New Mexico Mortgage Finance Authority

2015-2017 Strategic Plan

Adopted September 2014

MFA

Executive Summary

During its 40 years of existence, MFA has grown into a reputable organization recognized for its prudent fiscal management, strong regulatory compliance, professional staff and dedication to customer service. This solid foundation is MFA's undisputed strength and allows the organization to successfully administer more than 30 affordable housing programs for the benefit of the citizens of New Mexico.

MFA's 2015-2017 Strategic Plan is designed to respond to the unique and changing environment in which the organization will operate for the next three years. This new environment is characterized by: flat or decreasing federal funding; New Mexico's sluggish recovery from the Great Recession; demographic changes, including an increase in senior and Millennial Generation households and population loss in many rural areas, resulting in fewer housing services and providers.

To navigate the challenges and opportunities that lie ahead, MFA will leverage its *stability* as a proven organization with *innovation* and flexibility. MFA will focus on the following five priorities to strategically align its work with the environment in which we operate:

1. **Operational Excellence.** MFA will channel its strengths in the areas of financial stewardship, operations, professional staff and core programs to foster creativity, flexibility and innovation. This approach will allow MFA to grow to meet New Mexico's changing affordable housing needs, rather than being constrained by a challenging economic environment.

2. **New Resources.** As government funding for traditional affordable housing programs decreases, MFA will cultivate resources that create new opportunities for affordable housing. Some of these resources may supplement traditional government funded programs and some may address unique niches or needs in New Mexico communities.

3. **Effective Partnerships.** MFA relies upon its partners—service providers, housing authorities, local and tribal governments, advocacy organizations, developers and property owners and managers—to execute programs and build and manage affordable housing across the state. As regulations increase and administrative fees and profits shrink, many partners are shutting their doors or turning to other types of work. While MFA is limited in its ability to improve this situation, it is committed to providing quality training and technical assistance, identifying new funding sources and opportunities for partners and expanding the capacity of partners to provide a wide range of affordable housing services statewide.

4. **Expanded Homeownership Opportunities.** During the Great Recession, MFA experienced lower volumes, higher delinquencies, increased competition, difficult financing executions and tightening regulations for its single family loan products. However, strong MFA market share and rising market interest rates present opportunities that MFA will embrace through enhanced marketing to potential borrowers, expansion of the lender/REALTOR® network, best financing executions and technology and product innovation.

5. **Expanded Rental Opportunities.** Traditional funding sources have not kept pace with the substantial increase in demand for affordable rental housing. Wage stagnation, unemployment, foreclosures and increases in market rents have encouraged the demand for affordable rentals, as have millennials and down-sizing baby boomers, whose demographics make up large shares of the population. Also, slim operating margins and capital needs pose a challenge to the viability of existing properties. Working within this environment, MFA will focus on the sustainability of multifamily properties, proactive oversight of the MFA portfolio and novel strategies to increase and diversify funding sources.

MFA Mission and Core Values

Vision

All New Mexicans will have quality affordable housing opportunities.

Mission

Provide innovative products, education and services in collaboration with strategic partners to finance the purchase, construction and preservation of quality affordable housing to strengthen the social and economic development of New Mexico.

MFA Mandate

In 1975, the New Mexico state legislature created the New Mexico Mortgage Finance Authority as a public body politic and corporate, separate and apart from the state, constituting a governmental instrumentality, with the power to raise funds from private investors in order to make such private funds available to finance the acquisition, construction, rehabilitation and improvement of residential housing for persons and families of low or moderate income within the state.

Core Values

- Hire the best qualified employees representing the diversity of the state, pay them competitively, treat them fairly and provide opportunities for advancement.
- Provide prompt, courteous, quality service.
- Foster a dynamic professional environment of excellence that supports a high level of integrity, transparency, collaboration and commitment to mission.
- Allocate resources to serve those with the greatest need while promoting partnerships to maximize housing opportunities.
- Practice cost-effective operations and prudent fiscal management.
- Promote sustainable growth, innovation and environmentally conscious practices.

