OFFICE OF FISCAL ANALYSIS

Legislative Office Building, Room 5200
Hartford, CT 06106 ◇ (860) 240-0200
http://www.cga.ct.gov/ofa

sSB-284
AN ACT CONCERNING A SECURITY DEPOSIT LOAN ASSISTANCE PROGRAM.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 25 $	FY 26 $	FY 27 $
Banking Dept.	BF - Potential Cost	At least 145,000	At least 143,000	At least 143,000
Banking Dept.	BF - Potential Revenue Gain	100,000 - 250,000	100,000 - 250,000	100,000 - 250,000
Department of Housing	GF - Potential Cost	218,000	291,000	291,000
State Comptroller - Fringe Benefits[1]	GF - Potential Cost	91,000	121,000	121,000
Resources of the General Fund	GF - Cost	None	None	Potential
Department of Revenue Services	GF - Potential Revenue Loss	None	Less than 2,500	Less than 2,500

Note: BF=Banking Fund; GF=General Fund

Municipal Impact: None

Explanation

The bill establishes a residential rental security deposit loan program, resulting in the fiscal impacts described below, all of which are contingent on lender participation in the program.[2]

---

[1]The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 41.25% of payroll in FY 25.

[2]The bill prohibits eligible financial institutions from using creditworthiness or debt-to-income ratio in determining loan eligibility and caps the interest rate of these loans at 4% annually.

Primary Analyst: RP 3/27/24
Contributing Analyst(s): EMG, MP, CR, CW
Reviewer: PR

Department of Banking and the Banking Fund

The bill requires the Department of Banking (DOB) to: (1) provide virtual financial literacy classes to and collect an application fee of up to $50 from those who receive a loan under the program and (2) enroll loan recipients in a service to report on-time rental payments to credit bureaus, if recipients so choose.

Depending on the volume of eligible renters that receive loans under this program, DOB may be required to hire a banking education coordinator to administer the virtual financial literacy classes, resulting in a potential cost of $145,000 ($73,000 starting salary, $70,000 fringe benefits,[3] $2,000 other expenses) in FY 25 and $143,000 in each fiscal year thereafter, subject to employee wage increases.

To the extent loans are offered, and if DOB decides to charge the full $50 application fee, there is a potential revenue gain to the Banking Fund of approximately $100,000 to $250,000 annually. It is expected that this revenue will be used to cover any expenses incurred from the reporting requirements discussed below.

There is a potential cost to DOB to enroll loan recipients in a service to report on-time rental payments to credit bureaus. It is expected that the revenue from the $50 application fee will cover all expenses involved. However, because DOB does not currently perform this function, this requirement may, but is not expected to, result in increased staffing costs to the department.

The bill also requires DOB to determine which lenders are eligible to participate in the program and consider such participation when assessing a lender's community reinvestment performance, resulting in no fiscal impact to the state.

[3]The fringe benefit costs for employees funded out of other appropriated funds are budgeted within the fringe benefit account of those funds, as opposed to the fringe benefit accounts within the Office of the State Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes for other appropriated fund employees is 95.61% of payroll in FY 25.

Department of Housing and Resources of the General Fund

To the extent lenders are willing to participate in the security deposit loan assistance program and it can be established in early FY 25, the bill results in staffing costs for four full-time staff at the Department of Housing (DOH) to establish and administer certain aspects of the program. These costs are expected to total approximately $309,000 in FY 25 and $412,000 in FY 26, and annually thereafter ($218,000 salaries and $91,000 fringe benefits in FY 25; $291,000 salaries and $121,000 fringe benefits fully annualized).

To the extent loans are offered, there is anticipated to be demand among eligible renters given the low cost of the loans, particularly for people with poor credit or high debt-to-income ratios. If the average security deposit loan under the program is approximately $2,000, the state would be guaranteeing up to $500 per loan on average.

State costs to the resources of the General Fund for payments to lenders could exceed $100,000 annually, depending on the number of loans issued and the non-payment rate.[4] Given the time lags involved (for the program to make loans, tenants to stop making payments, and lenders to make a good faith effort to collect debts prior to making a claim to DOH), costs to pay lender claims are not anticipated before FY 27 at the earliest.

While DOH would have the authority to continue collection efforts on loans for which lenders make claims, DOH does not have debt collection staff. Therefore, no revenue from collections is anticipated.

Department of Revenue Services

The bill also establishes a state income tax exemption for interest deferred by or not charged to a renter with a security deposit loan, resulting in a potential General Fund revenue loss of less than $2,500

[4]The bill limits state guarantee costs by requiring the program to stop guaranteeing new loans when payments to lenders for existing loan guarantees exceed 10% of the total value of issued loans.

annually beginning in FY 26. The actual amount depends on: (1) lenders participating in the program, (2) interest rates charged, and (3) the amount of interest deferred or not charged to participants.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to participation of eligible financial institutions, the number of loans applied for by eligible renters, state payments made on loan guarantees, inflation, and employee wage increases.