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FISCAL IMPACT REPORT

SPONSOR Kernan ORIGINAL DATE 02/15/21
LAST UPDATED 03/09/21 HB _____

SHORT TITLE Adjustable Rate Mortgage Changes SB 365/aSJC

ANALYST Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	NFI	NFI			

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Regulation and Licensing Department (RLD)

SUMMARY

Synopsis of SJC Amendment

The Senate Judiciary Committee amendment to Senate Bill 365 strikes references to loans eligible for sale to a federal mortgage association or corporation or one insurable under the federal National Housing Act.

Synopsis of Original Bill

Senate Bill 365 (SB365) amends Section 58-21A-4 NMSA 1978 of the New Mexico Home Loan Protection Act (HLP) with regard to the frequency and limits of adjustments permitted to be made to adjustable rate mortgages originated in New Mexico. This bill seeks to change the maximum frequency of interest rate and payment changes from annually to once every six months and the limit of those periodic adjustments from two percent each to one percent each. The lifetime interest rate cap remains at six percent over the initial rate for the mortgage.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

No fiscal impact.

SIGNIFICANT ISSUES

RLD explained that the changes to the HLPAs sought by SB365 are predicated by corresponding changes at government-sponsored entities (GSEs) Fannie Mae and Freddie Mac. These GSEs announced in 2020 that they are moving from the London Intra-bank Offer Rate (LIBOR) reference rate previously used for most adjustable-rate financial transactions to the Secured Overnight Financing Rate (SOFR). LIBOR became compromised due to manipulation during the last financial crisis and following the joint analysis of regulators, government entities, and market participants, it was determined that the SOFR become the recommended replacement to LIBOR. As such, the GSEs announced that at the end of 2020 they would discontinue purchasing mortgages indexed to LIBOR. The GSEs, in coordination with the regulator (the Federal Housing Finance Agency), resolved to purchase adjustable rate loans indexed to SOFR instead. While LIBOR-indexed loans had interest rates that reset annually, SOFR-indexed loans reset twice per year. In order to avoid more noticeable payment increases, the GSEs also cut the maximum interest rate increase from two percent (2 percent) to one percent (1 percent) per reset.

According to RLD, the existing language of HLPAs prevents origination of adjustable rate mortgage loans that fit within the new parameters set by the GSEs. This would then prevent those loans from being sold to GSEs (as is a common practice in the industry).

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

It would decrease the availability and choice of mortgage loan products to New Mexicans.

AMENDMENTS

RLD believes the language added on page 6, lines 13-17 could cause confusion, does not add to the substance of the bill, and should be struck from the bill to enhance clarity.

AHO/sb/rl/al