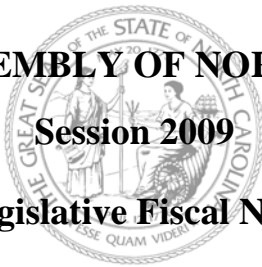


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1216 (First Edition)

SHORT TITLE: Extend Emergency Foreclosure Program.

SPONSOR(S): Senator Blue

FISCAL IMPACT (\$ in millions)					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>
REVENUES (\$million)					
State Home Foreclosure Prevention Trust Fund	\$6.3	\$4.2	\$3.85	\$0	\$0
EXPENDITURES (\$millions)					
NCCOB Admin Expenses	\$1.4	\$2.3	\$2.2	\$0	\$0
Counselor Funding grants	\$2.7	\$1.8	\$1.7	\$0	\$0
Legal Services grants	<u>\$.9</u>	<u>\$.6</u>	<u>\$.6</u>	<u>\$0</u>	<u>\$0</u>
NCCOB Total	\$5.1	\$4.7	\$4.5	\$0	\$0
AOC	See Assumptions and Methodologies				
POSITIONS (cumulative):					
NCCOB	15	15	15	0	0
AOC	See Assumptions and Methodologies				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Office of the Commissioner of Banks; Administrative Office of the Courts					
EFFECTIVE DATE: November 1, 2010					

BILL SUMMARY:

This bill would amend and extend the Emergency Program to Reduce Home Foreclosures Act (the "Act"). Under current law, the Act requires pre-foreclosure notices to be filed with regard to subprime mortgages. This notice must be sent to the homeowner and filed with the Administrative Office of the Courts. The bill would extend the requirement to all home loans. The bill would also require the mortgage servicer to pay a \$75 fee when filing a pre-foreclosure notice. Such fee would be deposited with the State Home Foreclosure Prevention Trust Fund.

The State Home Foreclosure Prevention Trust Fund is an account that is established by the bill and managed and maintained by the Office of the Commissioner of Banks (the “NCCOB”). The bill requires that the NCCOB allocate the funds in the State Home Foreclosure Prevention Trust Fund to (i) the administrative costs of operating the program, (ii) grants and reimbursements to non-profit housing counseling agencies for providing foreclosure prevention counseling services, and (iii) grants and reimbursements to non-profit legal service providers for certain services related to foreclosure avoidance. Any funds remaining upon the expiration of the State Home Foreclosure Prevention Project will be directed to the North Carolina Housing Trust Fund.

The Act expires on October 31, 2010. The bill would extend the Act to May 31, 2013.

BACKGROUND:

The Act went into effect on November 1, 2008 in response to a substantial increase in mortgage foreclosures. The purpose of the Act was to bring borrowers and lenders together to avoid foreclosures where possible. The requirements of the Act are limited to subprime loans.

The Act requires mortgage servicers to send a notice to homeowners with certain subprime loans 45 days prior to the filing of a foreclosure proceeding (the “Notice”). In addition, the Act requires the mortgage servicer to file such Notice with the Administrative Office of the Courts. The Notice is entered into a database and allows the NCCOB to contact homeowners and encourage them to take steps to avoid foreclosure including referrals to a non-profit housing counselor who can contact the mortgage servicer. Mortgage servicers and housing counselors report that once they are in contact, two out of three homeowners are able to avoid foreclosure. The NCCOB has also made a series of grants to nonprofit housing counseling agencies to expand the availability of foreclosure prevention counselors.

ASSUMPTIONS AND METHODOLOGY:

I. Revenue

NCCOB has estimated that the following number of pre-foreclosure filings will be made between November 1, 2010, which is the effective date of the bill, and May 31, 2013, which is the expiration of the bill. Their estimates are based on delinquency data from the Mortgage Bankers Association as well as economic forecasts regarding future delinquencies and foreclosure activity.

	FY 2010-11	FY 2011-12	FY 2012-2013
Number of Pre-Foreclosure Filings	84,000	56,000	51,333

Each mortgage servicer will pay a fee of \$75 for each pre-foreclosure notice filed, which will lead to the following revenue:

	FY 2010-11	FY 2011-12	FY 2012-2013
Revenue	\$6,300,000	\$4,200,000	\$3,850,000

II. Administrative Expense

Staff needed for the administration of the bill will include 15 time limited employees in the State Home Foreclosure Prevention Project (“SHFPP”) as well as permanent staff from the NCCOB that will be partially allocated to the project. The SHFPP staff sends out an initial letter to each homeowner that receives a Notice. They also act as an intermediary between counselors and mortgage servicers, especially with regard to more difficult workout situations. In addition, they conduct legal reviews of certain loans, including the investigation of fraudulent situations, and respond to homeowner concerns and complaints with regard to the program.

