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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/22/2008

SPONSOR Gonzales LAST UPDATED \_\_\_\_\_ HB 217

SHORT TITLE Home Loan Program for Certain Individuals SB \_\_\_\_\_

ANALYST Leger

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	FY09		
	\$2,000.0	Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Mortgage Finance Authority (MFA)

### SUMMARY

#### Synopsis of Bill

House Bill 217 appropriates \$2 million from the general fund to the Department of Finance and Administration (DFA) for disbursement to the MFA for the purpose of offering below-market interest rate home loans and down payment assistance to teachers, public safety workers, health care workers and active members of the military.

### FISCAL IMPLICATIONS

The appropriation of \$2 million contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance shall not revert to the general fund.

### SIGNIFICANT ISSUES

The appropriation in HB217 would be spent in conjunction with MFA's existing HERO program; Home Equity with Required Occupation. According to MFA the HERO program is designed exclusively for households in which at least one member is a police officer, nurse, teacher, firefighter, or active member of the armed services. HERO combines below-market rate first and second mortgage products for the purchase of a home including down payment and closing costs.

## PERFORMANCE IMPLICATIONS

MFA has provided information regarding those eligible to receive assistance using the HERO program. According to a study published by the Center for Housing Policy,<sup>1</sup> in 2006 the income needed to qualify for a median-priced home in Albuquerque (\$205,000) was \$70,226.<sup>2</sup> According to the same study, people in occupations targeted by the Home Equity with Required Occupation, or “HERO” program earned significantly less than \$70,226:<sup>3</sup>

Elementary school teacher	\$45,933
Secondary school teacher	\$47,894
Police officer	\$44,641
Fire fighter	\$36,877
Nursing aide	\$24,130
Nurse (LPN)	\$36,204
Nurse (Registered)	\$57,183

This implies that many essential workers are unable to afford the median-priced home in Albuquerque. Although the Center for Housing Policy did not collect or analyze data from other communities in New Mexico, MFA’s experience indicates that housing is unaffordable to essential workers in communities *throughout* the state.

Unveiled in 2005, the Home Equity with Required Occupation or “HERO” Program is designed exclusively for households in which at least one member is a police officer, nurse, teacher, firefighter, or active member of the armed services. HERO combines below-market rate first and second mortgage products for the purchase of a home (including down payment and closing costs). As of January 1, 2008, a total of 242 first mortgage loans (\$38,443,237) have been made with an average loan amount of \$159,515. In addition, 155 down payment assistance loans (\$1,366,626) have been made, with an average loan amount of \$8,814.

MFA and the rest of the Governor’s Finance Council Housing Team recommend that the state provide funding to leverage with MFA funding and bond financing in order to continue this very popular and effective program. If the state provides \$2 million, MFA would combine \$1.5 million with MFA’s matching contribution to buy down interest rates on three \$10 million taxable mortgage revenue bond issues issued in 2008, bringing mortgage interest rates down by an estimated 50 basis points for HERO borrowers. MFA would use the remaining \$500,000 to supplement the funds available for the down payment assistance program component.

Stated another way, on an annual basis *\$2 million in state investment will leverage \$30 million in mortgage loans and provide down payment assistance for 200 families.* The reduced interest rate and down payment assistance HERO provides will enable the average HERO borrower to save approximately \$100 a month on his/her mortgage payment. This is extremely important when trying to qualify the essential workers in communities throughout New Mexico for a mortgage loan.

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<sup>1</sup> *Paycheck to Paycheck – 2006 Third Quarter Findings*, Center for Housing Policy, January 2007.

<sup>2</sup> Data on the median-priced home are from the National Association of Home Builders’ Housing Opportunity Index for the third quarter of 2006. The annual income needed to qualify for a mortgage was calculated using the average prevailing interest rate, assumes a 10% down payment and the use of private mortgage insurance, and includes principal, interest, taxes, and insurance.

<sup>3</sup> Wage data are as of August 2006 and were obtained from a proprietary database of salary information by geographic location maintained by Salary.com.

**ADMINISTRATIVE IMPLICATIONS**

The program will be administered by MFA. No more than five percent of the appropriation shall be used by the MFA for administrative expenses.

It is in the best interests of the program if funds are disbursed by DFA in one lump sum. As stated in the performance implications, this allows MFA to use funds to buy down interest rates.

JLL/bb