

## **Open Work Session**

### **Maryland Department of Housing and Community Development SFY 2017 Community Development Block Grant Application-Salisbury Neighborhood Housing, Inc.-Down Payment/Cost Assistance Program**

**April 19, 2016**


Ms. Lori Carter, Deputy Director of Planning, Zoning and Community Development and Mrs. Cheryl Meadows, Executive Director of Salisbury Neighborhood Housing Services, Inc. came before Council. Ms. Carter said on March 30<sup>th</sup> the Maryland Department of Community Development opened up their applications for grant funding. This year they have \$7.2 million dollars available in community and economic development funding. The County received a request from Salisbury Neighborhood Housing, Inc. to apply this year and prior to the public hearing, she asked Salisbury Neighborhood Housing to present their particular application and to provide Council with an overview. Mrs. Meadows said a couple of years ago Salisbury Neighborhood Housing did a similar program with Wicomico County for down payment and closing costs for those areas outside the City limits. Salisbury Neighborhood Housing predominately serves the City of Salisbury, but the demand was so high for people purchasing homes in the entire County, they thought they would try to partner with the County to assist those families that wanted to become homeowners. The spreadsheet that she provided Council, page 3, shows the homes that were included in the 2016 round. Typically when they are awarded funds, they have a two year time period to spend those funds. She said they made their first grant in December 2014, and the money was gone by May. This program is in very high demand. Mrs. Meadow said last time some Council members were concerned about one of the applicants in particular who purchased a home that was over \$200,000. She explained that the State of Maryland sets the income caps for families, and it is determined by household size. She said, on page 2, the 2016 income limits are listed. She said it starts with a single person and goes up to a family size of eight. Those are the figures of the 80% median family incomes for Wicomico County, which are determined by HUD. On page number 1, there is a little background information on the Community Development Grant Program. She said anyone participating must meet at least one of the three national objectives: (1) to benefit low to moderate level income families; (2) to eliminate slums or blight; or (3) meet a community need that is of an urgent nature. She said their proposed project comes under the homeownership category benefiting low to moderate level income families. She said the state also mandates that when using CDBG funds for homeownership type activity that no subprime mortgages or adjustable rate mortgages are allowed. All of the mortgages must be for a 30 year fixed rate. In addition, they must have a minimum of 8 hours of housing counseling from a HUD approved housing counseling agency. Salisbury Neighborhood Housing, Inc. is a HUD approved counseling agency, so they provide the counseling. Mrs. Meadows continued, she said since there was some concerns regarding one family that purchased a \$200,000 house in the 2016 round, she put together a hypothetical qualification for a family of four with an income limit of \$57,700. She said for Salisbury Neighborhood Housing loans and many other mortgage lenders, there are two ratios: (1) The housing ratio, which should not be more 30% of monthly income. (2) The total debt to income ratio, which is your housing expense plus any other reoccurring debt such as a car loan or student loan debt. On a monthly basis, someone making \$57,700 annually would have monthly \$4,808, and 33% of that


