

Andrew Klein

FROM	NAME & TITLE	Andrew W. Kleine, Chief
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 469, City Hall (396-4948)
	SUBJECT	City Council Bill # 08-0037R Investigative Hearing – Foreclosures Impact in Baltimore City

CITY of
BALTIMORE
MEMO



TO The Honorable President and
Members of the City Council
Room 400, City Hall

DATE: October 30, 2008

Attention: Karen Randle

Bill Description:

Council Bill No 08-0037R proposes to investigate the foreclosure crisis in Baltimore City to ascertain the effect on prospective homebuyers, current homeowners, and mortgage lenders, and to project the consequences to Baltimore City's property tax base. In addition, the bill proposes an evaluation of the immediate and long-term range effect of mortgage lending reform legislation and other foreclosure-related legislations passed during the 2008 Maryland Assembly Session.

Analysis:

The City is absorbing the effects of the national housing slump. Congress recently approved a bailout plan of \$700 billion to rescue the financial markets by restoring credit liquidity. While the bailout bill gives the Treasury Department broad powers to assist distressed homeowners, it is as yet unclear whether or how these powers will be used to prevent foreclosures. Currently, we have a motionless market, where the level of housing activity has reached the lowest level since 1999, and the number of foreclosed properties in the City continues to be an issue.

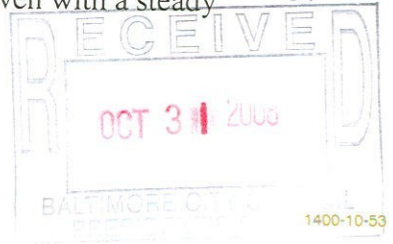
While foreclosures are on the rise in Baltimore, it is important to note that recent foreclosures are still far from the drastic numbers registered in early 2001 and 2002. Data from the Circuit Court for the Baltimore City since 2000 reveals that the number of foreclosed properties peaked in 2001 with 3,447 cases, fell to 1,465 foreclosed in 2006, and is projected to reach 2,000 this year.

Foreclosure activity may directly affect the City revenues in two ways: first, by shrinking the real property taxable base; and the second, by reducing transfer and recordation tax revenues.

Property owners are entitled by law to appeal their assessment if considered inappropriate. In the circumstance that foreclosed properties sell for lower than market rates, the State Department of Assessment and Taxation (SDAT) may potentially grant the corresponding appeal and reduce their current assessment value. This adjustment generates a decline in the City's property tax base and associated property tax receipts.

Foreclosed properties selling at lower value would reduce the average price per transaction of properties subject to transfer and recordation taxes. This means that even with a steady level of housing sales activity, the City will be collecting less revenue.

Comments



During the 2008 Maryland General Assembly Session, many steps were taken to protect and help homeowners confronting the possibility of foreclosure. These initiatives were summarized in an April 2008 presentation by the Maryland Department of Housing and Community Development. Highlights include:

- SB 216 / HB 365: Real Property - Recordation of Instruments Securing Mortgage Loans and Foreclosure of Mortgage and Deeds of Trust on Residential Property
 - This legislation extended the foreclosure process from 15 to 150 days.
 - Lenders are required to wait 90 days after default before filing for foreclosure.
 - Homeowners can avoid foreclosure by paying the owed amount by the business day before the sale.
- SB 217 / HB 360: Real Property – Maryland Mortgage Fraud Act
 - This legislation makes mortgage fraud a crime for anyone involved in the mortgage transaction, setting specific fines and imprisonment for violators.
 - Allows victims of mortgage fraud to bring private actions against violators.
- SB 218 / HB 361: Protection of Homeowners in Foreclosure
 - This legislation provides consumer protection for people who are trying to sell their homes because they are in default.

More recently, Congress passed House Resolution Bill 3221, titled “The Housing and Economic Recovery Act of 2008,” which entitles the City to receive \$4.1 million for foreclosure crisis mitigation. In addition, the City is in the process of requesting additional available funds from the State as part of the State’s housing stabilization program.

Before the 2008 General Assembly session, the State had started offering programs designed to prevent foreclosures:

- The Lifeline Refinance Mortgage Program: This program allows the Community Development Administration (CDA) to offer refinancing options to Marylanders who maybe facing financial difficulties after purchasing a home with an “exotic” mortgage.
- Bridge to Hope Program: This program provides Maryland homeowners with short-term relief to maintain homeownership by preventing residential mortgage foreclosures resulting from borrowers experiencing financial difficulty caused by either a sub-prime or exotic mortgage.
- The Homesaver Refinance Mortgage Program: This program allows CDA to offer another refinance option to Marylanders who have sub-prime or exotic mortgages and are experiencing difficulties because of mortgage default, low credit scores and/or a mortgage greater than the current value of their home.

Cc: Edward Gallagher
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