F I S C A L I M P A C T R E P O R T

SPONSOR Vaughn **ORIGINAL DATE** 3/3/07 **LAST UPDATED** 2/13/07 **HB** 1064/aHHGAC

SHORT TITLE MFA Revolving Fund for Low-Income Homeowners **SB**

ANALYST Leger

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	**FY08**		
	$5,000.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Mortgage Finance Authority (MFA)

SUMMARY

Synopsis of HHGAC Amendment

On page 1, line 21, strike “a nonprofit” and insert in lieu there of “an”.

Synopsis of Original Bill

House Bill 1064 appropriates $5 million from the general fund to the New Mexico Mortgage Finance Authority (MFA) to establish a revolving fund to purchase mortgage loans from a nonprofit organization in good standing that makes mortgage loans only to persons with an income of fifty percent or less of median income in their county of residence.

FISCAL IMPLICATIONS

The appropriation of $5 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

SIGNIFICANT ISSUES

The MFA, a quasi agency, cannot receive a direct appropriation. Appropriations must be made to the Department of Finance and Administration (DFA) for disbursement to MFA.

Additionally, MFA states it is not able to take on any further contractual work without receiving a minimum of 5% administrative fee.

PERFORMANCE IMPLICATIONS

A similar program was established by MFA in 1992. Using specially restricted monies, MFA served as a secondary market by purchasing mortgage loans made by program participants to very low-income homebuyers. This arrangement allowed participating organizations to recycle their funds and increase their production of affordable homeownership units. From January 1, 2001 thru December 31, 2006, MFA purchased 119 loans totaling $6.4 million.

According to MFA its overall goal was to "free up" capital, which would otherwise be paid back to the participant over the term of the mortgage loan. MFA purchases loans at a discount and accepts a yield of 0 percent. Such terms allow MFA to maximize the amount of funds received by the participant. Participants are required to use proceeds from the sale for producing additional units and furthering the objectives of the program. Program enhancements include the use by all participants of standardized legal documents, requirements for professional loan servicing, and requirements for dealing with defaults that protect the interests of MFA, yet afford the participant and borrower options for resolving problems.

MFA points out that throughout New Mexico there are organizations that typically rely on donations of cash, building materials, land and legal services and government funding to support their homeownership assistance efforts. Often, homes are constructed or rehabilitated by community volunteers and homebuyer sweat equity. In addition, such organizations counsel homebuyers prior to purchase, provide mortgage loans to finance the purchase, and maintain ongoing relationships with the homeowners by servicing the loans and providing continued counseling. However, because their efforts are supported through fund raising activities, the number of homes they can produce and sell to very low-income households is extremely limited.

ADMINISTRATIVE IMPLICATIONS

As stated above, MFA is not able to take on any further contractual work without receiving a minimum of 5% administrative fees in order to conduct the work.

TECHNICAL ISSUES

Appropriations to MFA must be made to DFA who will disburse the funds.

MFA suggests the following language change to line 21; "*to purchase mortgage loans from an organization in good standing*". Deleting the word "non-profit" and changing "a" to "an".

JL/nt