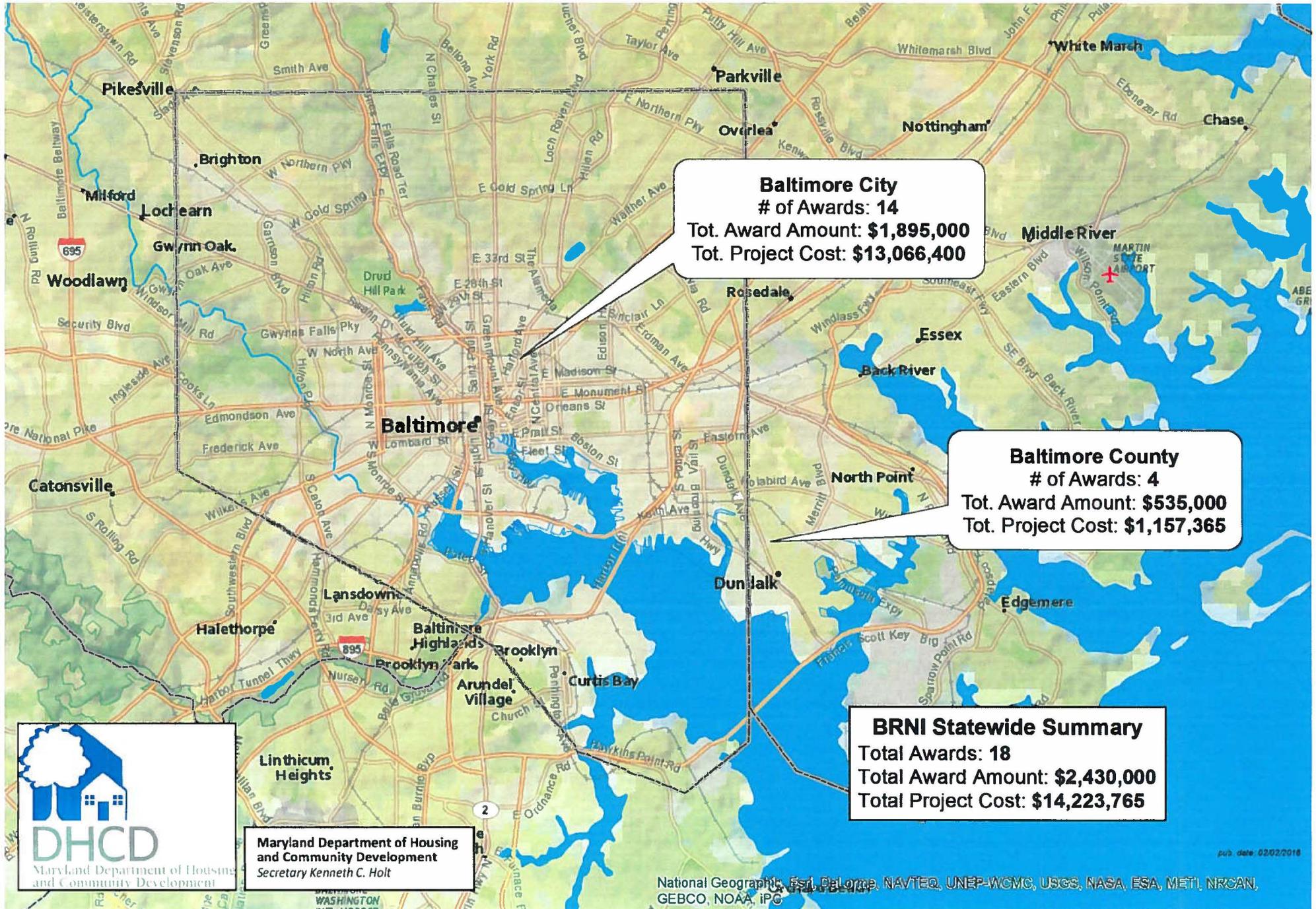


**Maryland Department of Housing  
and Community Development**  
Secretary Kenneth C. Holt

