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SB-284
AN ACT CONCERNING A SECURITY DEPOSIT LOAN ASSISTANCE PROGRAM.
AMENDMENT
LCO No.: 4976
File Copy No.: 162
Senate Calendar No.: 127

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 25 $	FY 26 $	FY 27 $
Department of Housing	GF - Potential Cost	Up to 218,000	Up to 291,000	Up to 291,000
State Comptroller - Fringe Benefits[1]	GF - Potential Cost	Up to 91,000	Up to 121,000	Up to 121,000
Resources of the General Fund	SDLAP - Potential Cost	None	None	Potential
Department of Revenue Services	GF - Potential Revenue Loss	None	Less than 2,500	Less than 2,500

Note: GF=General Fund; SDLAP=Security Deposit Assistance Program Account

Municipal Impact: None

Explanation

The amendment strikes the underlying bill and its associated fiscal impact, resulting in the fiscal impact described below.

The amendment requires the Department of Housing (DOH) to establish a security deposit loan assistance program upon funds being

[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.

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appropriated for the program to a new non-lapsing General Fund account. Therefore, the first year the fiscal impact will occur is unknown, and the fiscal impacts described below are conditional on such appropriations being made. The fiscal impact is also contingent on lender participation in the program.[2]

To the extent lenders participate and if appropriations are provided for loan guarantees beginning in FY 25, the amendment results in General Fund staffing costs for up to four full-time staff at the Department of Housing (DOH) to administer the program. State costs are expected to total up to $309,000 in FY 25 and up to $412,000 in FY 26, and annually thereafter (up to $218,000 for salaries and $91,000 fringe benefits in FY 25; up to $291,000 for salaries and $121,000 fringe benefits fully annualized) if staff are hired for an October 1, 2024 start date. The number of new staff required is expected to depend on the number of loans that will be provided through the program, as DOH will need to track applications across lenders, vet landlords, and eventually approve claims to honor guarantees.

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.[3] If the average security deposit loan under the program is approximately $2,000, the state will be guaranteeing up to $1,000 per loan on average, since the lender can make a claim for 50 percent of the outstanding principal of a security deposit loan that it cannot collect after 24 months and a good faith effort.

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

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[2]The amendment 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. Eligible financial institutions may collect an application fee of up to $50.

[3] Eligibility is limited to certain groups for rentals that do not exceed a certain share of household income.

are not anticipated before FY 27 at the earliest. State costs to the Security Deposit Loan Assistance Program (SDLAP) account for payments to lenders could exceed $200,000 annually, depending on the number of loans issued and the non-payment rate. The amendment 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.

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.

The amendment requires the Department of Banking (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.

Additionally, the amendment 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 annually beginning in the subsequent fiscal year after the program begins operating (which may be as early as 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.