Federal Policy Update, October 2014

Every year, MFA meets with the New Mexico Congressional Delegation while traveling to Washington D.C. for the National Council of State Housing Agencies (NCSHA) Legislative Conference in March. We prepare a letter with our priorities for the year, listed below, and we follow up on those priorities throughout the year.

In addition, MFA works closely with the staff of the New Mexico Congressional Delegation. Some staff members are field representatives here in New Mexico and others are based in Washington D.C. In general, we work with the field representatives on constituent issues and with the D.C. staff on larger policy initiatives.

1. **FY2015 Budget:** MFA monitors the federal budget and encourages the New Mexico Congressional Delegation to support affordable housing. Some important facts:
   - Federal funding consistently makes up a substantial part (approximately 20 percent) of MFA's sources: $109.2 million in 2012, $98.5 million in 2013,108.4 million in 2014.
   - The President typically releases his budget for the year in February; in 2014, it was released in March. The President's budget provides a framework for Congress to begin discussing the appropriations bills; however, it is the appropriations bills which are heard in the fall that become law.
   - Most affordable housing programs are in the HUD budget, which is part of the T-HUD (Transportation, Housing & Urban Development) appropriations bill.
   - After the federal government shutdown in October 2013, Congress came together to pass an Omnibus budget bill for FY2014. It removed sequestration cuts but funding levels have not increased overall.
   - Top line discretionary budget for FY2015 ($1.014 trillion) is very close to that of FY2014 ($1.012 trillion); therefore, no major changes are expected. The federal budget (including HUD) is still very tight and flat.
   - **Update: Congress approved a Continuing Resolution (CR) on September 18, 2014. It needed to approve a CR to avoid a government shutdown because FY2015 began on October 1 and Congress had not yet enacted any FY2015 appropriations bills. The CR continues funding for all federally funded programs through December 11, 2014 at slightly below FY2014 funding levels, on an annualized basis. Since the CR will expire on December 11, Congress will need to approve another CR or other FY2015 funding legislation during its post-election lame duck session to ensure that federally funded programs continue operating after that date. It remains unclear at this time whether Congress will be able to approve a package of new FY2015 funding bills in an omnibus bill, similar to the way FY2014 appropriations were finalized, or if it will need to pass another funding extension and then continue consideration of FY2015 appropriations in the new Congress. Senate and House Appropriations Committee leadership have expressed their desire to pass an omnibus appropriations bill during the lame duck session.**

MFA Allocations, 2010-2014	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
HOME Investment Partnerships	8,151,446	7,152,461	3,781,059	3,597,945	3,781,116
Emergency Solutions Grant	727,475	1,142,522	1,311,996	757,993	897,007
Housing Opportunities for Persons with Aids	272,536	280,246	281,585	273,934	288,945
Weatherization Assistance Program	1,369,544	1,369,544	610,245	889,637	1,352,532
Low-Income Housing Energy Assistance	3,343,124	1,951,805	1,800,577	1,368,000	2,000,000
Low Income Housing Tax Credits	1,984,356	4,113,403	4,404,920	4,692,461	4,796,160
Project-Based Section 8	25,791,680	25,813,429	26,019,329	26,360,457	29,156,636

2. Restore HOME Funding

MFA was pleased that funding for the HOME Investment Partnerships Program was restored to its 2012 level of $1 billion in the FY2014 budget. MFA hopes that funding levels will slowly be restored in future years, as FY2013 marked the lowest funding level for the program since 1993. The program's flexibility enables MFA to use HOME for needs as diverse as the owner-occupied rehabilitation program, down payment assistance and single family and rental development, including gap financing. HOME is arguably the most important tool that MFA has to address the broad range of housing needs in urban and rural areas alike.

Update: House and Senate subcommittees have approved different funding levels for HOME in FY2015: $700 in the House and $950 million in the Senate. In either case, MFA is expecting a decline in HOME funds for FY2015. MFA's HOME allocation has decreased 54 percent since 2010.

3. Expand the Low Income Housing Tax Credit Program and Fix the Rates for Nine and Four Percent Deals

In the past few years, MFA has experienced a significant increase in the number of Low Income Housing Tax Credit (LIHTC) applications from all areas of the state. This increased need for affordable rental housing is reflective of several trends: more people renting overall, rising rental rates, the poor economy and wage stagnation. In short, more people are making less and cannot find market-rate housing that is affordable. On average, MFA is receiving 20 applications for the competitive nine percent LIHTC program. Only four to seven of those worthy projects can be funded with New Mexico's limited allocation of $4,796,160 (2014), based on state population.

The 2013 Bipartisan Policy Center report, *Housing America's Future: New Directions for Federal Policy* expounds upon the success of the LIHTC program and its effective use of market forces, private investment and minimal federal government risk to produce badly-needed affordable rental housing. The report recommends a 50 percent increase in the program to meet growing demand. MFA strongly supports this recommendation.