Priority 1: Operational Excellence

1.1 Maintain prudent stewardship of MFA's financial resources.

MFA has the unique responsibility of administering its affordable housing assets and liabilities, federal, state and grant funds as well as the earnings it generates from its lending and investment activities. MFA has long maintained a level of excellence in this regard with its strong financial statements, unqualified financial statement audits and rigorous audit, financial reporting processes, internal control structure and strong issuer credit rating. MFA will build upon this solid foundation by continuing development of financial reporting processes, identifying process efficiencies, establishing a new rating agency relationship, soliciting investment strategies that support the changing economic environment, and monitoring adequacy of reserve levels as well as identifying availability of reserves for programs. Ensuring balance sheet strength and strong financial performance will be crucial to meeting housing needs.

1.1 Benchmarks

- General fund cash reserves at minimum level consistent with policy
- Unqualified opinion on MFA financial statements and no material weakness in internal control over financial reporting or major programs (excluding first-time audits)
- Operating performance and profitability equal to net revenues over total revenues of at least 5.25 percent (based on five-year average)
- Balance sheet strength equal to net asset position over total bonds outstanding of at least 20.32 percent (based on five-year average)
- Maintain or improve credit rating
- Successful conversion of accounting software

1.2 Benchmark

- Conduct and evaluate annual employee satisfaction survey

1.2 Create a fulfilling work environment to attract and retain quality employees.

MFA has an excellent benefits package, an incentive compensation plan and strong policies on conflict management and the prevention of harassment and discrimination. The fact that many employees remain with MFA for long periods of time is reflective of job fulfillment and MFA's employee-first focus. MFA's Human Resources Department is committed to providing the highest level of customer service for all of MFA.

MFA will focus on new initiatives to ensure that it can retain and attract new employees, taking into account the impending changes that will occur as millennials enter the workforce. These initiatives focus on: competitive compensation; fine tuning the benefits package to ensure its sustainability; work-life balance initiatives such as flexible work arrangements, volunteer opportunities and physical and mental health wellness programs; employee recognition and enhanced staff training. Evaluation tools, particularly the annual employee satisfaction survey, will

help assess and improve the MFA work environment. MFA will also continue to evaluate and implement green initiatives to make its facility more energy efficient.

1.3 Identify and implement technology solutions that improve operational efficiency, data security and customer service.

MFA has a capable Information Systems department that protects MFA from threats and vulnerabilities while ensuring system availability. Information Systems supports specific department and program technology needs by utilizing software solutions purchased or developed internally.

1.3 Benchmarks

- Protect MFA data and systems from threats through semi-annual vulnerability scans
- Maintain system availability at 99 percent

In the years that lie ahead, technology will become a greater part of MFA's value proposition. Increased regulatory requirements will be integrated into software systems to provide ongoing monitoring and reporting. A number of customer-directed improvements are planned for online and paperless processes as are new technology solutions to improve operational efficiency and data tracking capabilities.

1.4. Maintain standards of excellence and promote innovation in MFA programs.

All MFA programs maintain a high standard of excellence through professional program management, consistent compliance and strong working relationships with partners. MFA's 30-plus affordable housing programs include core programs that are the traditional domain of state housing finance agencies. Other programs have been established internally as a result of new federal funding or in partnership with the state of New Mexico and other entities to better meet New Mexico's unique affordable housing needs.

1.4 Benchmarks

- Manage and distribute 95 percent of all funding

MFA will continue to ensure compliance with funding source requirements as well as adapt existing programs, propose new ways to meet unmet housing needs, respond to changing demographics and funding and take advantage of new opportunities.

