

**MINUTES
of the
SECOND MEETING OF THE 2016 INTERIM
of the
MORTGAGE FINANCE AUTHORITY ACT OVERSIGHT COMMITTEE**

**July 28, 2016
New Mexico Mortgage Finance Authority Office
344 Fourth St. SW
Albuquerque**

The second meeting of the 2016 interim of the Mortgage Finance Authority Act Oversight Committee was called to order by Senator Nancy Rodriguez, chair, on July 28, 2016 at 10:16 a.m. in the New Mexico Mortgage Finance Authority (MFA) office in Albuquerque.

Present

Sen. Nancy Rodriguez, Chair
Rep. Alonzo Baldonado, Vice Chair
Sen. Lee S. Cotter
Rep. Kelly K. Fajardo
Sen. Stuart Ingle
Rep. James Roger Madalena
Sen. Cisco McSorley

Absent

Rep. Roberto "Bobby" J. Gonzales

Advisory Members

Rep. Bealquin Bill Gomez
Sen. Michael Padilla

Rep. George Dodge, Jr.
Rep. Jimmie C. Hall
Sen. Richard C. Martinez
Sen. Bill B. O'Neill
Sen. Gerald Ortiz y Pino
Sen. Sander Rue

Staff

Mark Edwards, Drafter, Legislative Council Service (LCS)
Sharon Ball, Senior Researcher, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Thursday, July 28

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

Welcome

Jay Czar, executive director, MFA, welcomed members, staff and guests. He had several announcements for members and other interested persons as follows.

- Imperial Building — The grand opening for this new multifamily, mixed-income, affordable rental development, which is located just a block from the MFA building, has been changed from August 4 to August 24 at 11:00 a.m. Committee members will be able to participate in a special tour of the development, including the ground-floor grocery store, immediately after presentations at the August 24, 2016 MFA Act Oversight Committee Meeting. Mr. Czar noted that Chris Baca, president and chief executive officer of YES Housing, Inc., will lead the tour.
- MFA Board of Directors June Meeting — The MFA Board of Directors held its June meeting in Gallup. Board members and staff toured Sunset Hills, an affordable senior rental property, and Hooghan Hozho, a new multifamily development in downtown Gallup. Mr. Czar noted that board meeting guests attending the meeting included the Gallup mayor, city manager and city councilors; McKinley County officials; Navajo Nation officials; local business leaders; and housing service providers.
- Regional Meetings — MFA leadership staff will conduct five regional meetings around the state in an effort to better understand affordable housing needs and priorities throughout the state. Mr. Czar said that service providers, local officials, housing authorities, developers, mortgage lenders and Realtors have been invited to these regional meetings. He said that successful regional meetings have already taken place in Las Vegas on July 14 and Farmington on July 27. Future regional meetings are scheduled in Roswell on August 3, in Las Cruces on August 11 and in Albuquerque during the biennial New Mexico Housing Summit on September 20.
- MFA Board Retreat — Mr. Czar announced that the MFA Board of Directors and staff will participate in a planning retreat on August 17 and 18. The retreat agenda will focus on strategic planning, program reviews, "hot topics" and legislation.
- New Mexico Housing Summit — Mr. Czar reminded committee members, staff and guests that the MFA biennial New Mexico Housing Summit will take place September 19 through 21 at the Hotel Albuquerque. He predicted attendance of about 500 housing professionals with outstanding speakers, a wide range of up-to-the-minute topics and lots of networking opportunities in all aspects of affordable housing.

Regarding committee requests for information, Mr. Czar noted the following:

- data on homelessness will be provided by the New Mexico Coalition to End Homelessness at the August 24 meeting;
- a presentation on the MFA budget will be provided at the October 31 meeting and will include a review of the "federal pull-through rate" and fund balances;
- a presentation of the MFA's statewide housing assessment will be provided at the November meeting; and
- foreclosure and delinquency information will be provided as part of that day's presentation on the MFA's single-family mortgage products.