The annual cost for the 15 employees in the SHFPP based on FY 2010-11 expected costs will be as follows:

	Salary	Health Insurance	Retirement	SS & Medicare	Total Per Employee	Number of Employees	Total
Director	\$90,000	\$4,929	\$9,450	\$6,885	\$111,264	1	\$111,264
Foreclosure Prevention Fellows	\$78,000	\$4,929	\$8,190	\$5,967	\$97,086	5	\$485,430
Foreclosure Prevention Paralegals	\$42,000	\$4,929	\$4,410	\$3,213	\$54,552	8	\$436,416
Audit	\$50,000	\$4,929	\$5,250	\$3,825	\$64,004	1	\$64,004
						15	\$1,097,114

In addition, seven employees from NCCOB will be partially allocated to the foreclosure prevention program. These seven employees earn \$220,159 per year inclusive of benefits and will be allocated 70% to the program which will bring about an allocated annual cost of \$154,111.

Since the bill will only be in effect for 8 months of FY 2010-11 and 11 month of FY 2012-13, and these amounts will be increased by inflation each year, we expect the following staff expenses:

	FY 2010-11	FY 2011-12	FY 2012-13
SHFPP Staff Expense	\$731,409	\$1,187,516	\$1,197,303
NCCOB Staff Expense	\$102,741	\$166,810	\$168,185
Total Staff Expense	\$834,150	\$1,354,326	\$1,365,488

In addition to the staff mentioned above, NCCOB has contracted with Connectinc. to operate a call center. The initial letter sent to each homeowner instructs them to call a 1-800 number for

assistance. Connectinc. receives the initial call and makes the initial referral to a housing counseling agency. NCCOB is also planning an outreach campaign that will include primarily

public service radio advertisements, but may also include television advertisements and a door to door campaign to contact especially hard to reach borrowers. We are expecting the following additional annual administrative expenditures which are based on expected FY 2010-11 costs:

IT	\$119,028.00
Postage and supplies	\$352,961.26
Telephone and call center	\$243,516.00
Outreach	\$175,000.00
Travel/registrations/training	\$25,000.00
Total	\$915,505.26

Since the bill will only be in effect for 8 months of FY 2010-11 and 11 month of FY 2012-13, and these amounts will be increased by inflation each year, we expect the following other administrative expenses:

	FY 2010-11	FY 2011-12	FY 2012-13
Total other administrative expenses	\$610,337	\$939,675	\$883,764

Based on the above, we expect the following total administrative expenses:

	FY 2010-11	FY 2011-12	FY 2012-13
Total staff expense	\$834,150	\$1,354,326	\$1,365,488
Total other administrative expenses	\$610,337	\$939,675	\$883,764
Total Administrative Expense	\$1,444,487	\$2,294,001	\$2,249,252

III. Counselor Funding Grants

Currently, about 10% of the homeowners that receive a pre-foreclosure notice receive counseling. The cost to counsel each homeowner is estimated at \$325. Based on these assumptions, we expect the following grant schedule to counselors:

	FY 2010-11	FY 2011-12	FY 2012-13
Estimated pre-foreclosure filings	84,000	56,000	51,333
Estimated number to counselors (10%)	8,400	5,600	5,133
Cost to counsel (\$325)	\$2,730,000	\$1,820,000	\$1,668,333

IV. Legal Services Grants

The SHFPP will also make grants for legal services. After deducting administrative and counseling costs, the program has approximately \$2.1 million left to allocate to legal services. This amount will likely be distributed over the three years in proportion to pre-foreclosure filings and we expect grants as follows:

	FY 2010-11	FY 2011-12	FY 2012-2013	Total
Number of pre-foreclosure filings	84,000	56,000	51,333	191,333
Percent of total	44%	29%	27%	100%
Funds for legal service grants	\$941,237.88	\$627,491.92	\$575,197.19	\$2,143,927

V. Effects on the Administrative Offices of the Courts

The bill would likely also increase the number of pre-foreclosure filings that the Administrative Offices of the Courts would receive since these notices would be required as a part of all home loan foreclosures rather than only subprime loans. The information is, though, received by the Administrative Offices of the Courts in an electronic format that they designate. As a result, we expect that the bill will not have a significant fiscal impact on the Administrative Offices of the Courts.

SOURCES OF DATA: Office of the Commissioner of Banks; Moody's economy.com

TECHNICAL CONSIDERATIONS: None

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Signed Copy Located in the NCGA Principal Clerk's Offices