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FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/15
 LAST UPDATED 2/9/15

SPONSOR Padilla HB _____

SHORT TITLE Pre-Purchase Homebuyer Education Program SB 28/aSPAC

ANALYST Graeser/Dorbecker

APPROPRIATION (dollars in thousands)

Appropriation					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	\$500.0				Nonrecurring	General Fund

(Parenthesis () indicate expenditure decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$50.0		\$50.0	Nonrecurring	MFA Operating Budget

(Parenthesis () indicate expenditure decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Mortgage Finance Agency (MFA)

New Mexico Department of Finance and Administration (DFA)

SUMMARY

Synopsis of SPAC Amendment

The Senate Public Affairs Committee Amendment provides up to ten percent of the appropriation may be used by MFA for administrative purposes.

Synopsis of Original Bill

Senate Bill 28 appropriates \$500 thousand from the general fund in FY16 to the Department of Finance and Administration to allow the New Mexico Mortgage Finance Authority to create and implement a pre-purchase homebuyer education program.

FISCAL IMPLICATIONS

SB 28 appropriates \$500 thousand from the general fund in FY16 to DFA. The funds will be expended by the MFA.

MFA estimates agency costs to supervise this program at 8 percent to 10 percent of the program cost. This administrative cost is not explicitly included in the appropriation. However, MFA may have to provide these administrative funds from other sources than the appropriation.

The bill includes a reversion clause.

SIGNIFICANT ISSUES

DFA notes that, “Pre-purchase homebuyer education programs usually include training on some of the following home purchase areas: advantages of purchasing a home; personal credit; the process of working with realtors; mortgage loan application process-credit, affordability, interest rates and payments; home owner insurance and working with title companies at closing.”

MFA further explains:

“Studies have found that pre-purchase homebuyer counseling significantly reduces the rate of delinquencies and foreclosures and is therefore an effective tool to promote neighborhood and community stability. (Smith, Marvin, et. al. *The Effectiveness of Pre-Purchase Homeownership Counseling and Financial Management Skills*. The Federal Reserve Bank of Philadelphia, April 2014.)”

“Since its creation in 1975, MFA has provided mortgage loans to low to moderate income first-time homebuyers. Pre-purchase homebuyer education is required for all MFA loans but is not required by other lenders unless they are using MFA mortgage products. Therefore, the majority of homebuyers in New Mexico currently do not receive pre-purchase homebuyer education.”

“SB28 is a recommendation of the Foreclosure Process Task Force, which was established by SM11 in 2014. SM11 requested the United South Broadway Corporation to convene a task force to study the foreclosure process in New Mexico and make recommendations to protect neighborhood and community stability, prevent unnecessary and improper foreclosures and preserve the due process rights of financially strapped families. The Foreclosure Process Task Force met during 2014 and its work resulted in several pieces of legislation currently before the 2015 New Mexico Legislature. MFA was named as a member of and participated in the task force during 2014.”

PERFORMANCE IMPLICATIONS

DFA notes that, “This appropriation is a long-term investment in reducing the number of people who enter into mortgages that they cannot properly service and also allowing for a better understanding of the overall complexity of the home ownership process so that potential homebuyers make appropriate home buying decisions that most closely match their financial and structural realities. The state's reduction in home purchase foreclosures and the increase in stronger home loans could measure the performance of the MFA pre-purchase homebuyer education program.”

MFA also notes:

“MFA currently requires an on-line course for its homebuyers. To meet the intent of SB28, MFA would need to develop an MFA-administered housing counseling program that would include direct housing counseling services provided by MFA, as well as capacity building and grant administration services for partner agencies throughout the state. Because this legislation will require program design, a single fiscal year may not be sufficient to spend the full appropriation. Funding statewide pre-purchase education through a single, non-recurring appropriation will have limited impact. Permanent, ongoing funding would greatly improve the effectiveness of the program.”

ADMINISTRATIVE IMPLICATIONS

DFA would need to provide program oversight on the funds expended. No additional administrative implications were identified.

RELATIONSHIP

MFA notes the following:

SB 28 is related to SB 27, SB 29, SB 30, SB 141 and SB 142, all of which resulted from the work of the Foreclosure Process Task Force in 2014.

OTHER SUBSTANTIVE ISSUES

MFA notes that it is a governmental instrumentality, but not a state executive agency. In the past few years, MFA has experienced difficulty obtaining funding from the Department of Finance and Administration in a timely manner. Therefore, appropriations that are limited to expenditure in a single fiscal year often cannot be fully expended. MFA respectfully requests that the appropriation be allowed to be expended in FY 2016 *and* FY 2017.

In addition, MFA respectfully requests that the bill explicitly allow the MFA to expend ten percent should be allowed to spend up to 10 percent of the grant for administration.

LG/bb/je