1.5 Manage organizational risks.

All organizations must have a clear understanding of their risk profile in order to manage the decision-making process and future of an organization. The goal is to effectively manage risks that can potentially threaten the position of an organization within a tolerable range of performance. MFA and other housing finance agencies are particularly affected by the financial risks of operating in capital markets, dependency on federal fiscal policy, limited federal funds for affordable housing programs, complexity of financial programs and products and financial uncertainty associated with the economy.

Standard tools and processes, such as MFA's internal risk reporting and compliance reports, are used to manage these risks. MFA will continue to identify and research pertinent changes in regulations and accounting standards and implement any adjustments that are necessary to ensure continued internal and partner compliance. Other risk management initiatives, such as disaster recovery planning and succession planning, will also be addressed.

1.5 Benchmarks

- Complete internal audit risk assessment report
- Update disaster recovery plan

1.6 Improve collaboration throughout MFA.

By virtue of the number of programs it manages, MFA personnel is highly-specialized and is often siloed into program areas. Collaboration across the entire organization is critical for achieving MFA's vision. MFA will undertake a number of initiatives to increase collaboration and enhance communication among staff, the MFA Board of Directors and partners.

1.6 Benchmark

- Develop work plan for collaboration activities

Priority 2: New Resources

2.1 Market the MFA Charitable Trust to generate tax deductible contributions for affordable housing.

The New Mexico Affordable Housing Charitable Trust is a non-profit organization established by MFA in 2007. The Charitable Trust provides a vehicle for individuals to donate to affordable housing and receive both a charitable deduction from the IRS and a 50 percent state tax credit. MFA will work to expand awareness of the Charitable Trust and thereby increase contributions.

This three-year plan includes awareness and education targeted to Certified Public Accountants, bankers and lawyers who advise their clients on tax-related matters. Other opportunities for investment in the Charitable Trust will also be explored.

2.1 Benchmarks

- Develop educational materials
- Outreach to at least one professional group

2.2 Expand mission-driven fee-for-service activities.

MFA has substantial expertise that allows it to provide services in core areas. For instance, MFA has held the HUD contract for Section 8 Project Based Contract Administration for 13 years, services loan portfolios on behalf of local governments and provides fiscal agent services for housing programs run by other entities. Fees from these activities are an important part of MFA's budget and will become increasingly important as federal funding is reduced in future years.

2.2 Benchmarks

- Evaluate subservicing expansion opportunities
- Evaluate physical inspection opportunities

During the course of this strategic plan, MFA will focus on two primary fee-for-service activities that will require internal evaluation to assess viability and profitability. Subservicing, acquisition of servicing on existing Mortgage Backed Securities, multifamily servicing and specialized servicing for targeted business opportunities will be considered. MFA is currently participating in a pilot project for physical inspection that seeks to align inspection standards among HUD, USDA and housing finance agencies. The pilot provides an ideal opportunity to assess demand for physical inspection services, build MFA's capacity through staff certifications and infrastructure and potentially offer physical inspection services to partners. MFA will also assess providing other mission-related services as opportunities arise.

2.3 Develop innovative funding streams for NM Energy$mart and other traditional grant-funded programs.

Many federal housing programs have experienced deep cuts in the past few years. MFA has responded by seeking new funding sources to augment and reduce dependence on federal budgets.

2.3 Benchmarks

- Outreach to three new partners
- Increase funding from sources other than DOE and LIHEAP

This three-year strategic plan focuses on expanding and adapting the NM Energy$mart program to take advantage of additional funding and partnerships including matching funds from electric cooperatives, funding from large utilities, potential new energy efficiency programs and expansion into new markets.