MFA 2017 Legislative Agenda — Introduction

Mr. Czar directed committee members' attention to information behind Tab 1 in the meeting notebooks on the MFA 2017 legislative agenda. Acknowledging that funding available for special appropriations will be difficult to achieve in the 2017 session, Mr. Czar and Monica Abeita, senior policy and program adviser, MFA, briefly discussed committee-endorsed bills from the 2016 session, including appropriations bills that would have supported MFA oversight duties of the Affordable Housing Act and regional housing authorities (Senate Bill (SB) 73 and SB 75); would have increased the corpus of the New Mexico Housing Trust Fund (SB 63), which leverages \$19.00 for every \$1.00 appropriated; would have provided weatherization services for low-income homeowners (House Bill (HB) 132) and would have provided jobs and allow low-income families to save hundreds of dollars on energy bills; and would have provided down-payment assistance to homebuyers receiving MFA mortgage loans (HB 32).

While none of the five appropriation bills were successfully enacted, Ms. Abeita noted that the MFA was successful in acquiring a \$191,000 appropriation to support statutorily required oversight of state regional housing authorities. Mr. Czar noted the importance of keeping this appropriation in the 2017 general appropriation act or similar legislation.

MFA Single-Family Mortgage Products

Erik Nore, director of homeownership, MFA, pointed out information behind Tab 2 in committee members' meeting materials. The information details two of the MFA's single-family programs: the "First Down" program and the "Next Home" grant program.

He explained that the "First Down" program requires that prospective homebuyers be first-time homebuyers with an income of up to 115 percent of the area median income, based on family size, and the program allows these homebuyers to purchase single-unit, owner-occupied properties. In terms of a down payment, the "First Down" program provides up to \$8,000 in the form of a second mortgage loan at six percent interest with a 30-year amortization in order to provide affordable payments at around \$30.00 per month, for example. The "Next Home" program provides an opportunity for non-first-time homebuyers with up to 140 percent of the area median income to purchase single-unit, owner-occupied properties. Addressing the need for money for a down payment, "Next Home" program grants — which do not have to be repaid —

are available for up to three percent of the sale price of the home. He pointed out that this grant provides instant equity to the homebuyer.

Mr. Nore emphasized that these programs owe their successes to the fact that potential participants must participate in one of two pre-purchase homebuyer counseling programs, including an online, self-paced course or face-to-face counseling by a federal Department of Housing and Urban Development (HUD)-approved counseling agency. He pointed out that the latter face-to-face program is free and seems to be more effective than the online course.

Mr. Nore explained that the characteristics of MFA homebuyers include the following:

- 55 percent are single-parent households;
- 43 percent are minority households;
- the average age is 35, which is an increase of three to four years from the past few years;
- the average MFA first mortgage loan is \$133,371, with an average purchase price at \$137,023; and
- the average credit score is 682, which is a fairly low credit score.

Mr. Nore noted that, according to the Realtors Association of New Mexico June 2016 Housing Statistics Report, "There are still many areas of the state suffering from lower-than-usual inventory of homes for sale", which is good news for sellers, but "it limits the options available for buyers". According to a comparison between New Mexico and U.S. homeownership rates from 1992 through 2015, according to the Federal Reserve Bank of St. Louis, the New Mexico average continually ranks higher than the U.S. average by anywhere from 6.3 percent (in 2000) to 1.7 percent (in 2009). The committee vice chair noted that, in his experience as a Realtor, single-family homes in the 1,200- to 1,500-square-foot range are moving quickly on the market while houses with more square footage are not moving so easily.

In response to committee members' previous questions and comments, Mr. Nore discussed the ways in which the MFA provides services to first-time millennial homebuyers. He explained that millennials, who are generally age 24 to 34, account for 14.2 percent of the state's population, according to a July 2016 National Association of Realtors report. Of all 1,323 first-time homebuyer loans made by the MFA in 2015, 60 percent were made to borrowers 33 years of age or younger. Of all MFA loans to millennials in 2015, 24 percent were made to millennial borrowers age 18 through 24; 30 percent were made to those age 25 through 29; and 24 percent were made to those age 30 through 33. Committee members thanked Mr. Nore for providing the millennial homebuyer data and indicated an intention to continue to look at this issue.