In addition to MFA's own efforts to identify new funding and stretch the tax credits farther, MFA supports the following policy changes at the federal level:

- **Giving states the option to convert seven percent of Private Activity Bond (PAB) authority into housing credits.** Because of the availability of unused PAB authority in the state, this simple proposal could increase nine percent tax credits by nearly 29 percent, much higher than the national estimated average, allowing MFA to fund approximately two more projects each year.

Update: This is a priority MFA continues to discuss with the NM Congressional Delegation because of its significant impact on tax credit availability.

- **Fixing the nine percent credit rate.** In 2012, bipartisan efforts fixed the rate for the nine percent tax credit through December 31, 2013. The fixed rate has now expired and MFA strongly supports Congressional efforts to extend the fixed rate and make it permanent. Fixing the rate creates stability and predictability for owners and investors of Housing Credit developments and eliminates the financial risk of the current floating rate system.

  Update: Fixing the nine percent tax credit rate would occur through "tax extenders" legislation. S 2660, *Expiring Provisions Improvement Reform and Efficiency Act*, continues numerous tax breaks that expired at the end of 2013 through 2015, including the nine percent fixed credit rate. Introduced by Sen. Ron Wyden (D-OR) in April 2014, S 2660 passed the Senate Finance Committee but has not reached the floor. In the House, Rep. Pat Tiberi (R-OH) and Rep. Richard Neal (D-MA) introduced HR 4717 in May 2014 to fix the nine percent credit rate through 2015. The bill could move forward as free-standing legislation or could be taken up by the House Ways and Means Committee which is using a case-by-case process to approve tax extenders. Action on these pieces of legislation is unlikely before the new Congress is seated.

4. Allow Ginnie Mae Securitization of Multifamily Risk Sharing Loans

While MFA can underwrite and process multifamily mortgages, Ginnie Mae is currently prohibited from securitizing these loans. MFA strongly supports current efforts to allow Ginnie Mae securitization, which would reduce the interest rate on underlying mortgages by as much as 200 basis points, or two percent. This means that MFA could make more multifamily Risk Sharing loans at lower rates and cost of financing would fall. Because Risk Sharing loans are often packaged with low income housing tax credits, this would enable MFA to stretch tax credits further and finance more affordable rental units overall.

Update: Congress has been slow to take up this issue as free-standing legislation or as part of a larger bill. In June 2014, US Treasury Secretary Lew announced a new Treasury-HUD partnership wherein Treasury's Federal Financing Bank (FFB) will use its authority to purchase Risk Sharing loans, thereby providing an interim measure that achieves the same policy objectives as Ginnie Mae securitization. The first partnership is with the New York City Housing Development Corporation to help restore affordable rental housing damaged by Superstorm Sandy in Far Rockaway, Queens. MFA is participating in conference calls to determine if it can access this program.

5. Protect Tax Provisions for Housing Bonds and the Housing Credit

Affordable housing in New Mexico would not exist without Housing Bonds and the Housing Credit. The majority of MFA's affordable housing activity is dependent on maintaining tax exempt status for Housing Bonds and the Housing Credit. Traditionally, 90 to 100 percent of MFA's single family mortgage loans and 45 percent of its down payment assistance loans have been financed with tax-exempt housing bonds. In 2013, $37 million of MFA's $43 million in rental financing was financed by the Housing Credit. MFA opposes reforms that would eliminate these important tax provisions as well as proposed caps on tax-exempt bond interest that will decrease bond investment and investment in affordable housing.

Update: In February 2014, House Ways & Means Committee Chair Dave Camp (R-MI) released draft legislation entitled the *Tax Reform Act of 2014* which is unlikely to be acted on by Congress. However, the draft will likely serve as a "blueprint" or starting point for tax reform discussions in future years. The draft preserves but modifies the nine percent housing tax credit, and eliminates the four percent housing tax credit and tax-exempt private activity bonds that have traditionally financed a large share of MFA's single family mortgages. If adopted, any or all of these reforms would have significant implications for MFA and for affordable housing in NM.

6. Support Weatherization Programs

In the Department of Energy, MFA supports an annual Weatherization Assistance Program (WAP) budget of $250 million, returning the program to pre-ARRA funding levels. MFA uses funding from WAP and the Low Income Home Energy Assistance Program (LIHEAP) to weatherize approximately 1,000 homes each year through its NM Energy$mart program. NM Energy$mart increases energy efficiency and decreases energy expenditures for homes occupied by low-income families. The program serves a high percentage of seniors, weatherizes a significant number of mobile homes and reaches all corners of the state. It is a very cost-effective program in that the average cost of weatherization is $5,500 per home.

Update: The House Energy and Water Development Appropriations Subcommittee approved an allocation of $190 million for the Weatherization Assistance Program for FY2015. This is an increase from the FY2014 funding level.