would leave them \$1,587 just for their housing expense, which is principal and interest as well as taxes and insurance, and mortgage insurance, if that is required. When you factor in 38% for total debt, they would need \$1,827 to cover their housing expenses plus any other reoccurring debt. Hypothetically, if someone purchased a home that was \$220,000, and they used the entire \$10,000 grant for the down payment, they would need a loan amount of \$205,000. At 4%, which is a little high right now as FHA's interest rate right now is about 3.75%, being conservative at 4% for 30 years, their principal and interest payment would be about \$980 and then adding taxes and insurance and mortgage insurance, they would have a total monthly mortgage payment of \$1,379, which is less than the calculation of \$1,587. Mr. Matt Holloway clarified the applicant would still be qualified even for a \$220,000 house, to which Mrs. Meadows confirmed that is correct. She said it is very unusual for a family to come in with no debt. She said you can see on the spreadsheet, the average purchase price, if number 20 is taken out, is about \$115,000 for that round, which is a very modest home. She said she does think there will be a lot of people coming in buying \$200,000 homes. Mr. Joe Holloway said it seems every year there is always a transaction that jumps out. He said he is the councilman that had concerns about it, and he still has concerns about the program. He said what really concerns him is that they actually borrowed more money than what the house costs. If you look at number 12, E. Pine Street, at \$62,000, these people only borrowed \$51,000. Mr. Joe Holloway said it seems that the houses that cost less, the people are not borrowing as much. He asked how many years has this program been operating. Mrs. Meadows said they have partnered with the City for 20+ years, but this will make the second round with the County. Mr. Joe Holloway asked what is the success rate of folks staying in the houses. He then asked if the success rate is tracked, to which Mrs. Carter responded, yes. Mrs. Meadows said if the property is foreclosed they have to collect the money, but they have not had one foreclose yet on the County side. Mrs. Meadows said on the City side she would have to go back and look at her records. Mrs. Meadows then explained the loan is a five-year forgivable lien that reduces 20% each year. Mr. Joe Holloway said it still concerns him. He said he asked last time if the County could put a cap on it, which as he recalls the answer was yes. Mrs. Meadows said the County could make the program as restrictive as it wants, but she prefers not to put a cap on it if someone meets the state requirements. She does not want to tell someone where they can or cannot live. Mr. Joe Holloway asked if someone came in with a \$350,000 house that they want to purchase, if the loan could be approved, to which Mrs. Meadows said if they meet the criteria and the equation works out. Mr. Matt Holloway said there has to be a maximum limit, to which Mrs. Meadows responded \$230,000 would be the maximum loan amount that someone with no debt could qualify for. Ms. Carter reminded Council that the program is for low to moderate income levels, they do not just serve low income, which helps stabilize particular communities. Mr. Joe Holloway said there always seems to be a home purchase that sticks out, which he thinks last time the property was in Nihtsdale. Mr. Hall asked if there is a time limit that the people have to own the property. Mrs. Meadows responded that the lien is on the property for five years. Mr. Hall then asked, if the homeowners pay off the loan, do they repay the full amount or is the loan prorated, to which Mrs. Meadows explained the loan is prorated 20% per year. Mrs. Meadows said the foreclosure program they did with the County that also provided down payment and closing cost assistance, had people sell the home within the five years, so they had to pay the loan back. Mrs. Meadows said in that case they repaid

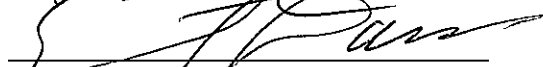
the money to the County and the money was reused for the same activities. Mr. Kilmer clarified that the people find the houses then go to Salisbury Neighborhood Housing to see if they qualify for a loan, to which Mrs. Meadows confirmed that is correct. Mrs. Carter said Mrs. Meadows has done a successful job as their track record is exemplified. To spend the funds within the grant period, extending it one year is unbelievable; it just shows there is a need. Mr. Matt Holloway asked if the spending was within five months, to which Mrs. Meadows responded, yes. Mr. Hall said we have a national model that the rest of the country is using, and we can certainly be proud of what Salisbury Neighborhood Housing has done for Wicomico County. Ms. Carter said the Maryland Food Bank has expressed an interest in applying for funding as well. They are looking to apply for at least \$200,000 to do some much needed renovations. Mr. Joe Holloway said he is going to play devil's advocate. He said looking at the \$217,000 purchase price, they borrowed \$221,000. He asked if the \$10,000 came off the \$221,000. Mrs. Meadow said, in this case, this was a VA loan, there was no mortgage insurance on the loan. They included closing costs into the purchase price. The closing costs exceeded the \$10,000, so what the balance was for closing costs they financed in the mortgage loan. Mr. Joe Holloway then asked about number 18 that shows the mortgage is \$3,000 more than the cost of the house. Mrs. Meadows said that is probably the same situation in that they financed some of their closing costs. Mr. Joe Holloway said he thought the lenders were trying to get away from having people upside down. Mrs. Meadows said some of the homes will need to have upgrades for which they are being loaned the money. Mrs. Meadows further said, unfortunately, five or six years ago the houses were appraising and then the bottom fell out and a lot of people are underwater, which still does not relieve them from making their mortgage payment. Ms. Carter said they will be scheduling a public hearing soon.


*Signatures are on the next page.*


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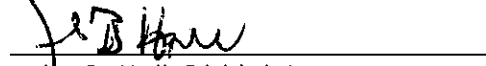
  
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John T. Cannon, President

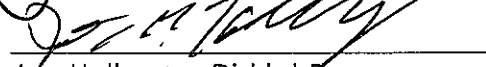
  
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Matt Holloway, Vice President

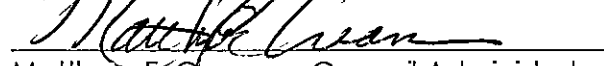
  
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Ernest F. Davis, District 1

  
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Marc Kilmer, District 2

  
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Larry W. Dodd, District 3

  
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John B. Hall, District 4

  
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Joe Holloway, District 5

  
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Matthew E. Creamer, Council Administrator