# Strategic Demolition and Smart Growth Impact Fund (SD-SGIF) by Jurisdiction: 2015

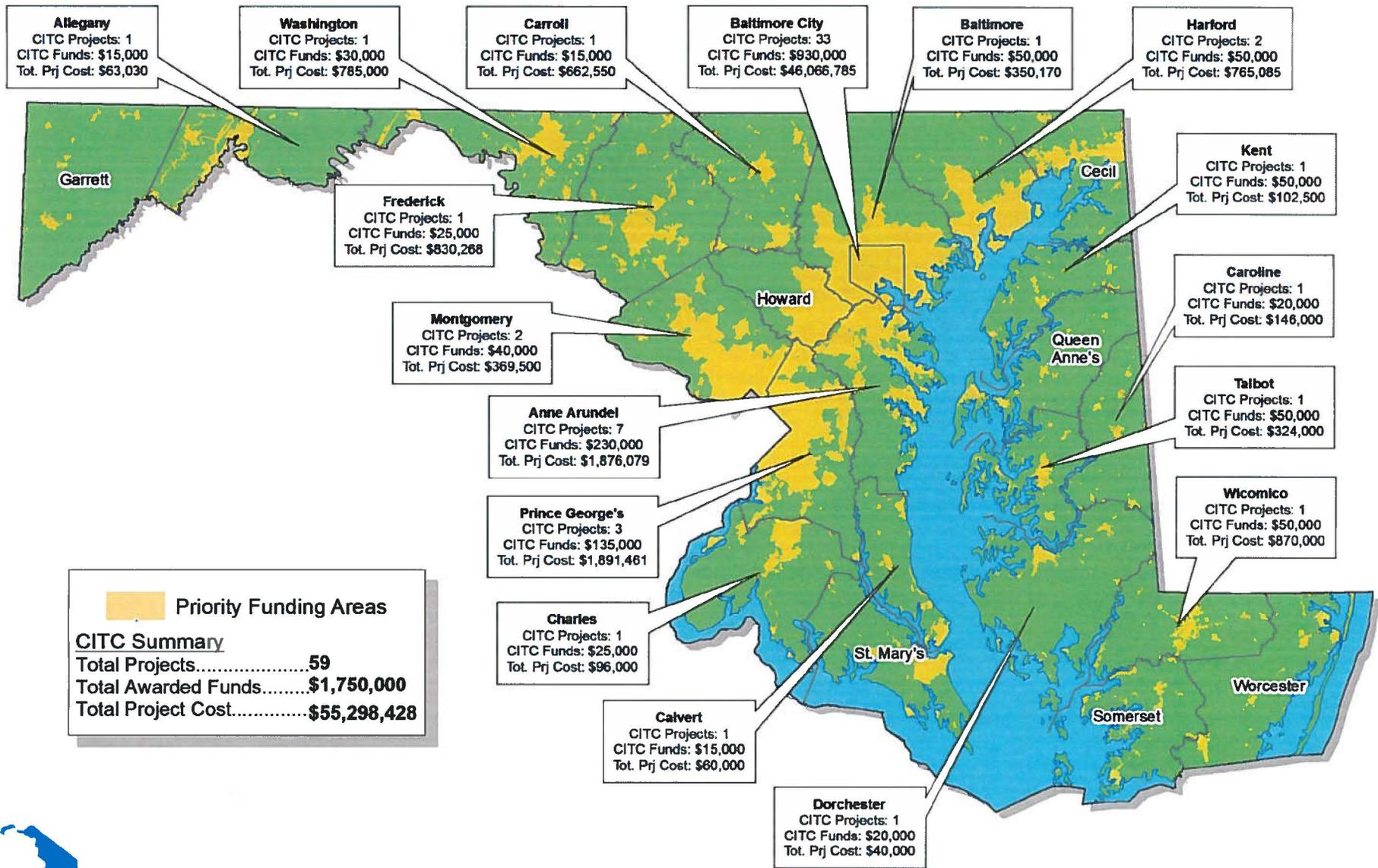