2.4 Generate new resources for affordable housing through state programs, grants and private funding opportunities.

There are several state programs and funding sources in New Mexico that are not used for affordable housing but for which affordable housing is an eligible use. Specifically, live/work housing is an eligible use of Local Economic Development Act (LEDA) funds raised by local governments. Affordable housing is an eligible use of Community Development Block Grants (CDBG) administered by the Department of Finance and Administration, Colonias Infrastructure Funds administered by the Colonias Infrastructure Board and Industrial Revenue Bonds issued by local governments. MFA will work closely with state agencies and local governments to expand the use of these funding sources for affordable housing purposes. MFA will also support other state initiatives that could leverage more resources for affordable housing in New Mexico. Finally, MFA will continually monitor and evaluate new funding opportunities, including federal, state and foundation grants as well as private funding sources. MFA will apply for those resources if they are determined to be beneficial to MFA.

2.4 Benchmark

- Pursue two new funding sources

Priority 3: Effective Partnerships

3.1 Develop expertise and capacity of Regional Housing Authorities to provide a range of affordable housing services statewide.

MFA has oversight responsibility for New Mexico's three Regional Housing Authorities (RHAs), which are structured to serve three large areas of the state. As some rural communities lose population and as decreased funding makes it difficult to sustain small organizations, many public housing authorities plan to consolidate under the RHAs in their areas. MFA has provided leadership and support for the first such consolidation of Taos County Housing Authority into the Northern RHA. MFA will assist with future consolidations as appropriate.

3.1 Benchmarks

- Provide RHA specialty training to enhance organizational capacity
- Assist RHAs with consolidation or transfers of troubled PHAs
- Hold three peer exchange meetings annually
- Implement one new service or program as capacity and funding allow

New Mexico RHAs primarily administer Section 8 vouchers and/or manage low-rent units. As more service providers struggle to maintain operations, RHAs could be further developed to provide additional services and become full-service affordable housing providers. As regional entities, they have the scale to support program administration and can take advantage of direct assistance from MFA. MFA will assist with training and technical assistance, capacity building and identification of additional funding sources to encourage RHAs that possess sufficient capacity to expand.

3.2 Provide quality training and technical assistance to our partners.

MFA provides valuable training and technical assistance to service provider partners, local and tribal governments, developers, property owners and managers as well as REALTORs® and lenders. Over the course of this strategic plan, MFA will explore ways to expand specialized training and technical assistance. MFA will continue to help communities develop and implement affordable housing plans and ordinances. Additional funding will be sought to support these efforts.

3.2 Benchmarks

- Assist three local governments in creating affordable housing plans and ordinances
- Hold 12 outreach meetings
- Provide directed management and/or administrative technical assistance to at least three organizations
- Facilitate five stakeholder meetings with non-profits, owners/managers, developers and servicing partners

3.3 Strengthen MFA's influence on affordable housing policy and funding at the state and federal levels.

Federal and state policy forms the basis of MFA's core programs. MFA consistently monitors these policies and maintains strong working relationships with public officials to advance New Mexico's affordable housing priorities. At the federal level, MFA will focus on maintaining funding levels for key housing programs and advancing new affordable housing opportunities. In addition, housing finance reform and comprehensive tax reform will be continually monitored as potential risks.

3.3 Benchmarks

- Develop state legislative agenda and lobby for appropriations and policy
- Develop federal policy priorities and communicate them to NM's congressional delegation
- Undertake year-round outreach with state and federal officials

MFA was established by the New Mexico State Legislature in 1975. It is an instrumentality of the state rather than a state agency and receives no state funds for operations. Nevertheless, there is a strong relationship between the state and MFA by virtue of MFA's responsibilities under its state charter, state affordable housing laws that MFA must implement and special state appropriations for some MFA programs. MFA will continue to create an annual state legislative agenda requesting recurring appropriations for state mandates, permanent funding for the Housing Trust Fund and special appropriations. Outreach and education on the state legislative agenda will occur year-round through meetings with state legislators and constituents, regular meetings of the Mortgage Finance Authority Act Oversight Committee and communication with the Legislative Council Service and the Legislative Finance Committee. MFA will also continue to support other state initiatives to leverage more resources for affordable housing in New Mexico.

