FISCAL IMPACT REPORT

BILL NUMBER: House Bill 176

SHORT TITLE: Create Zero Interest Down Payment Loan Fund

SPONSOR: Martinez/ Dow/ Henry

LAST UPDATE: ________ **ORIGINAL DATE:** 02/03/26 **ANALYST:** Torres

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Oil and Gas Revenues	**($84,400.0)**	**($86,800.0)**	**($110,100.0)**	**($406,500.0)**	**($512,400)**	Recurring	Eary Childhood Trust Fund
Oil and Gas Revenues	**($61,000.00)**	**($42,740.00)**	**($108,100.00)**	**$0.0**	**$0.0**	Nonrecurring	Medicaid Trust Fund
Oil and Gas Revenues	**($84,400.00)**	**($25,800.00)**	**($67,400.00)**	**$0.0**	**$0.0**	Nonrecurring	Behavioral Health Trust Fund
Oil and Gas Revenues	**$229,800.00**	**$155,340.00**	**$285,600.00**	**$406,500.00**	**$512,400.00**	Recurring	Zero Interest Down Payment Loan Fund

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information
LFC Files

Agency or Agencies Providing Analysis
Health Care Authority
Early Childhood Education and Care Department
New Mexico Mortgage Finance Authority (Housing New Mexico)

SUMMARY

Synopsis of House Bill 176

House Bill 176 (HB176) creates a zero interest down payment loan fund for first-time home buyers and redirects certain excess oil and gas–related revenues and federal mineral leasing revenues to capitalize that fund. The bill amends existing statutes governing the excess extraction taxes suspense fund and distributions of federal mineral leasing act revenues to redirect transfers from the early childhood education and care fund, the behavioral health trust fund, and the medicaid trust fund to the new zero interest down payment loan fund.

The bill creates a new nonreverting fund in the state treasury to be administered by the New Mexico Mortgage Finance Authority (MFA). Subject to available funding, the MFA would provide zero interest loans of up to 20 percent of a home's purchase price to eligible first-time home buyers with household income below 400 percent of the federal poverty level. The loans must be secured by a 30-year mortgage lien, must be repaid upon sale if the home is sold within 30 years, and are subject to foreclosure in the event of default.

The bill becomes effective July 1, 2026.

FISCAL IMPLICATIONS

Under current law, excess oil and gas emergency school tax revenues and excess federal mineral leasing revenues are distributed to a combination of the tax stabilization reserve, early childhood education and care fund, behavioral health trust fund, medicaid trust fund, and severance tax permanent fund, subject to statutory formulas and thresholds. HB176 redirects the excess revenues that would otherwise flow to early childhood, behavioral health, and medicaid trust funds to the new zero interest down payment loan fund.

As a result, the bill represents a reallocation of volatile, nonrecurring revenue streams rather than the creation of a new revenue source. The magnitude of funding available for the loan program will depend on oil and gas prices, production levels, federal leasing activity, and reserve balances, and will vary significantly from year to year. In high-revenue years, the fund could receive substantial deposits; in lower-revenue years, deposits may be minimal or nonexistent.

The bill eliminates future deposits into the early childhood education and care fund, the behavioral health trust fund, and the medicaid trust fund relative to current law. While those funds are not part of the general fund, they support programs that would otherwise place pressure on general fund appropriations. Over time, reduced growth in those trust funds could increase general fund obligations for early childhood, behavioral health, and medicaid services.

House Bill 176 may materially affect the long-term sustainability of the early childhood education and care fund (ECTF) by redirecting revenues that the fund is relying on to meet its new statutory distribution requirements. Recent statutory changes establish a minimum annual distribution floor of $500 million from the ECTF, regardless of investment performance or revenue inflows. By diverting excess oil and gas emergency school tax revenues and federal mineral leasing revenues that would otherwise be deposited into the ECTF, this bill reduces the inflows supporting that distribution obligation. The combination of fixed annual distributions and reduced deposits means future distributions will be made from principal rather than earnings. Over time, this dynamic will cause the fund's corpus to shrink, eroding future earnings capacity and increasing the risk that the ECTF becomes structurally unsustainable without additional revenue sources or statutory changes to distribution requirements.

Loans made under the program are expected to be repaid upon sale or refinance, which may allow some degree of fund recycling. However, because the loans are zero interest and long-term, repayments are likely to be delayed, and the fund will function primarily as a revolving program only over long-time horizons. Loan defaults could also reduce the effective capital available for future borrowers.

SIGNIFICANT ISSUES

House Bill 176 could improve access to homeownership for first-time buyers by addressing one of the most significant barriers to entry in the housing market: the accumulation of a down payment. Even households with stable income and credit may struggle to save for a down payment while facing rising rents, student loan obligations, and higher interest rates. By offering zero interest loans for up to 20 percent of a home's purchase price, the bill could allow eligible households to enter homeownership earlier than would otherwise be possible, particularly in markets where rents are high relative to incomes.

Expanded access to homeownership may generate broader economic and fiscal benefits. Homeownership is associated with greater household stability, lower residential turnover, and increased investment in local communities. Over time, increased homeownership can support neighborhood stabilization, expand the local property tax base, and reduce demand for rental assistance and other housing-related public services. To the extent that first-time buyers transition from renting to owning, the bill may also ease pressure on the rental market at the margin, though this effect depends on housing supply conditions.

The program's loan structure mitigates some fiscal risk by requiring repayment upon sale or refinance and by securing the loan with a mortgage lien. This design distinguishes the assistance from a grant and preserves the possibility of recycling funds over the long term. Although repayments are delayed, the structure aligns public support with asset-building rather than consumption and allows the state to retain a financial interest in the property.

