TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 23 - SB 1341

February 23, 2009

SUMMARY OF BILL: Authorizes the Tennessee Housing Development Agency (THDA) to make uninsured homeowner's emergency mortgage assistance fund loans, secured by second or third position liens, on residential property for homeowners in default, or at risk of default, due to an interest rate reset on conventional sub-prime adjustable rate mortgage loans.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – In order to implement the program, a minimum of $169,462,000 in state funds will need to be appropriated to the Homeowner's Emergency Mortgage Assistance Fund. Such amount is assumed to be sufficient for start-up expenditures incurred by THDA to launch the program and for resolving current mortgagor delinquency. However, more will be required if future delinquency is taken into consideration.

Assumptions:

- The fiscal impact of this bill is dependent upon multiple unknown factors such as the number of mortgagors with adjustable rate mortgages currently being foreclosed on, the number that will be foreclosed on in the future, the extent of their delinquencies, the availability of capital for the program proposed, the ability of delinquent mortgagors to repay the homeowner's emergency mortgage assistance fund loans entered into as a result of this bill, and the probability that such loans will be paid-in-full.
- According to THDA, and based on Mortgage Banker Association data, there were 12,223 mortgages delinquent for more than 30 thirty days, but less than 60 days in the third quarter of 2007; an additional 16,471 were delinquent for at least 60 days, but less than 90 days; an additional 27,568 were delinquent for more than 90 days. The total number of delinquent mortgages for the third quarter of 2007 is estimated to be 56,262. The average mortgage payment for these mortgages was approximately $1,316 per month.

- Fifteen percent increase in the number of delinquent mortgages from the end of third quarter of 2007 to end of second quarter 2008. The adjusted number of delinquent mortgages is estimated to be 64,700 (56,262 x 115% = 64,701).
- Forty percent of individuals with such delinquent mortgages (25,880) will meet the eligibility requirements as proposed for obtaining homeowner's emergency mortgage assistance fund loans.
- The maximum amount proposed for each homeowner's emergency mortgage assistance fund loan is $15,000. The average amount for homeowner's emergency mortgage assistance fund loans is estimated to be $6,448 [($1,316 monthly mortgage payment x 3 delinquent months) + $2,500 closing costs to convert from an adjustable rate mortgage to a fixed rate mortgage = $6,448].
- The amount of capital required for underwriting initial homeowner's emergency mortgage assistance fund loans is estimated to exceed $166,874,200 (25,880 x $6,448 = $166,874,240).
- THDA will not be able to secure adequate capital from traditional sources for this program given extremely high investment risk associated with a second or third position lien. Therefore, an appropriation of state funds will be required.
- Administrative costs for THDA to implement the provisions of this bill are estimated to exceed $100 per loan. Initial administrative costs are estimated to exceed $2,588,000 (25,880 x $100 = $2,588,000).
- Given this bill is dependent upon multiple unknown factors, determining a precise fiscal estimate is especially problematic. However, it is reasonably estimated that at least $169,462,000 will be required to implement the provisions of the bill ($166,874,200 + $2,588,000 = $169,462,200). This amount is assumed to be sufficient for start-up expenditures incurred by THDA to launch the program and sufficient for resolving current mortgagor delinquency. Therefore, at least $169,462,000 in state funds would need to be appropriated to Homeowner's Emergency Mortgage Assistance Fund to implement the program. This sum is not expected to be sufficient for future mortgage delinquency.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director

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