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FISCAL IMPACT REPORT

ORIGINAL DATE 1-27-09

SPONSOR Boitano LAST UPDATED _____ HB _____

SHORT TITLE Home Loans for Teachers and Others SB 130

ANALYST Leger

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	\$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

Senate Bill 10 appropriates \$2,000.0 from the general fund to Department of Finance and Administration (DFA) 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 for the purchase of a home.

FISCAL IMPLICATIONS

The appropriation of \$2,000.0 contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY10 shall not revert.

According to the December 2008 revenue estimate, FY10 recurring revenue will only support a base expenditure level that is \$293 million, or 2.6 percent, less than the FY09 appropriation. All appropriations outside of the general appropriation act will be viewed in this declining revenue context.

SIGNIFICANT ISSUES

The appropriation in SB130 would be spent in conjunction with MFA’s existing HERO program; Home Equity with Required Occupation. 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,¹ in 2007 the income needed to qualify for a median-priced home in Albuquerque (213,000) was \$69,582² According to the same study, people in occupations targeted by the Home Equity with Required Occupation, or “HERO” program earned significantly less than \$69,582³

Elementary school teacher	\$45,431
Secondary school teacher	\$47,371
Police officer	\$44,901
Fire fighter	\$36,471
Nursing aide	\$23,636
Nurse (LPN)	\$35,236
Nurse (Registered)	\$55,283

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, 2009, a total of 290 first mortgage loans (\$46,119,941) have been made with an average loan amount of \$159,351. In addition, 221 down payment assistance loans (\$1,960,930) have been made, with an average loan amount of \$8,917.

We 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 to buy down interest rates on taxable mortgage revenue bonds, 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.

¹ *Paycheck to Paycheck – 2007 Third Quarter Findings*, Center for Housing Policy, January 2009.

² Data on the median-priced home are from the National Association of Home Builders’ Housing Opportunity Index for the third quarter of 2007. 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.

³ Wage data are as of August 2007 and were obtained from a proprietary database of salary information by geographic location maintained by Salary.com.

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.

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.

JL/svb