



Jon Hummell, Interim Director

Division of the Budget

Sam Brownback, Governor

March 25, 2014

The Honorable Marc Rhoades, Chairperson
House Committee on Appropriations
Statehouse, Room 111-N
Topeka, Kansas 66612

Dear Representative Rhoades:

SUBJECT: Fiscal Note for HB 2758 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2758 is respectfully submitted to your committee.

HB 2758 would create the Kansas Housing Loan Guarantee Program which would be administered by the State Treasurer. The purpose of the program is to provide incentives for making mortgage loans for the construction or purchase of new homes in rural areas. The program would allow an eligible lending institution that has agreed to make a mortgage loan to an eligible buyer to apply for a second mortgage guaranteed by the state for up to 90.0 percent of the gap amount, which is the amount that the purchase price of the home exceeds its appraised value. If the State Treasurer approves this application, the lending institution would then issue the second mortgage in favor of the State of Kansas, and the second mortgage would remain in effect until the appraised value of the home exceeded the outstanding balance on both mortgages. The lending institution would be charged a loan guarantee fee as long as the second mortgage for the gap amount remained in effect.

Each gap amount loan could not exceed \$35,000 on a single family home or \$20,000 per dwelling for multi-family units, not to exceed a total of \$160,000. The total of all gap amount loans could not exceed \$4.0 million. The Treasurer would be authorized to borrow up to \$2.0 million from the Pooled Money Investment Board (PMIB) if the fees collected were not sufficient to cover its losses due to defaults on these loans. No additional guarantees could be issued as long as the program owed any amount to the PMIB.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	--	--
Expenditure	--	--	\$103,500	\$103,500
FTE Pos.	--	--	--	1.00

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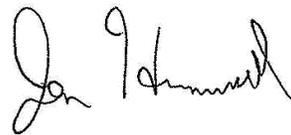
Because the state would be taking on the risk of guaranteeing a second mortgage for the gap amount, the State Treasurer indicates that it would need to hire a financial examiner with the skills necessary to evaluate the borrower's credit risk and the marketing skills necessary to promote the program. The agency estimates the costs associated with this position would be \$71,500 for salaries and wages, including benefits. Other expenses associated with the program would include \$12,000 for training and travel, \$7,000 for office space, \$3,000 for IT support and \$10,000 for printing and advertising, for a total of \$103,500 annually.

A fee of more than 2.5 percent on gap loans for the total authorized amount of \$4.0 million would need to be charged to cover the costs of the program without generating a reserve to cover potential losses on the guarantee. Assuming 50.0 percent of the funds were loaned out in the first year, the fee would have to be 5.0 percent to cover expenses. Because it is impossible to determine the rate of participation or growth in the program, the agency states that it would need an appropriation of \$103,500 from the State General Fund to cover operating expenses in the first year before loans are issued and generating fee income. As fee fund revenue would be received, the need for State General Fund would be offset.

According to the Federal Reserve Bank of Kansas City, the delinquent mortgage rate for 41 Kansas counties is 2.0 to 4.0 percent and 29 Kansas counties are in the 4.0 to 6.0 percent category. A 4.0 percent assumed default rate would add \$160,000 to the annual expenses of the program and 3.0 percent to the fees needed to cover defaults without borrowing from the PMIB. The State Treasurer estimates that the total loan guarantee fee would need to be between 6.5 percent and 9.0 percent.

The State Treasurer notes that although the bill allows for borrowing from the PMIB, the program would not be able to generate more fees from approving new loans if a PMIB loan was outstanding. Defaults early in the program could leave the program without the ability to generate revenue to cover its costs and pay back the PMIB loan. In addition, if over the long term the program does not recruit enough participants or if defaults exceed expectations, State General Fund dollars could be needed to cover the costs of the program's operations. Any fiscal effect associated with HB 2758 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is fluid and cursive, with the first name "Jon" being particularly prominent.

Jon Hummell,
Interim Director of the Budget

cc: Derek Kreifels, Treasurer's Office