# Baltimore Regional Neighborhoods Initiative (BRNI) FY 2015 Awards



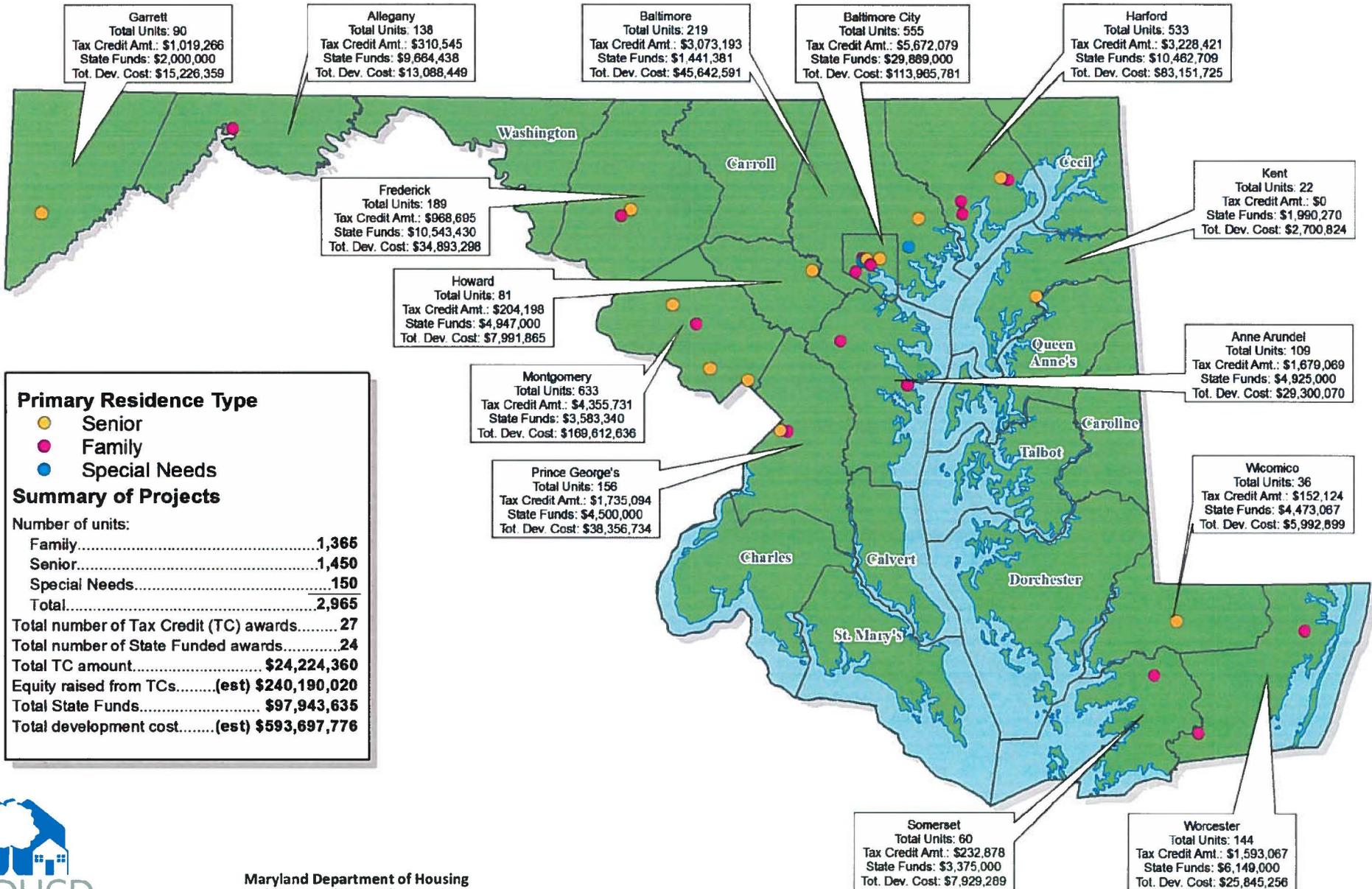
# Community Investment Tax Credit Program

