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FISCAL IMPACT REPORT

SPONSOR: Stewart DATE TYPED: 03/15/03 HB 779/aHEC/aHJC/aHAFC
 SHORT TITLE: Home Loans for Certain Teachers SB _____
 ANALYST: Kehoe

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			See Narrative		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

New Mexico Mortgage Finance Authority (MFA)
 State Department of Education (SDE)

SUMMARY

Synopsis of HAFC Amendments

The House Appropriation & Finance Committee amendment strikes the appropriation provision of the bill. The bill creates a home loan assistance program within MFA for certain entry-level teachers without a source of funding. However, the bill provides that loan assistance may be made solely at the discretion of MFA, the state or the local school district.

Synopsis of HEC Amendments

House Education Committee amendments to House Bill 779 modify the bill as follows:

- Item 1 requires that any funds for teacher loan assistance shall be disbursed solely at the discretion of the state, MFA and the local school districts.
- Item 2 clarifies that teacher loan assistance is only for down payment and closing costs associated with the purchase of a home.
- Item 3 appears to provide certain conditions for forgiving the teacher assistance loans for down payment and closing costs of a home and at the same time, provide when loans are due. However, the language is vague and may require clarification. The following is recommended: “Teacher home loan assistance loans for down payment and closing costs may be forgiven at the rate of one-fifth of the outstanding balance each year for each year of teaching service in the school district, as provided by authority rule. Loans are due upon sale, refinance or transfer to an ineligible recipient, or upon termination of teaching

with the district before completing the service necessary to obtain complete loan forgiveness.”

Synopsis of Original Bill

House Bill 779 appropriates \$400.0 from the General Fund to the Department of Finance and Administration for the purpose of contracting with MFA to develop a home loan assistance program for certain teachers; and provides for powers, duties, repayment and enforcement of loans through liens.

Significant Issues

House Bill 779 amends the Mortgage Finance Authority Act to require MFA to establish a teacher home loan assistance program to provide low-interest down payment and closing cost loans required for home ownership to entry-level teachers. The bill provides that the state and MFA will each provide 40 percent of the cost of the loan, and the school district where the teacher is employed will provide 20 percent of the cost of the loan. House Bill 779 stipulates that the loan for down payment and closing costs will be forgiven over a period of five years (one-fifth of the outstanding balance each year for each year of teaching service in the school district).

Eligibility for the proposed program requires that an applicant be a certified school instructor who has taught for less than three years and who is employed in a school district as a classroom teacher and who has applied for a loan through a local lender.

House Bill 779 requires MFA to adopt rules and guidelines for implementation of the program to include: income guidelines that consider local home prices in relationship to a participant's income; loan guidelines that provide a sliding scale for loan amounts related to local home prices and the price of the home for which the applicant is seeking down payment assistance; and procedures for encumbering property;

FISCAL IMPLICATIONS

The appropriation was stricken from House Bill 779/aHEC/aHAFC. However, the bill continues to provide that teacher loan assistance be disbursed solely at the discretion of the state, MFA and the local school district. It is unknown if MFA, the state or school districts have sources to financially participate in the program.

ADMINISTRATIVE IMPLICATIONS

House Bill 779 does not provide funding for developing and administering the program. MFA administers numerous down payment assistance programs, but according to MFA, one more program will not cause an additional administrative burden.

OTHER SUBSTANTIVE ISSUES

MFA has specific data that demonstrate Santa Fe's teacher retention crisis is due to high housing costs, and has anecdotal information about the same phenomenon in other communities. Deep subsidy loans, the type low paid entry-level teachers usually require to buy a home, are increasingly difficult to provide due to limited federal formula grant funding to the state. If this bill is not enacted and the appropriation is not granted, entry-level teachers will not be recognized as a

special population with access to a specific funding source for down payment and closing cost assistance. They will “compete” with other low- to moderate-income borrowers who apply for a down payment assistance loan using other existing programs.

MFA’s only concern with the performance of the proposed program relates to the capacity of school districts, particularly school districts in rural areas, to be able to provide the 20 percent matching for the loan amount, marketing of the program, and whether or not housing stock exists in some rural areas. In many rural areas, single-family housing stock is sub-standard and what little for-sale housing stock exists may not be inhabitable.

According to SDE, establishment of the proposed program could aid SDE’s performance measure for retaining quality teachers.

LMK/prr/njw