**MINUTES**
**of the**
**FIFTH MEETING OF THE 2017 INTERIM**
**of the**
**MORTGAGE FINANCE AUTHORITY ACT OVERSIGHT COMMITTEE**

**November 6, 2017**
**New Mexico Mortgage Finance Authority Office**
**344 Fourth St. SW**
**Albuquerque**

The fifth and final meeting of the 2017 interim of the Mortgage Finance Authority Act Oversight Committee was called to order by Representative Eliseo Lee Alcon, chair, on November 6, 2017 at 10:04 a.m. in the New Mexico Mortgage Finance Authority (MFA) board room in Albuquerque.

| **Present** | **Absent** |
|---|---|
| Rep. Eliseo Lee Alcon, Chair | |
| Sen. Nancy Rodriguez, Vice Chair | |
| Sen. Gregory A. Baca | |
| Rep. Kelly K. Fajardo | |
| Sen. Stuart Ingle | |
| Sen. Cisco McSorley | |
| Rep. Rod Montoya | |
| Rep. Sheryl Williams Stapleton | |

**Advisory Members**

| | |
|---|---|
| Rep. Alonzo Baldonado | Sen. Gerald Ortiz y Pino |
| Rep. George Dodge, Jr. | Sen. Sander Rue |
| Rep. Bealquin Bill Gomez | Rep. Nathan P. Small |
| Rep. Roberto "Bobby" J. Gonzales | Sen. Jeff Steinborn |
| Sen. Richard C. Martinez | |
| Rep. Bill McCamley | |
| Sen. Michael Padilla | |
| Rep. Dennis J. Roch | |

**Minutes Approval**

Because the committee will not meet again this year, the minutes for this meeting have not been officially approved by the committee.

**Staff**

Mark Edwards, Drafter, Legislative Council Service (LCS)
Randall Cherry, Drafter, LCS

**Guests**

The guest list is in the meeting file.

**Handouts**

Handouts and other written testimony are in the meeting file.

**Monday, November 6**

**Call to Order and Introductions**

Representative Alcon called the meeting to order, welcomed members, staff and guests and asked committee members and staff to introduce themselves.

**Approval of Minutes**

On a motion made and duly seconded, the committee approved the minutes from its September 14-15 meeting.

**Welcome and Update on Federal Housing Policy and Budget**

The chair recognized Jay Czar, executive director, MFA, who reminded committee members that because the meeting is being streamed, members should be aware that microphones are very sensitive.

Mr. Czar reminded committee members that the federal government is in fiscal year (FY) 2018 as of October 1, but because Congress has yet to agree on a budget for FY 2018, the government is operating under a congressional continuing resolution until December 8, when Congress must agree upon an FY 2018 budget or face a government shutdown. He said the continuing resolution maintains flat funding levels for most of the MFA's affordable housing programs. He said that the MFA does not anticipate any cuts to its programs and that he and his colleagues are monitoring the situation closely.

Continuing, Mr. Czar explained that on November 2, the U.S. House Committee on Ways and Means announced that it plans to eliminate the tax exception for private activities bonds (including housing bonds) in the U.S. House Republican version of the tax reform bill. He said that while municipal bonds will be spared, the change would be a loss to affordable housing. Housing bonds support about one-half of the production of affordable housing rental units through the federal low-income housing tax credit and finance affordable mortgages for first-time homeowners. The MFA relies heavily on this important tax provision to accomplish its mission.

In their discussion, committee members expressed concern about the loss of these federal funds.

Mr. Czar reminded members about the 2017 Weatherization Day. He said that this annual affair will take place this year in Las Vegas, New Mexico, from 1:00 p.m. to 2:00 p.m.

He said that Congressman Ben Ray Lujan has agreed to attend as a special guest. He directed members' attention to the individual invitations in their meeting materials.

**MFA FY 2018 Budget**

Gina Hickman, deputy director of finance and administration, MFA, directed members' attention to materials behind Tab 1 in their meeting materials booklet. Focusing on production and financial highlights, she said that since the country's financial collapse in 2008, various positive and negative factors have had and continue to have an impact in terms of MFA funding sources. The positive and negative impacts include the following:

- 2009 — The federal American Recovery and Reinvestment Act of 2009 provided funding to the MFA with funding for the Weatherization Assistance Program, tax credit assistance program, tax credit exchange program and the Homelessness Prevention and Rapid Re-Housing Program. The MFA also provided production and assets management for the re-housing program and the New Issue Bond Program;
- 2010 saw the historically lowest mortgage rates, which allowed certain single-family housing programs to include more families;
- 2011 — Wells Fargo and the U.S. Department of Agriculture provided loan funding for a housing opportunity fund;
- 2012 saw the lowest federal budget reductions of the economic downturn as well as reductions in the U.S. Department of Energy weatherization program;
- 2014 saw a decrease in single-family prepayment activity but also saw Small Business Investment Council loan funding for a state housing opportunity fund;
- 2015 saw a stabilized housing market and economy and an increase in single-family mortgage production in the MFA;
- 2016 saw the U.S. Department of Housing and Urban Development (HUD) Section 8 management occupancy reviews reinstated and an increase in qualified contracts; and
- 2017 saw a record year in single-family housing mortgage production. The MFA was selected as the southwest regional lead in specialized HUD procurement.

