

# Commentary: Homeowner Assistance Fund ends amid persistent foreclosure risks

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The end of the Maryland Homeowner Assistance Fund means low-income residents lost a lifeline they might've needed to stay in their homes. (Hugo Kugiya/The Baltimore Banner)

## Losing source of assistance puts low-income homeowners at particular risk

The Maryland Homeowner Assistance Fund represented a lifeline for low-income residents at risk of losing their homes. The fund officially spent or allocated all the \$185 million it was provided by the Maryland Department of Housing and Community Development to assist homeowners with mortgages, reverse mortgages, homeowners insurance, water bills, property taxes and home ownership association fee defaults. Depletion of the fund means the end of one of the most significant assistance programs for low-income homeowners in the 21st century, particularly for Maryland Legal Aid clients.

The Maryland Homeowner Assistance Fund was created in 2021 as an outgrowth of the American Rescue Plan Act. As part of the relief act, Maryland and the Department of Housing and Community Development provided funding to assist homeowners adversely affected by the COVID-19 pandemic. The result was that thousands of low-income homeowners in Maryland received assistance with mortgage, property tax, homeowner insurance and defaults of homeowner association fees. Thanks to the assistance fund, many foreclosures and tax sales were avoided. Maryland Legal Aid alone assisted more than 100 homeowners. This helped Maryland Legal Aid clients preserve homeownership, avoid foreclosure and tax sale and avoid and end monthly Chapter 13 bankruptcy payments.

One senior client came to Maryland Legal Aid right before a foreclosure sale date. At the time, she attempted to request foreclosure mediation but had not completed the paperwork correctly, so the foreclosure sale was moving forward. Maryland Legal Aid was able to get an extension for her reverse mortgage, which stayed the foreclosure for a year and ultimately received a sufficient amount in homeowner assistance funds to cure the reverse mortgage default. She is now living in her home, has already received her property tax credits for this year and is working with her daughter to get homeowners insurance on the property to avoid future issues.

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The problem is that when the fund was created, it was assumed that after allocation, the economic, social and medical crisis that caused so many homeowners to default on their mortgages, property taxes and water bills would be over. So, in September, while the media and many in Maryland were focused on an impending government shutdown in Washington, D.C., the Homeowner Assistance Fund came to an end.

But many of the conditions that put low-income Maryland homeowners at risk haven't gone away. Outside of the employment situation, the Maryland economic climate for low-income homeowners remains as challenging as it's ever been.

Other options to prevent foreclosure if a homeowner defaults on their mortgage and on the other payments are not nearly as attractive as they were in 2019, before the pandemic. Home values have increased exponentially since the beginning of the pandemic, making Chapter 13 bankruptcy, which used to be the last resort for homeowners in default, increasingly difficult for low-income homeowners. Maryland's limited homestead exemption makes a Chapter 13 extraordinarily expensive for homeowners with significant equity.

In addition, it is increasingly difficult to get a loan modification from a homeowner's bank or mortgage servicer. This is because interest rates have increased exponentially during the past couple years due to inflation, which means that most loan modifications will result in a higher interest rate and a higher payment than the original loan. Likewise, because lenders are not required to offer loan modifications under federal regulations, many are hesitant to offer loan modifications that result in increased payments,

regardless of a change in homeowner circumstances, because the homeowner has already defaulted on a lower mortgage payment.

While it would be wonderful if the Maryland Homeowner Assistance Fund lasted forever, it is understood that was probably meant to be a one-time fund due to COVID-19. But neither the state nor the federal government needs to allocate \$148 million to solve the continuing problem of foreclosures in Maryland. Either level of government could take steps to make loan modifications easier to obtain or create a requirement for servicers to offer them.

The state could increase the exemption allowed for home equity, which would make Chapter 13 bankruptcy filings for home retention easier. The state could also strengthen the foreclosure mediation process to require the banks and mortgage servicers to be more willing to offer a resolution that allows the homeowner to retain ownership of the property. Some steps, such as the creation of Homeowner Protection Program to allow payment plans for property taxes, have already been taken. But government can do much more.

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