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FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Anyanonu	**ORIGINAL DATE**	2/27/2023
SHORT TITLE	Blighted Home & Residential Bldg. Improvement	**BILL NUMBER**	House Bill 497
		ANALYST	Carswell

APPROPRIATION*
(dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY23	FY24		
	$55,000.0	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		$1,650.0	$825.0	$2,475.0	Recurring	NMFA Operating Budget

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Responses Received From
New Mexico Finance Authority (NMFA)
Mortgage Finance Authority (MFA)

SUMMARY

Synopsis of House Bill 497

House Bill 497 appropriates $55 million from the general fund to the New Mexico Finance Authority (NMFA) to carry out the provisions of the Blighted Homes and Residential Buildings Improvement Act. HB497 authorizes NMFA to make loans to qualified applicants of no more than $200 thousand to improve real property valued at between $40 thousand and $400 thousand and located within a designated blighted homes and residential buildings improvement zone. Loans shall be made for a period of 15 years at an annual interest rate equal to one-half of the federal prime rate on the date the loan is made and with no interest accruing until the 10th year of the loan.

HB497 requires NMFA to promulgate rules governing application procedures, loan requirements, and designation of blighted homes and residential buildings improvement zones, which are not defined in the bill. HB497 stipulates certain requirements applicants must meet to qualify for loans, including residence in the state and annual gross revenues of no more than $1 million as determined by income tax returns for five years preceding the application.

HB497 requires NMFA to submit an annual report on its activities related to the Blighted Home sand Residential Buildings Improvement Act to the Legislature, the Legislative Finance Committee, the NMFA Oversight Committee, and the Revenue Stabilization and Tax Policy Committee, and other relevant legislative interim committees starting in October 2025.

The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

The appropriation of $55 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY24 shall revert to the general fund. Although HB497 does not specify future appropriations, establishing a new loan program could create an expectation the program will continue in future fiscal years; therefore, this cost could become recurring.

NMFA estimates administrative costs of approximately 3 percent in the first year and 1.5 percent annually thereafter. The bill does not provide for an administrative fee from the appropriation to cover operating costs, so this analysis assumes an impact to NMFA's operating budget.

SIGNIFICANT ISSUES

The New Mexico Housing Strategy, a report produced in 2022 by the Mortgage Finance Authority (MFA) and an advisory committee including representatives from state and local government, nonprofits, and private industry, identified several strategies for preserving and improving existing affordable housing and supporting redevelopment. The strategies include creating a comprehensive technical assistance fund, a resource catalog, and access to technical assistance providers to assist with redevelopment of underutilized and vacant properties; providing funding to improve existing affordable housing, with priority for projects owned or managed by public, regional, or tribal housing authorities; and ensuring existing tax credits for rehabilitation adequately support multifamily property acquisition and rehabilitation. The housing strategy indicates it is often less expensive to rehabilitate homes to keep them affordable than to build new homes but funding is harder to secure.

ADMINISTRATIVE IMPLICATIONS

Analysis submitted by both MFA and NMFA indicates MFA is better suited to administer the program created by HB497 than NMFA and was likely the agency the program was intended for.

Both MFA and NMFA state creating a new program of this magnitude takes time and would require rulemaking, and development of the application, review, underwriting, and funding processes. Unexpended or unencumbered balances from the appropriation in the bill revert at the end of FY24, however, which is likely not enough time to start the program and spend or commit

the funds.
MFA also states: “The current draft of the bill does not contemplate an affordable housing component, neither the applicant nor the beneficiary is required to meet low-to-moderate income thresholds. While MFA has some flexibility to determine income limits, especially in high-cost areas, these limitations may be in conflict with the current draft of the bill.”

NMFA notes the following:

> HB497 requires NMFA to hire a loan servicer to assist in carrying out the Act, although does not provide an administrative fee to support any costs associated with implementing or operating the loan program. Further, the legislation limits the responsibility of the loan servicer to assembling and submitting loan documents and defining credit worthiness. The NMFA currently assembles and services all its loan documents with the support of contracted professional services. Introducing a loan servicer is unnecessary for documenting loans.
>
> The NMFA possesses the technological infrastructure to operate the loan program. However, the NMFA has minimal professional expertise in lending to the rehabilitation/regentrification residential housing sector. The expertise to underwrite and monitor this type of program would cost significant time and expense. In addition to the costs associated with research and training to prudently provide the financing, the NMFA would require an additional full-time administrator to monitor the projects in the portfolio. This type of expertise may already exist with the Mortgage Finance Authority (MFA).
>
> Section 4.C(3) requires the NMFA to determine what a ‘designated blighted homes and residential building improvement zone’ is, which is outside the scope of NMFA’s current expertise. NMFA would need to hire additional staff with experience in this area or contract with an outside contractor in order to meet this obligation. NMFA believes the provisions of HB 497 may be better suited to an agency with years of experience in this area, such as MFA.
>
> The bill requires no payments of any kind until after 10 years of the origination date. The absence of payment activity will prevent any lender, whether that is NMFA or MFA, from early detection of financial distress of the borrower. Maintaining useful monitoring of the borrower’s financial condition will be very difficult after a rehabilitation project is complete.

TECHNICAL ISSUES

The program created by HB497 may have been intended for the Mortgage Finance Authority not the New Mexico Finance Authority.

HB497 stipulates loan applications shall be received no later than December 31, 2026 but unexpended or unencumbered balances from the appropriation revert at the end of FY24. A one-year period to deploy $55 million from a new lending program is likely insufficient.

The bill does not create a fund for the appropriation to be deposited in. NMFA also notes the bill requires payments from borrowers to be deposited to the state general fund, though NMFA is anticipated to be the lender.

NMFA states the qualification for nonprofits listed in the bill contain references to legal forms reserved to for-profit businesses. Additionally, the term “average adjusted yearly income” may not comply with technical IRS requirements.

NMFA states that the bill provides for loans to be secured by liens on the real property to be improved, there could be situations where a lien on the property already exists and limits NMFA’s ability to obtain a lien.

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