## Community Investment Tax Credit (CITC) Awards by County FY 2015



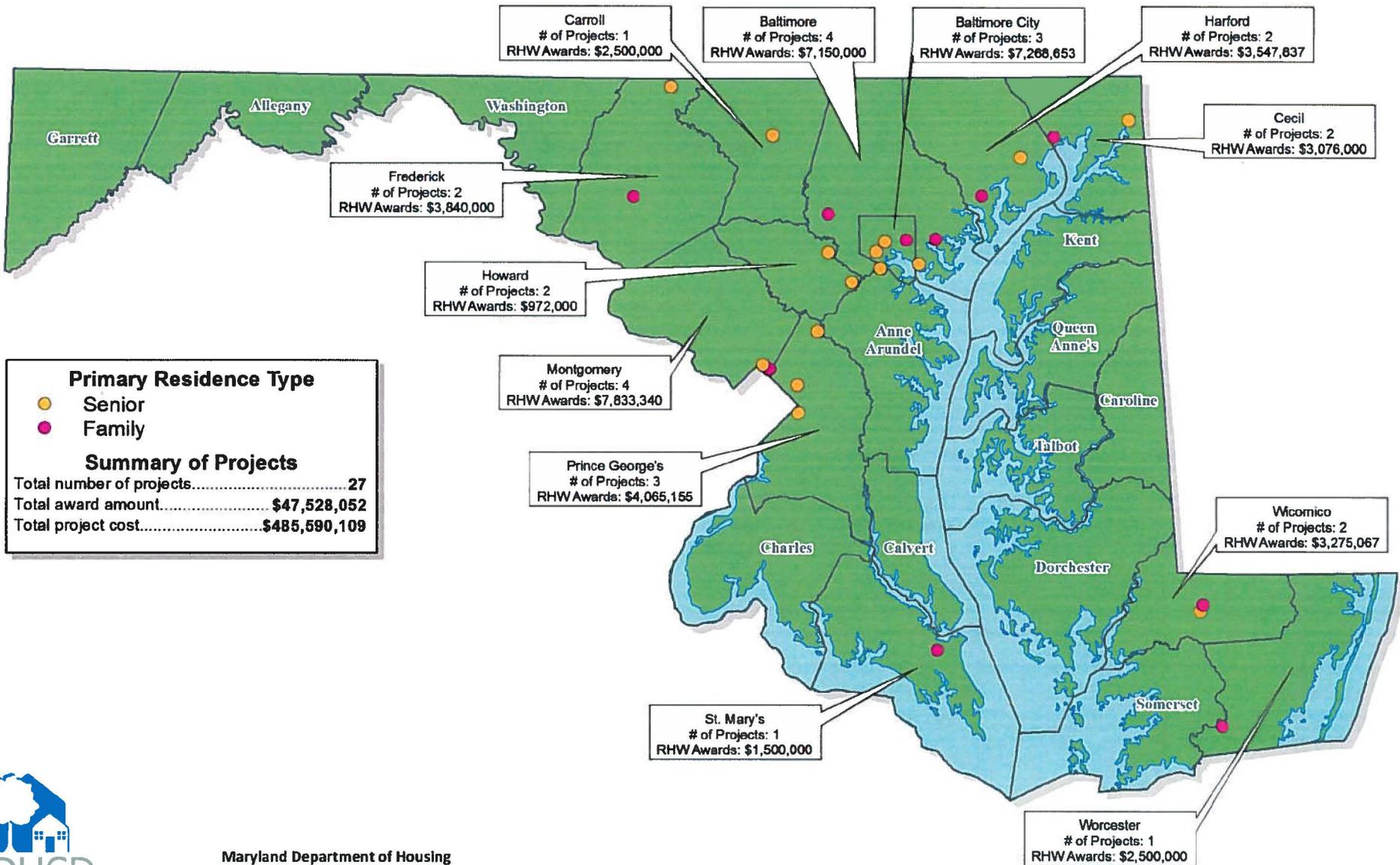
# Community Development Administration: Multifamily Projects

## Reserved and Closed Projects by County: FY 2015



Maryland Department of Housing and Community Development  
Secretary Kenneth C. Holt

