

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 2034
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: MAY 12, 2020

SUMMARY

Synopsis: Establishes the “Mortgage Assistance Pilot Program.”

Type of Impact: Indeterminate impact on State finances.

Agencies Affected: New Jersey Housing and Mortgage Finance Agency.

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State Finances	Indeterminate Impact		

- The Office of Legislative Services (OLS) estimates that the enactment of the bill would have an indeterminate fiscal impact on the New Jersey Housing and Mortgage Finance Agency (NJHMFA).
- Under the bill, the NJHMFA would be required to administer the Mortgage Assistance Pilot Program, wherein the agency would provide principal reductions to the mortgages of qualified homeowners in exchange for a proportionate equity share in each property. The pilot program would operate for three years.
- The principal reductions provided under the pilot program are expected to result in a short-term decrease in NJHMFA revenue due to the reduced mortgage and interest payments of participating homeowners. However, restructuring mortgages for homeowners who are in default could also lead to consistent payments and limit greater revenue losses to NJHMFA.
- The NJHMFA could incur additional debt service costs if the resulting mortgage payments are insufficient to fully support the agency’s scheduled mortgage revenue bond payments. In this event, the agency would be required to use other funding sources to support scheduled bond payments.
- However, short-term decreases in NJHMFA revenue are expected to be offset in the long-term by (1) the receipt of a portion of the sales price of each property involved in the pilot program, and (2) the repayment of the amount of the principal reduction.

BILL DESCRIPTION

This bill establishes the Mortgage Assistance Pilot Program for a period of three years. The pilot program, to be administered by the NJHMFA, would allow certain homeowners, who have negative home equity and who are in default on an agency-owned mortgage, to lower their principal balances and interest payments by transferring shares of equity in the mortgaged property to the agency. The NJHMFA would receive an equity share in proportion to the percentage of the principal reduction. Under the bill, the principal balance reduction of a qualified mortgage may not exceed 30 percent. Upon the eventual sale of the mortgaged property, the NJHMFA would receive the percentage of the sales price equal to its equity share in the property.

The bill also requires a homeowner participating in the pilot program to repay the amount of the principal reduction, over the ten-year period, following the final payment of the restructured mortgage. Additionally, the bill provides that if the homeowner sells the property within five years of the mortgage restructure, an additional five percent of the sales price is required to be paid to the NJHMFA.

Under the bill, the equity share of the NJHMFA in a mortgaged property would not result in the property tax exemption of the property. The bill also provides that the equity share would not constitute a property encumbrance or lien for the purposes of municipal tax sales. The bill also requires the Department of the Treasury, in consultation with the NJHMFA, to issue a report assessing the pilot program.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the enactment of the bill would have an indeterminate fiscal impact on the NJHMFA. Specifically, the principal reductions provided through the Mortgage Assistance Pilot Program are expected to result in a short-term decrease in NJHMFA revenue due to the reduced mortgage and interest payments of participating homeowners. As a result, the NJHMFA could incur additional debt service costs if the resulting mortgage payments are insufficient to fully support the agency's scheduled mortgage revenue bond payments. However, short-term revenue decreases are expected to be offset in the long-term by (1) the receipt of a portion of the sales price of each property involved in the pilot program, and (2) the repayment of the principal reduction.

The NJHMFA, Mortgage Revenue Bonds, and Principal Reductions

The NJHMFA is a State agency that operates "in, but not of," the Department of Community Affairs. However, the NJHMFA does not receive State funding. As a result, NJHMFA operations are funded through the issuance of mortgage revenue bonds, in addition to certain other sources. Mortgage revenue bonds are secured by the monthly mortgage payments of borrowers whose home mortgages were financed by the bond sale. As such, the mortgage payments of borrowers who benefit from NJHMFA loans provide the stream of revenue from which the agency repays its bondholders.

Under the bill, the Mortgage Assistance Pilot Program would require the NJHMFA to provide a principal reduction, and interest reduction if applicable, to qualifying homeowners, including those who have negative home equity and are in default on an agency-owned mortgage. As a

result of the restructured mortgages of participating homeowners, the NJHMFA could experience a short-term decrease in revenue associated with the reduced mortgage and interest payments of those homeowners. However, restructuring mortgages for homeowners who are in default could also lead to consistent payments and limit greater revenue losses to NJHMFA.

The NJHMFA could also incur additional debt service costs if the restructured mortgages of participating homeowners result in a revenue stream that is insufficient to fully fund the amounts owed to mortgage revenue bondholders. In this event, the agency would be required to use other funding sources (e.g., surplus, funds designated for other programs, funds held in a debt service reserve) to make scheduled bond payments, or risk a credit downgrading.

However, because the extent of any decrease in revenue depends on (1) the number of homeowners that participate in the pilot program, and (2) the resulting mortgage payments of homeowners, the OLS is unable to predict the extent to which the bill would actually impact the agency's scheduled bond payments.

Equity Shares and Principal Reduction Repayments

Although the NJHMFA may experience short-term revenue decreases as a result of the bill, these decreases are expected to be offset in the long term. Specifically, the agency would recoup the short-term revenue decreases through (1) the receipt of a portion of the sales price of each property involved in the pilot program, and (2) the repayment of the amount of the principal reduction.

Under the bill, the NJHMFA would receive an equity share in each property, not to exceed 30 percent, equal to the percentage of the principal reduction provided to the homeowner. Thereafter, upon the sale of the property, the NJHMFA would receive the percentage of the sales prices equal to its equity share in the property. For example, if the NJHMFA's equity share in a property equaled 15 percent, then the agency would be entitled to 15 percent of the final sales price. Moreover, if the homeowner were to sell the property within five years of restructuring the mortgage under the pilot program, the NJHMFA would also receive an additional five percent of the sales price. If this occurred in the prior example, the NJHMFA therefore would have received 20 percent of the sales price.

Additionally, any participating homeowner that continues to occupy the property after completing the final payment of the restructured mortgage would be required to repay the amount of the principal reduction. These principal reduction repayments would be made to the NJHMFA over a ten-year period beginning after the final payment of the restructured mortgage.

Given that the OLS cannot predict the sales prices of those properties involved in the pilot program, the OLS is unable to determine the extent to which the NJHMFA would fully recoup its decreases in revenue.

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).