3.4 Increase visibility and public awareness of MFA.

3.4 Benchmarks

- Develop and update MFA materials including brochures, annual report and Housing Services Directory
- Organize public events
- Maintain website content and database

MFA informs the public about its existence, mission and programs in a variety of ways including direct advertising, collateral materials, informational correspondence, signage, earned media and trade show and event sponsorships and participation. MFA is featured regularly in earned media spots and news stories. MFA has partner-specific outreach through newsletters, legislative updates and specialty publications such as the Housing Services Directory and annual report. One of the primary ways MFA connects with its partners is through events: the biennial housing summit, alternating biennial open house and support of partner events such as ground breakings and ribbon cuttings. In addition, MFA houses important information for partners on its website and maintains more than 4,000 partner contacts in its database. MFA presents best practice awards to its partners at every housing summit and presents a variety of recognition awards throughout the year.

MFA plans a multi-faceted media campaign in 2015 to celebrate its 40th anniversary. Also, MFA will develop general promotional materials and media to familiarize the public with the organization. MFA will continue its public relations approach of proactively identifying and responding to issues of importance to partners, communities and elected officials.

Priority 4: Expanded Homeownership Opportunities

4.1 Utilize best financing executions for MFA's homeownership program.

Traditionally, MFA has financed its single family mortgage program loans thorough Mortgage Revenue Bond (MRB) issuance. Adverse market conditions have hindered effective bond financing in recent years. As a result, MFA and many other housing finance agencies have shifted their financing executions to include the To Be Announced (TBA) market to fund their single family programs. As the MRB market recovers, MFA will proactively monitor the market to determine the most efficient and profitable way to finance the single family program. Deeper experience with TBA financing structures will enable MFA to offer more innovative mortgage products and foster a unique perspective on financing underserved homebuyers.

4.1 Benchmarks

- Average internal rate of return on traditional single family bond programs equal to or greater than 14 percent
- Average internal rate of return on pass through single family bond programs equal to or greater than 100 percent
- Mortgage rates no more than 25 basis points above traditional market
- Spread for bond issues of 1.1 percent to 1.125 percent
- Administrative fees of at least 18 basis points on all bond issues
- Profitability of 1.5 percent on TBA executions

4.2 Implement innovations in single family mortgage products and servicing to address customer needs and make MFA more competitive.

During the course of this strategic plan, MFA plans to transition from paper intensive loan processes to streamlined paperless online processes that will more closely align with industry standards and make MFA's programs more attractive to potential lender partners.

Innovation will also occur with MFA's mortgage products themselves, through the introduction of new loan products and changes to existing products. Less restrictive TBA financing mechanisms will allow greater innovation in program design. MFA will have a new emphasis on assessing competing programs within the state and responding quickly with innovative products to remain relevant in the marketplace.

4.2 Benchmarks

- Provide mortgage financing to 1,000 homebuyers
- Maintain MFA single family market share at 26.5 percent or greater
- Maintain loan defaults, workouts and foreclosures to MFA below 2.30 percent

In addition, MFA will proactively manage operational risks associated with utilizing a master servicer for the single family program. MFA will monitor the market for potential master servicer

relationships, manage legacy master servicer relationships and develop a contingency plan in the event MFA is unable to procure a traditional master servicer.

4.3 Increase awareness and use of MFA mortgage products through marketing and REALTOR®/lender outreach.

MFA's mortgage products are made available to borrowers through MFA approved mortgage lenders and participating REALTORs® located throughout the state. These professionals play a large role in educating MFA borrowers about MFA programs and products. Expanding the pool of MFA-knowledgeable lenders and REALTORs® in all areas of the state is a high priority. Additionally, MFA will work to create materials that can be branded and used by REALTORs® and lenders as they work with first-time homebuyers. Additional advertising and marketing initiatives will be explored and considered to increase production in MFA's single family program.