Directing members' attention to the graph in their meeting notebooks, Mr. Nore pointed out that homebuying has tended to peak in July 2014, 2015 and 2016. In response to committee discussion and questions, Mr. Nore indicated that this trend will continue as long as homes are cheaper to buy than to rent.

Responding to committee members' previous comments and questions about foreclosure trends, Mr. Nore reported that, according to the CoreLogic National Foreclosure Report of May 2016, completed foreclosures were down nationally from 41,000 in May 2015 to 38,000. He said that New Mexico ranks seventh in the nation for the percentage of homes in foreclosure inventory, at 1.8 percent, with the national foreclosure inventory rate at one percent. He pointed out, however, that the foreclosure inventory in New Mexico declined 17.7 percent from May 2015 to May 2016.

New Mexico Housing Trust Fund Update

Sabrina Su, program manager, MFA, directed members to information behind Tab 3 in the meeting notebooks. She reminded committee members that the New Mexico Housing Trust Fund was created in 2005, and since that time, New Mexico taxpayers have realized a tremendous return on their investment in affordable housing. Most importantly, she said, investment in housing is investment in New Mexico's economy, education and health.

The purpose of the fund, she explained, is to provide flexible funding for housing initiatives that will provide affordable housing primarily for low- or moderate-income persons or households. Eligible borrowers include nonprofit organizations, for-profit organizations, governmental housing agencies, regional housing authorities, governmental entities, governmental instrumentalities, tribal governments and tribal housing agencies.

Ms. Su explained that the trust fund has grown from \$18.7 million in legislative appropriations to \$25.2 million as a result of interest earned over the years. She said that, through a competitive application process, the MFA has awarded more than \$37 million, including the state's \$18.7 million investment, interest income and loan repayments, to 48 housing projects for 2,600 housing units. She said that these developments have leveraged approximately \$387 million in other funding sources, providing a 20-to-1 return on the state's initial investment. For example, on single-family new construction projects, a trust fund investment of approximately \$7.9 million has leveraged more than \$52 million; on multifamily new construction projects, a trust fund investment of approximately \$18 million leveraged an additional \$211.6 million; and a trust fund investment of \$11.3 million in multifamily rehabilitation projects has leveraged nearly \$123.5 million.

Committee members discussed the importance of having established the New Mexico Housing Trust Fund during times when more money was available to the legislature to appropriate than is available now, and they noted the impressive 20-to-1 return on the investment.

Federal Housing Policy and Budget Trends

Ms. Abeita explained that the MFA has serious concerns related to federal housing policies because federal funding consistently comprises 20 percent of the MFA's resource — a substantial amount. The current context for federal housing policies includes a number of predictable and unpredictable variables, such as the current presidential election race and the new

U.S. House of Representatives speaker's efforts to restore regular order to the budget process and unify Republicans around a policy agenda. She said that Congress has made major progress on housing policies, including a nine percent housing tax credit rate fixed in the fiscal year (FY) 2016 omnibus funding bill, stable funding for the HUD's HOME Investments Partnership Program (HOME) in FY 2016 and possibly, in FY 2017, unanimous passage in both houses of the bipartisan Housing Opportunity Through Modernization Act (HOTMA) and introduction of a housing tax credit.

Ms. Abeita explained that the MFA's federal priorities include the following:

1. protecting housing bonds and housing credit in any type of tax reform proposals;
2. expanding the federal low-income housing tax credit program by increasing the program by 50 percent, fixing the nine percent and four percent credit rates and giving states the option to convert private activity bonds authority into tax credits;
3. sustaining funding levels for affordable housing programs, including restoring funding for the HOME program and supporting weatherization programs; and
4. allowing Ginnie Mae securitization of multifamily risk-sharing loans.

Ms. Abeita also provided the committee with issues relevant to these priorities. She noted that there is no expectation of any type of tax reform occurring during the current Congress, but no matter what the results of the coming election will be, she predicted a focus on tax reform in the new administration and in Congress. In terms of enacting a budget for FY 2017, she said that both the proposed house and senate appropriations bills are considered favorable, but the 2016 presidential election means that lawmakers will be in recess from July 18 until after Labor Day, leaving very little time to negotiate and pass a budget. She predicted that the most likely outcome is passage of a continuing resolution to extend current spending levels until after the election.