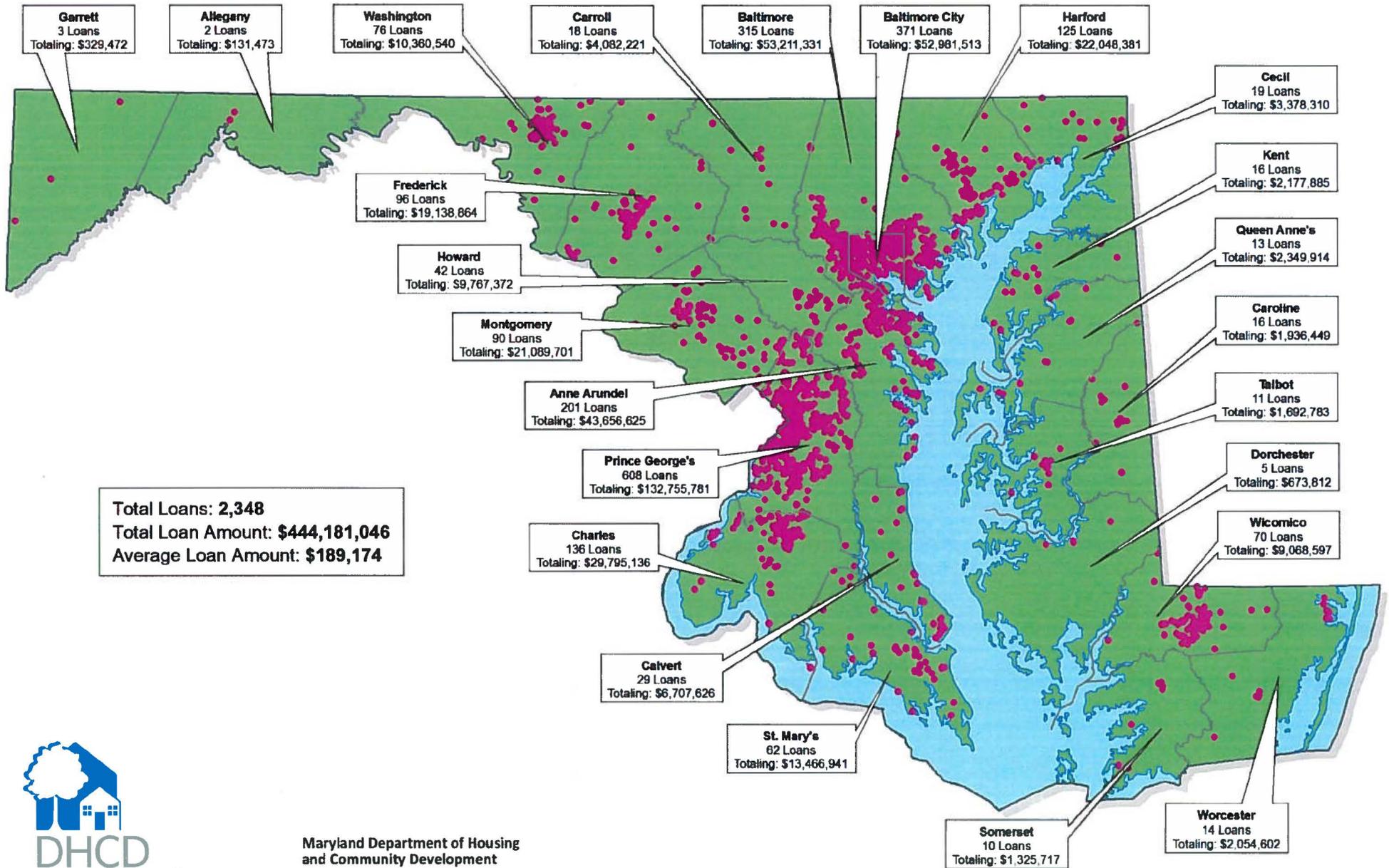
# Community Development Administration: Rental Housing Works (RHW) by County: Inception to Present



Maryland Department of Housing  
and Community Development  
Secretary Kenneth C. Holt