Regarding sources of income projections, Ms. Hickman said that the MFA is expecting the following sources to provide the designated share of budgeted funds in the immediate future: 41 percent from administrative fees, 29 percent from interest on loans, eight percent from interest investments, 12 percent from servicing income, seven percent from housing program income and three percent from other sources of income. In terms of MFA funding sources, she pointed out the bar chart showing MFA revenue from FY 2011 to FY 2019 (projected FY 2017, 2018, 2019).

Regarding projected expenditures, Ms. Hickman reported 41 percent for compensation, 17 percent for capital servicing expenses, four percent for non-cash expenditures, a total of 33 percent for other operating contractual and direct service expenditures and five percent for other operating expenses, such as training and technical assistance, development and capacity-building.

Taking a look at significant budget variances from FY 2017 to FY 2018, Ms. Hickman mentioned a projected decrease in production trends in the Single-Family Mortgage Program, including reductions in administrative fees, program and direct servicing expenditures and investment in purchased servicing rights; an increase in income on loans and expenses; increases as the result of salary and benefit expenses related to the establishment of four full-time equivalents (FTEs), including a homeownership manager, two homeownership lending specialists for one quarter of the year, a housing development assistant director, a database programmer and a .5 FTE intern; a three percent increase for merit pay increases; a 15 percent increase in taxes, benefit and incentive compensation; and funding for space assessment and building updates and technology upgrades.

In response to discussion about budgeted reserves, Ms. Hickman reminded members that the MFA does not receive any state funding for operations and is therefore a self-supporting entity. She said that the MFA must manage resources and anticipate financial needs appropriately in both the short term and long term to maintain financial strength and protect the organization so it can carry out its mission. She explained that the MFA complies with current cash reserve policy and that fund balance levels are not excessive. Members complimented the MFA staff on its strong fiscal management and business planning practices.

**MFA Strategic Plans**

**A. FY 2017 Strategic Plan Benchmarks**

Ms. Hickman and Isodoro "Izzy" Hernandez, deputy director of programs, MFA, directed committee members' attention to the information behind Tab 2 in their meeting notebooks, which provides a "dashboard" of the MFA's strategic plan accomplishments in the fourth quarter of FY 2017. Because of time pressures, Mr. Czar told the committee that the strategic plan includes five general priorities with four to six benchmarks:

1. maintenance of the agency's established operational excellence, including creation of a fulfilling work environment to attract and retain quality employees and identification and implementation of technology solutions that improve operational efficiency, data security and customer service;
2. acquiring new resources, such as developing funding streams for NM Energy$mart and other traditional grant-funded programs as well as generation of new resources for affordable housing through state programs, grants and private funding;
3. establishment and implementation of effective partnerships; for example, developing the expertise and capacity of regional housing authorities to provide a range of affordable housing services statewide and providing quality training and technical assistance to the MFA's partners;
4. expansion of homeownership opportunities, including such benchmarks as utilization of best financing executions for the MFA's homeownership program and expansion of the MFA's presence in housing and credit counseling. Mr. Czar noted that as of September 30, 2017, the MFA has provided homebuyer counseling to 3,000 homebuyers; and

5. expansion of rental opportunities with benchmarks, such as evaluation and utilization of new resources, to address increased demand for rental housing.

During committee discussion of some specifics related to the first-quarter results, Mr. Hernandez told committee members that, as they can see on the "dashboard", the MFA has met all benchmarks of the 2015-2017 MFA strategic plan. Because of time pressures, he urged members to look through the second section of the information behind Tab 2 for more detail about the MFA's priorities and benchmarks.

**B. FY 2018-FY 2022 New Strategic Plan**

Monica Abeita, senior policy and program advisor, MFA, directed members' attention to the information behind Tab 3, entitled "A Bold Path Forward: MFA FY 18-2022 Strategic Plan", which describes the MFA's mission of leading the way in addressing New Mexico's unique affordable housing needs and improving internal systems to support the agency's work in these potentially challenging times. She said that this strategic plan provides a more robust and successful method to meet the needs of all New Mexicans.