7. Capitalize the National Housing Trust Fund

The National Housing Trust Fund (NHTF) was established in the Housing and Economic Recovery Act of 2008, signed by President George W. Bush. Revenue contributions from the Government Sponsored Entities (GSEs), Freddie Mac and Fannie Mae, were intended as the initial sources of revenue of the fund. When Fannie and Freddie were taken over by the Federal Housing Finance Administration (FHFA) in 2008 during the foreclosure crisis, contributions to the NHTF were suspended. Because the GSEs are now generating revenue, and with new leadership at the FHFA, the NHTF could be capitalized. The National Low Income Housing Coalition estimates that for every $5 billion of investment in the fund, New Mexico would receive $22.5 million targeted to extremely low-income rental housing. Capitalization of the NHTF would clearly go a long way to addressing the growing demand for affordable rental housing in New Mexico.

8. Housing Finance Reform

MFA is following the development of Housing Finance Reform legislation in the House and Senate. We hope that the final legislation provides for a strong secondary mortgage system with a robust affordable housing mission that engages state housing finance agencies as preferred lending partners, enables them to maximize lending potential and responds to their capital and liquidity needs.

Update: Housing Finance Reform appears stalled at the moment. In May 2014, the Senate Banking Committee approved S 1217, the *Housing Finance Reform and Taxpayer Protection Act of 2013*, introduced by Chairman Tim Johnson (D-SD) and ranking member Mike Crapo (R-ID). While the legislation is bipartisan, it did not garner overwhelming Democratic support due to concerns about affordable housing provisions from progressive committee members. It is unlikely that S 1217 will move forward for these reasons: 1) limited time/schedule, 2) lukewarm support from Senate Majority Leader Harry Reid (D-NV), 3) bipartisan support may be lost if the affordability issues are addressed, and 4) conflicts with the House bill that proposes to privatize housing finance. Both President Obama and new HUD Secretary Julian Castro support Housing Finance Reform.

9. HUD Performance-Based Contract Administration (PCBA)

Along with other state housing finance agencies nationwide, MFA will be affected by a pending ruling regarding HUD Section 8 Performance-Based Contract Administration (PBCA). MFA has held the Section 8 PBCA contract for New Mexico since 2000. Plaintiffs in the PBCA case have stalled HUD awards of the PBCA contract to MFA and other state housing finance agencies by protesting HUD's in-state preference for Public Housing Authorities, fee cap and Notice of Funding Availability. MFA knows New Mexico and its communities, oversees Section 8 with a public service mission and hopes to continue its administration of the contract in the future.

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Congress Approves Continuing Resolution

On September 18, the Senate passed by a vote of 78 to 22 the House-passed continuing resolution (CR), H.J. Res. 124. The CR continues funding for all federally funded programs through December 11, 2014 at slightly below FY 2014 funding levels, on an annualized basis. To offset new funding provided through a few targeted provisions in the CR, including funding to combat the Ebola outbreak in Africa, while not exceeding the overall FY 2014 spending level, the CR includes an across-the-board funding reduction of almost 0.06 percent, compared to FY 2014 levels. As described in NCSHA's September 17 blog post, the House passed the CR on September 17. In a Statement of Administration Policy, the Administration voiced its support for passage of the CR. The President is expected to sign the legislation soon. Congress has now adjourned until after the November elections and is scheduled to reconvene on November 12.

Congress needed to approve a CR or other funding legislation to avoid a government shutdown when FY 2015 begins on October 1 because it has not yet enacted any FY 2015 appropriations bills. The CR includes no anomalies, or funding adjustments, for HUD or U.S. Department of Agriculture (USDA) rural housing programs. However, the bill does include several changes to existing law, which the House Appropriations Committee press release accompanying the CR says, "are needed to prevent catastrophic, irreversible, or detrimental changes to government programs, to address current national or global crises, or to ensure good government." Anomalies in the CR include additional funding to help fight the Ebola crisis and to process disability claims at the Department of Veterans Affairs and provisions providing a continuation of current funding for the Temporary Assistance to Needy Families (TANF) program and an extension of authority, through June 30, 2015, for the Export-Import Bank.

The CR also includes authority requested by the President to act against the threat posed by the Islamic State. The authority was added to the CR as a floor amendment during the CR's consideration in the House.

Since the CR will expire on December 11, Congress will need to approve another CR or other FY 2015 funding legislation during its post-election lame duck session to ensure that federally funded programs continue operating after that date. It remains unclear at this time whether Congress will be able to approve a package of new FY 2015 funding bills in an omnibus bill, similar to the way FY 2014 appropriations were finalized, or if it will need to pass another funding extension and then continue consideration of FY 2015 appropriations in the new Congress. Senate and House Appropriations Committee leadership have expressed their desire to pass an omnibus appropriations bill during the lame duck session. Following Senate passage of the CR, Senate Appropriations Committee Chair Barbara Mikulski (D-MD) stated, "I see this CR as a bridge to an omnibus. It sets the stage for Congress to come together after the election to do an omnibus funding bill for fiscal year 2015."

NCSHA joined 31 other national organizations this week in sending a letter to congressional leaders expressing concern that a long-term or full-year CR for HUD programs at FY 2014 funding levels will not adequately address growing housing needs and encouraging Congress to pass an FY 2015 HUD funding bill this fall.

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