4.3 Benchmark

- Develop and begin launch of co-branded marketing with REALTORs® and lenders

4.4 Expand MFA's presence in housing and credit counseling.

MFA's role in administering housing counseling programs is changing. In recent years, MFA did not apply for national housing counseling grants because they do not adequately cover administration costs. Housing counseling activities related to foreclosure prevention have been primarily funded through the New Mexico Attorney General's Keep Your Home New Mexico Program, which funds non-profit contractors to provide foreclosure counseling throughout the state. MFA serves as the program administrator for the counseling component and is considered the expert in the state for managing these types of programs. However, the attorney general's program will only provide funding for the next year or two. Because MFA recognizes unmet demand for housing and credit counseling—especially in the rural areas of the state—MFA will seek to expand its presence in this arena by leveraging industry resources and partnerships to increase the quality and availability of housing counseling activities throughout the state. MFA will also seek funding through the state of New Mexico and other viable channels to increase housing counseling resources and capacity statewide.

4.4 Benchmark

- Provide homebuyer counseling to 1,000 homebuyers

Priority 5: Expanded Rental Opportunities

5.1 Foster sustainability of multifamily properties through sound underwriting and continual improvement of MFA financing programs.

Rental properties that are not financially sound are a drain on MFA's resources, create community blight and potentially trap low-income families in unhealthy living situations. To ensure that MFA continues to promote the development of housing that provides families with quality living environments well into the future, MFA will use comprehensive underwriting procedures based on proven methodologies and reliable data. Procedures will be updated with improved underwriting tools and benchmarks using the best practices of the industry. Data on the operations of properties in the MFA portfolio will be collected and analyzed, resulting in proactive asset management.

5.1 Benchmarks

- Evaluate at least one software alternative for the Low Income Housing Tax Credit program
- Evaluate HUD's risk rating system for use at MFA

5.2 Preserve existing properties through proactive oversight of MFA's portfolio and collaboration with property owners and managers.

Many existing rental housing units are in need of capital improvement but have limited funds available to pay for them. MFA and its partners will work to proactively manage the portfolio of properties and prioritize which properties to preserve with the resources that are available. As part of its process of continual education and oversight, MFA will also recommend operating cost reductions such as energy efficiency improvements.

5.2 Benchmarks

- Yield a net increase of multifamily rental units in MFA's portfolio
- Yield a collection rate of 95 percent or greater for compliance monitoring and fees
- Provide at least three formal training events to housing partners
- Inventory archive of completed 8609 forms
- Modify staff guidelines to increase owner response to closing out monitoring findings and deficiencies

5.3 Evaluate and utilize refinancings and novel financing structures to address increased demand for rental housing.

5.3 Benchmark

- Evaluate two novel financing structures

Even as government funding for traditional affordable housing programs decreases, MFA must continue to facilitate the growth of quality, affordable rental housing throughout New Mexico. MFA will recommend refinancing options for existing bond deals and will identify and assess traditional and non-traditional funding sources, underutilized state funding, bonds for multifamily rental projects as well as other novel and innovative funding sources. These sources will help to meet increased demand for rental housing, supplement government funding and address unique niches or needs in New Mexico's diverse communities. MFA will also partner with housing finance agency peers and other industry leaders to identify innovative financing structures.

5.4 Continue to serve as New Mexico's Project-Based Contract Administrator for HUD Section 8.

5.4 Benchmarks

- Continue to earn 100 percent base fees for PBCA contract
- Research HUD federal procurement requirements

MFA has administered the HUD contract for Section 8 Project Based Contract Administration (PBCA) for 13 years. As the in-state housing finance agency, MFA is uniquely qualified to perform this work because it understands New Mexico's affordable housing needs and strives to build capacity and work cooperatively with property owners and managers. Unfortunately, HUD's process to award PBCA contracts is currently under litigation, placing PBCA administrative fees to MFA at risk. MFA will continue to successfully perform its PBCA scope of work, monitor and represent New Mexico's interests in PBCA litigation and respond to new solicitations of HUD PBCA contracts.