She noted that the MFA's strategic planning process identifies several themes that drive the strategic initiatives, including the following:

1. responding to New Mexico's affordable housing needs. Affordable housing funding is under threat and diminishing. The MFA plans to continue to be proactive in developing new resources, efficiencies, business opportunities and financial innovations, as well as fostering creative partnerships;
2. ensuring prudent stewardship of affordable housing resources by, for example, expanding agency business models, diversifying financial tools and evaluating new funding and business opportunities;
3. strengthening affordable housing partners by expanding access to MFA products and services in underserved and high-need areas. Because New Mexico's rural areas are struggling, they require unique approaches. The MFA plans to evaluate ways to serve more rural residents with mortgage products and nimble development and by financing and strengthening MFA partners throughout the state;
4. providing robust technology solutions to protect the MFA's data and systems and maintaining system reliability, including implementation of redundancy improvements, as well as building and maintaining a technology platform that supports the agency's long-term plans for innovation, functionality and growth; and
5. fostering a dynamic work environment to support the many generations in its changing workforce because skilled, professional and engaged employees are at the core of the MFA's unique business model and specialized programs.

Ms. Abeita said that the plan will be updated every three years. The planning process is led by the agency's strategic management committee.

Mr. Czar added that in the current climate of uncertainty about affordable housing funding, the MFA will continue its affordable housing mission to make it more robust and successful in meeting the needs of all New Mexicans. Along with the rest of the country, New Mexico is at risk of losing many affordable rental homes. The state's high poverty rate and low incomes indicate a great need for financial education.

Committee members complimented MFA staff on its continued support for an important part of the state's population, which often has few options or choices for finding a range of affordable housing services statewide.

**Proposed MFA 2018 Legislative Agenda**

Mr. Czar and Mr. Edwards presented the MFA's proposed bills for consideration by the 2018 legislature. Mr. Czar once again explained that by statute, the MFA receives no operating funds from the state. However, each year the MFA requests certain appropriations to cover costs associated with funding for two state mandates: oversight of the regional housing authorities and oversight of the Affordable Housing Act. Without state funding support, the MFA cannot provide the high level of technical assistance needed to support these important missions. He explained that the first two proposed measures request funding for state-mandated programs:

- .208923.1SA — $300,000 appropriation to the Department of Finance and Administration (DFA) for expenditure in FY 2019 and subsequent fiscal years to fund MFA oversight of the regional housing authorities. Committee members agreed by consensus that Senate President Pro Tempore Mary Kay Papen will carry the bill; and
- .208925.1SA — $250,000 appropriation to the DFA for expenditure in FY 2019 and subsequent fiscal years to fund MFA oversight of implementation of the Affordable Housing Act. Committee members agreed by consensus that Senator Ingle will carry the bill.

The following bills provide state support for the MFA's core programs:

- .208927.1SA — $2 million appropriation to the DFA for expenditure in FY 2019 to fund rehabilitation of homes that are occupied by low-income, honorably discharged veterans in New Mexico whose incomes do not exceed 60 percent of the area median income. Committee members agreed by consensus that Senator Martinez will carry the bill;
- .208928.1SA — $5 million appropriation to the New Mexico Housing Trust Fund for expenditure in FY 2019 and subsequent fiscal years to provide funding for the MFA to carry out the provisions of the New Mexico Housing Trust Fund. Mr. Czar reminded committee members that the legislature created this fund in 2005 with an initial appropriation of $10 million and subsequent appropriations of $8.7 million. He said that the MFA has been able to grow the fund to more than $26 million by recycling interest and principal payments. This fund has helped to construct or rehabilitate nearly 3,200 homes and has leveraged an addition $49 million in other

funding — a 24-to-1 return on the state's investment. A $5 million appropriation will help build more than 500 quality, affordable homes for low-income New Mexicans. Committee members agreed by consensus that Senator Rodriguez will carry the bill;

- .208930.1SA — $1 million appropriation to the DFA for expenditure in FY 2019 and FY 2020 to provide for a residential energy conservation program to increase energy efficiency and to reduce energy expenditures for homes occupied by low-income New Mexicans. Committee members agreed by consensus that Senator Martinez will carry the bill; and
- .208931.1SA — $500,000 to the DFA to fund an MFA pre-purchase homebuyer education program. Committee members agreed by consensus that Senator Padilla will carry the bill.

On a motion made and duly seconded, members voted to approve the committee's endorsement for all six bills presented.

**Adjournment**

There being no further business to come before the committee, the meeting adjourned at 12:15 p.m.