However, the magnitude of these positive impacts depends on housing supply responsiveness. In markets with constrained supply, increased purchasing power will primarily translate into higher prices, reducing the net affordability benefit for buyers and benefiting sellers instead. The benefits of the program will therefore vary regionally and may be more pronounced in areas where new housing construction can respond to increased demand.

Redirecting excess revenues away from early childhood education, behavioral health, and medicaid trust funds represents a significant shift in long-term policy priorities. Those trust funds were designed to provide and prioritize funding for those services and reduce reliance on annual appropriations. Slower growth in those funds may undermine that objective and reintroduce fiscal pressures into funding those programs.

The bill provides eligibility for assistance to households earning up to 400 percent of the federal poverty level, which includes moderate- and higher-income households relative to traditional housing assistance programs. While this may address down payment barriers for middle-income households, it may dilute targeting toward lower-income households most constrained by housing affordability.

The requirement that loans be secured by a 30-year mortgage lien raises questions about interaction with primary mortgage lenders, refinancing transactions, and subordination agreements. Program rules will need to address how zero interest loans interact with conventional mortgage products.

The bill does not establish a loan amount beyond the 20 percent purchase price cap, which could result in large disparities in loans provided and create inequity between homebuyers receiving support. Therefore, the fiscal exposure per borrower may vary widely.

The Early Childhood Education and Care Department notes:

> While HB176 does not amend the Early Childhood Trust Fund distribution rate, it diverts future automatic deposits away from early childhood and toward a new housing loan fund, which would weaken the long-term sustainability framework intended to support early childhood services across New Mexico. The consequence is not merely an accounting change: it reduces the state's ability to maintain care and education of young children as a stable, predictable program over time and increases the likelihood of future funding shortfalls or greater reliance on the general fund…
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> Redirecting all future automatic deposits from the Early Childhood Education and Care Fund would have devastating impacts on the growth of this fund, weakening the fund's ability to support early childhood programs over the long term. Without continued deposits, the corpus of the fund would stagnate or decline, weakening its capacity to provide sustainable distributions over time. As the balance erodes, then distributions to the Early Childhood Education and Care Department may decrease, impacting the department's ability to fund high-quality early childhood programming across the state.

The Health Care Authority highlighted the following concerns:

> House Bill 176 would have a negative fiscal impact on the Health Care Authority (HCA) by diverting revenues that would otherwise be distributed to the Medicaid Trust Fund and Behavioral Health Trust Fund to the newly created Zero Interest Down Payment Loan Fund. While the bill does not appropriate or reduce General Fund dollars directly to HCA, it reduces revenue sources that supports Medicaid and behavioral health services sustainability…
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> Reduced growth of the Behavioral Health Trust Fund will limit the availability of future earnings-based distributions intended to support statewide behavioral health system investments. In the absence of these revenues, continued implementation of the Behavioral Health Reform and Investment Act (SB3, 2025), including sustained funding for regional behavioral health infrastructure, will require increased reliance on general fund appropriations in future fiscal years.
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> [There is also an] impact on Medicaid financing. The Medicaid Trust Fund is intended to provide long-term financial stability for the Medicaid program, including offsetting future general fund obligations, supporting program growth, enrollment increases, or federal funding changes [and] reduced or eliminated deposits to the Medicaid Trust Fund may increase future reliance on general fund or other revenue sources, limits HCA's ability to mitigate federal policy or matching-rate changes, reduced financial flexibility during economic downturns.

Finally, the New Mexico Mortgage Finance Authority (MFA) notes they currently administer three down payment assistance programs serving more than 2,000 households annually, most of whom are first-time home buyers. Those programs include:

- FirstDown – downpayment assistance for first time homebuyers with moderate income limits, which for example in the Albuquerque Metropolitan Statistical Area (MSA) (Bernalillo, Sandoval, Torrance, and Valencia County) is $98,254 for a 1-to-2-person household and $112,992 for households with 3 or more members. This downpayment assistance can be layered with other downpayment assistance programs.'

- FirstDown Plus – A third mortgage down payment assistance loan designed to provide additional down payment to first-time homebuyers qualified to use the New Mexico Mortgage Finance Authority's FirstHome program. Previous homeowners who have not owned and occupied a home as their primary residence in the past three years may also be eligible for the program.
- HomeNow - downpayment assistance for first-time homebuyers who have lower household incomes. The loan has a 0% interest rate and may be forgiven after 10 years if certain conditions are met. The income limits for this program, for example, in Bernalillo County for a 3-person household is $65,800.

PERFORMANCE IMPLICATIONS

The HCA reports:

> By reducing anticipated growth of the Behavioral Health Trust Fund, the bill may affect the state's long-term capacity to support the regional behavioral health system established under SB3. Delayed trust fund growth could limit the availability of stable, recurring funding for regional service delivery and system transformation efforts.

TECHNICAL ISSUES

Although House Bill 176 has an effective date of July 1, 2026, the timing of statutory distributions from the excess extraction taxes suspense fund and federal mineral leasing revenues means the bill would affect revenues attributable to fiscal year 2026. Distributions from these sources are calculated after the close of the fiscal year and are made in September and December of the following fiscal year, based on prior-year collections and statutory formulas. As a result, revenues generated during FY26 that would otherwise have been distributed to the early childhood education and care fund, the behavioral health trust fund, and the medicaid trust fund under current law would instead be redirected to the zero interest down payment loan fund once the bill becomes effective. This timing effect reallocates FY26 revenues despite the prospective effective date, accelerating the fiscal impact on affected trust funds by one fiscal year and further reducing near-term deposits those funds may have been anticipating under existing statutes.

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