# CDA Maryland Mortgage Program

## Loans purchased by Jurisdiction: FY 2015

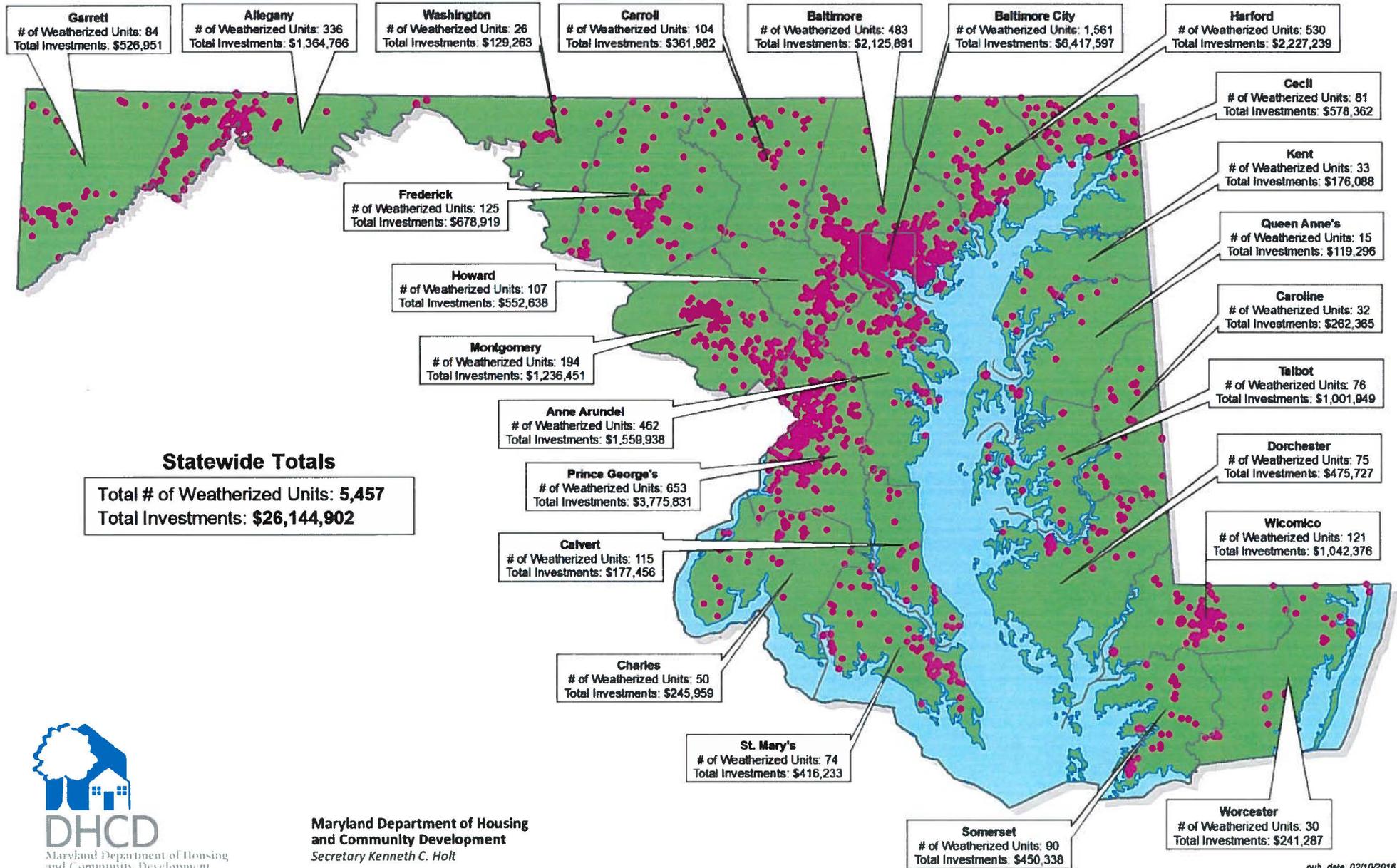


Maryland Department of Housing and Community Development  
Secretary Kenneth C. Holt

# CDA - Home & Building Energy Programs

## Weatherization Assistance and EmPOWER Low Income Energy Efficiency Programs

### homes by Jurisdiction: FY 2015



Maryland Department of Housing and Community Development  
Secretary Kenneth C. Holt