LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 22, 2009

TO: Honorable Yvonne Davis, Chair, House Committee on Urban Affairs

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB2675** by Davis, Yvonne (Relating to the establishment of the foreclosure prevention program.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2675, As Introduced: a negative impact of ($60,103,946) through the biennium ending August 31, 2011.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	($31,093,939)
2011	($29,010,007)
2012	($26,930,575)
2013	($24,855,643)
2014	($22,771,711)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *General Revenue Fund* 1	Probable Revenue Gain from *General Revenue Fund* 1	Change in Number of State Employees from FY 2009
2010	($33,173,370)	$2,079,431	3.0
2011	($33,168,870)	$4,158,863	3.0
2012	($33,168,870)	$6,238,295	3.0
2013	($33,173,370)	$8,317,727	3.0
2014	($33,168,870)	$10,397,159	3.0

Fiscal Analysis

The bill would amend the Government Code relating to the establishment of the foreclosure prevention program. The bill would require the Texas Department of Housing and Community Affairs (TDHCA) to establish a foreclosure prevention program to make financing and refinancing education and assistance available to the public. Financial assistance would be provided to homeowners facing foreclosure who have had circumstances such as unemployment, a reduction of wages or hours of employment, illness, or the death of a spouse or other person contributing to the income of a homeowner. TDHCA would be required to seek and apply for any available federal funding to finance the program.

This bill would take effect September 1, 2009.

Methodology

TDCHA is not aware of any federal funds accessible to the agency for this activity. HOME funds cannot be used to provide assistance to existing loans or refinancing unless the goal of the assistance is substantial rehabilitation of the home. According to TDHCA, federal funding is being made available to lenders for activities such as this, but not to states.

To implement the provisions of the bill, TDHCA estimates it would require 3 FTEs (Program Specialists) totaling $152,662 per year in salary and $43,616 in associated benefit costs per year. Other operating expenses associated with the staff include office supplies for $3,000 per year, and equipment costs of $4,500 for fiscal year 2010 and $4,500 for fiscal year 2013. In addition, TDHCA estimates $689,592 per year in costs to provide mortgage payment assistance and $32,280,000 per year to refinance loans. The primary duties would include evaluation of the homeowner's financial situation, options available, and final resolution.

Based on the analysis of the bill, TDHCA would provide financial assistance to homeowners that are facing foreclosure or who, due to various life events, cannot make mortgage payments. According to the Mortgage Bankers Association's 4th quarter 2008 National Delinquency Survey, there were 3,120,383 loans being serviced in the state of Texas. Of this amount, approximately 9.01 percent, or 281,146 loans, were past due. For the purposes of this analysis, TDHCA assumed that a portion of those borrowers could be assisted through mortgage payments; another portion would require the refinancing of their original loan; and another portion would be in an economic situation such that renting would be the better option. TDHCA also assumes that 30-day delinquent loans typically cure on there own. Therefore, mortgage assistance would only be offered to this group.

To estimate the amount of mortgage assistance that may need to be advanced on behalf of delinquent borrowers, TDHCA took the average home sales price in Texas for 2008 ($146,900), which would result in an average loan payment amount of approximately $1,400 per month. To estimate the amount of assistance needed to assist delinquent borrowers, the following projections are provided: 30 days delinquent – 123,142 X $1,400 (estimated monthly mortgage payment) = $172,398. Since the number of owners that are delinquent in loans reflects a quarterly figure, TDHCA assumes these payments would have to be made four times a year and has calculated anticipated mortgage assistance costs as follows: 30 days delinquent – 123,142 X $1,400 (estimated monthly mortgage payment) = $172,398 X 4 times a year=$689,592.

TDHCA provided the following analysis for refinancing assistance. TDHCA states that of the population delinquent beyond 30 days, TDHCA would offer refinancing to those families that could benefit from this option. For the purposes of this analysis, it is assumed that 1 in 6 of the households delinquent beyond 30 days would benefit from refinancing. It is also assumed that these households would not be able to qualify for refinancing under Housing and Economic Recovery Act of 2008-related Private Activity Bond authority that would be available in fiscal year 2010, and that General Revenue Funds would be needed for all years. Most of the programs at TDHCA reach 1 percent of the target population. Assuming that 1 percent of the households eligible are reached, the agency would assist 269 households.

TDHCA estimated loan refinancing costs as follows: 281,146 delinquent homeowners - 123,142 (less 30 day delinquent loans) = 158,004 homeowners delinquent beyond 30 days. Therefore, 158,004 X 17% X 1% = 269 (Number of Potential Borrowers Eligible for Assistance). TDHCA will assume approximately 20 percent of the original mortgage loan ($146,900) has been paid, leaving an average loan balance of approximately $120,000. Based on this analysis, the final cost estimated to pay off 1st Lien Mortgages is approximately $32 million (269 X $120,000 (Ave. Loan Amount) = $32,280,000 (Amount Needed to Pay Off 1st Lien Mortgages)).

Assuming a five-percent interest rate and that all loans would be paid, TDHCA would realize the following revenues over the 2010-2014 period: $2,079,431 in fiscal year 2010; $4,158,864 in fiscal year 2011; $6,238,295 in fiscal year 2012; $8,317,727 in fiscal year 2013, and $10,397,159 in fiscal year 2014.

Technology

TDHCA estimates computer equipment costs of $4,500 for fiscal year 2010 and $4,500 for fiscal year 2013 for the additional staff.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 332 Department of Housing and Community Affairs

LBB Staff: JOB, DB, MW, NV