Ms. Abeita pointed out one program that the MFA would like to see restored: the federal HOME funding, which has been cut 56 percent (from \$8.2 million in 2010 to \$3.5 million in 2016) since 2010. She said that these dollars are used for MFA rehabilitation projects, down-payment assistance and development. Another bill that MFA is tracking is the HOTMA, H.R. 3700, which simplifies and streamlines rental assistance and single-family programs and is expected to save the federal government \$311 million over five years. Supported by the National Council of State Housing Agencies (of which the MFA is a member), the bill passed the house on February 2 and passed the senate on July 14 unanimously. She indicated that it may make it through this Congress in the "lame duck" session after the election. She mentioned several other pieces of federal legislation addressing low- and affordable-income housing, including the:

- First-Time Homebuyer Credit Act of 2016, which would provide a refundable tax credit for first-time homebuyers;
- Rural Housing Preservation Act of 2016, which would make permanent the Multi-Family Preservation and Revitalization Restructuring Program, which acquires and

- renovates Section 515 properties;
- Ending Homelessness Act of 2016, which would provide \$13.27 billion over five years to housing and services programs, with the goal of ending homelessness in America;
- Financial CHOICE Act, which repeals and replaces the Dodd-Frank Wall Street Reform and Consumer Protection Act and reduces the authority of financial regulators to oversee financial institutions; and
- Welfare Reform and Upward Mobility Act, which replaces means-tested housing programs (rental assistance programs, the HOME program and all Rural Housing Service assistance programs) with a single state block grant for housing activities.

Ms. Abeita also discussed U.S. House Speaker Paul Ryan's Republican Task Force on Poverty, Opportunity, and Upward Mobility, which focuses on reforming the federal welfare system by expanding work requirements, increasing state flexibility, consolidating programs, improving accountability through metrics and fraud reduction and encouraging public-private partnerships.

Ms. Abeita also discussed the National Housing Trust Fund, which was established through the Housing and Economic Recovery Act of 2008 to produce, preserve and rehabilitate affordable housing for extremely low-income families earning not greater than 30 percent of the area median income. Initial funding sources were revenue contributions from the government sponsored entities (GSEs), Freddie Mac and Fannie Mae. These contributions were suspended, however, when the GSEs went into receivership. She said that the HUD announced guidelines for the program in early 2015 after the GSEs began generating revenue again. According to allocations published in May 2016, New Mexico will receive \$3 million. Ms. Abeita said that the MFA's allocation plan is due to the HUD by August 16, 2016 and must be approved by the HUD within 45 days. After approvals the MFA will develop a more detailed notice of funding availability in the fall of 2016, with awards to follow.

Ms. Abeita addressed issues related to housing opportunities. She said that, with the current rental crisis in the country, poverty and housing insecurity have become more concentrated. She said that in the Equality of Opportunity Project, Harvard economists, led by Raj Chetty, found that living in good neighborhoods contributes to upward mobility later in life. In terms of enforcing the federal Fair Housing Act, the U.S. Supreme Court has determined that disparate impact claims may be used to support plaintiffs' claims of alleged Fair Housing Act violations. She said the new HUD affirmatively furthering fair housing rule significantly explains the factors that must be considered when identifying impediments to fair housing choices. She said that new guidance from the HUD on housing persons with criminal backgrounds is expected.

Ms. Abeita told members that she had included a budget chart of select HUD and United States Department of Agriculture housing after her presentation slides. She also suggested that members may be interested in several MFA-produced position papers:

- "The Importance of the Housing Credit to New Mexico";
- "The Importance of Housing Bonds to New Mexico";
- "MFA Supports Ginnie Mae Securitization of Risk-Sharing Loans"; and
- "The Impact of Ginnie Mae Securitization on a Typical MFA Risk-Share Project".

The chair and committee members thanked Ms. Abeita for such a thorough report on federal housing policy and budget trends.

Adjournment

There being no further business to come before the committee, the meeting was adjourned at 12:02 p.m.