

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: Senate Bill 582 (First Edition)

SHORT TITLE: Teacher Loan Program.

SPONSOR(S): Senator Forrester

FISCAL IMPACT					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
<u>General Fund</u>					
REVENUES	\$0	\$0	\$0	\$0	\$0
EXPENDITURES					
Appropriation to the Housing Finance Agency	\$595,000	\$17,500	\$17,500	\$0	\$0
POSITIONS (Cumulative):	1 FTE	0.25 FTE	0.25 FTE	0 FTE	0 FTE
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Housing Finance Agency, Department of the State Treasurer					
EFFECTIVE DATE: When the bill becomes law.					

BILL SUMMARY: (Adopted from the March 16, 2005 Bill Digest):

This would require the State Treasurer and the North Carolina Housing Finance Agency to develop a mortgage assistance pilot program for public school teachers who have been teaching for less than one year or who are scheduled to begin teaching. It requires that the State Treasurer consider providing low-interest loans for down payments and closing costs and arranging to forgive or convert loans into interest-free grants if the teachers teach in the public schools for three years. The pilot program shall include at least one low-wealth school district, one urban district, and one rural district. Finally, the bill requires the State Treasurer to report on the pilot program to the Joint Legislative Education Oversight Committee on or before October 1, 2007.

ASSUMPTIONS AND METHODOLOGY:

Previous Pilot Program

The State Treasurer and the North Carolina Housing Finance Agency established a pilot teacher mortgage loan program in four school systems between November 2001 and February 2002. The pilot is described in the published fiscal note for a similar bill from the 2003 Session (Senate Bill 267). For that pilot program, the Housing Finance Agency offered teachers in four school systems a first mortgage at 4.99% (at the time it was equivalent to a 1.5% interest subsidy from the going market rate) and a second mortgage for closing cost and down payment assistance. The second mortgage repayments are deferred as long as the first mortgage remains outstanding.

The pilot teacher mortgage program costs included the marketing and other administrative cost and the cost of the interest subsidy. The State Treasurer and the Housing Finance Agency partnered with local boards of education and/or the chambers of commerce in the four pilot areas. These local groups provided seed money of between \$2,500 and \$5,000 each that was used for marketing and other administrative cost. The Housing Finance Agency was able to absorb the cost of the interest subsidy for the teacher mortgage loans made from the earnings on its regular low-interest mortgages it makes to North Carolinians. The first and second mortgages made to the participating teachers are to be repaid by the teachers.

The Department of the State Treasurer did not incur any additional cost to implement the pilot program.

SB 582 Pilot Program

To implement this bill, the Housing Finance Agency assumes that it would provide forgivable second mortgage loans of \$7,000 to new teachers for down payment assistance and closing costs for first home purchases. This forgivable second mortgage loan approach requires that prospective new teachers would need to qualify for the Housing Finance Agency's standard first-time home buyer first mortgage loan that offers a below market mortgage loan rate (currently at 5.25%). Eligible teachers would receive the forgivable \$7,000 second mortgage to help with the closing costs and down payment. Each pilot program participant would be required to pay \$750 of his or her own funds towards the house purchase. The second mortgage would be forgiven at the rate of one-third per year over the three years of the pilot program, as long as the teacher remained in the classroom and had acceptable performance. The Housing Finance Agency would require that any teacher who would leave employment with the pilot school district prior to the end of the three-year pilot period would have to repay the unforgiven second mortgage balance when the participating teacher's house were sold or refinanced.

The Housing Finance Agency estimates that its total cost to implement the pilot programs, over three years in three school districts based on a forgivable second mortgage loan approach, would be \$630,000. Based on the Housing Finance Agency's experience with the previous teacher loan pilot program, the Agency estimates that each pilot site must be able to provide financing support to 25 teachers. Thus, in year one of the pilot programs, a non-recurring appropriation of \$525,000 (25 teachers *3 sites *\$7,000 forgivable second mortgage loan) would be needed for the forgivable second mortgage loans. The remaining \$105,000 of estimated cost is for personnel and operating expenses over the full three-year pilot period. The Housing Finance Agency projected a total of \$70,000 would be required for pilot year one, \$17,500 for pilot year two, and \$17,500 for pilot year three.

Of the \$70,000 for costs that would be incurred in year one of the pilot, the Housing Finance Agency estimates \$60,000 would be required for salary and benefits of one full-time mortgage underwriter and \$10,000 for operating expenses and travel. The underwriter would be responsible for document preparation, school district selection, marketing outreach in the three pilot program school districts, loan agreement negotiations between the borrower and the lending institutions, lender training, and underwriting activities.

Of the recurring \$17,500 required for year two and year three of the pilot, the Housing Finance Agency would reduce the full-time mortgage underwriter position to quarter time (0.25 of a full position), thereby needing \$15,000 for salary and benefits. The Agency also estimated a recurring amount of \$2,500 would be needed for operating and travel to continue program oversight.

The Housing Finance Agency's estimate of cost did not include funding assistance from the local boards of education and/or chambers of commerce.

The Department of the State Treasurer estimates that implementation of the pilot will have no fiscal impact on the Department.

SOURCES OF DATA: NC Housing Finance Agency, Department of the State Treasurer

TECHNICAL CONSIDERATIONS: None.

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