

**MINUTES
of the
SECOND MEETING
of the
MORTGAGE FINANCE AUTHORITY ACT
OVERSIGHT COMMITTEE**

**July 26, 2011
Mortgage Finance Authority Office
Albuquerque, New Mexico**

The second meeting of the Mortgage Finance Authority (MFA) Act Oversight Committee was called to order by Representative Joni Marie Gutierrez, chair, at 10:10 a.m. on July 26, 2011 at the office of the MFA in Albuquerque, New Mexico.

Present

Rep. Joni Marie Gutierrez, Chair
Sen. Nancy Rodriguez, Vice Chair
Rep. Alonzo Baldonado
Sen. Mark Boitano
Rep. Ernest H. Chavez
Sen. Cisco McSorley
Sen. Gerald Ortiz y Pino

Absent

Rep. Nate Gentry

Advisory Members

Rep. Thomas A. Anderson
Rep. Roberto "Bobby" J. Gonzales
Rep. Sandra D. Jeff
Rep. Rick Little
Rep. James Roger Madalena
Sen. Richard C. Martinez
Sen. Sander Rue
Sen. David Ulibarri

Sen. Rod Adair
Sen. Lynda M. Lovejoy
Rep. Dennis J. Roch

Staff

Kim Bannerman, Legislative Council Service (LCS)
Claudia Armijo, LCS

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts and written testimony are in the meeting file.

Tuesday, July 26

Welcome

Representative Gutierrez welcomed the committee members, MFA staff and guests to the meeting. She advised the members that the meeting would be video webcast and reminded them to keep sidebar conversations to a minimum to avoid noise interference with the webcast.

Approval of the Minutes

Representative Gutierrez asked for a motion to approve the minutes from the committee's June 6, 2011 meeting. A motion was made and seconded. The motion passed unanimously.

MFA Update

Jay Czar, executive director of the MFA, welcomed the members to the meeting. He began by congratulating Erin Quinn, senior policy and program advisor for the MFA, on her recent recognition from *Albuquerque Business Weekly*. Ms. Quinn explained that she received the award for the *40 Under Forty* annual publication and event recognizing New Mexico's most accomplished young professionals whose efforts are shaping the future of the state. More than 150 people were nominated for the 2011 top *40 Under Forty* awards. The judges, all *40 Under Forty* alumni, selected honorees based on their professional achievement, leadership and community involvement. An event celebrating the honorees was held on July 14, 2011 at the Albuquerque Hilton. Honorees were also featured in a special *Albuquerque Business Weekly* publication on July 15, 2011. Ms. Quinn was nominated by Mr. Czar, who told the committee members that Ms. Quinn deserves this high recognition for her continued excellence and dedication with her work for the MFA and the State of New Mexico.

Mr. Czar next informed the members that the MFA's contract with the Project-Based Section 8 Housing Assistance Program through the federal Department of Housing and Urban Development (HUD) was not renewed and will end in September 2011. The MFA has served as the contract administrator for this program in New Mexico for the past 11 years. The HUD rebid the administration contracts, and the MFA applied to continue administering the program in the state, but the HUD selected an entity from Austin, Texas, to administer the HUD's New Mexico contracts. The MFA lost that contract for reasons unknown to Mr. Czar. He told the members that the MFA is working diligently on the contract award issue and intends to file a protest in the matter. Additionally, he said that he and the MFA staff have been speaking with New Mexico's congressional delegation regarding the situation. He noted that a conference call with HUD representatives and with New Mexico's congressional delegation is scheduled for the afternoon following the MFA Oversight Committee meeting. Although he hopes the loss of the contract does not result in job losses at the MFA, he noted it is a possibility and specified that four jobs are in jeopardy. Mr. Czar told the members that he will continue to update them on this matter as information becomes available. Lastly, he mentioned that some states that similarly lost such HUD contracts are considering legal action in the matter.

Members discussed possible action the MFA Oversight Committee might take and their support of the MFA in its protest regarding the contract award. However, it was determined that additional information is needed before taking action. Mr. Czar told members that the transition from the MFA to the newly named entity is scheduled to be concluded by September 30, 2011 and that he will keep the committee informed of the status of the contract and the MFA protest.

Mr. Czar next informed the members that Governor Susana Martinez had announced a new appointment to the MFA board. The governor appointed Angel Reyes, president of Centinel Bank of Taos, New Mexico.

Mr. Czar then told members of the committee that the MFA had traveled to Las Cruces and Anthony during the previous week. One purpose of the travel was a ribbon-cutting ceremony for a rental unit project. He was pleased to note that several legislators and local government officials attended the ribbon-cutting ceremony. While in the Las Cruces and Anthony communities, MFA staff met with local officials regarding both communities' housing plans. Additionally, the MFA staff met with members of the League of Women Voters and local real estate professionals.

Mr. Czar next told the members that the Villa Alegre affordable housing project in Santa Fe also had a ribbon-cutting ceremony. He reminded the members that the new project replaced an old 1960s housing project. He added that Villa Alegre has received national awards and is unique in that it has multifamily units, as well as units designed especially for seniors.

Mr. Czar also shared the good news with the committee that the MFA's rating given by Standard & Poor's has gone up. He informed the committee that the MFA's rating is designated as stable at a time when similar entities' ratings are being downgraded.

2011 State of Housing Report

Ms. Quinn spoke to the members regarding the 2011 State of Housing Report. Referring to the handout entitled *The Long Road to Recovery 2011 State of Housing Report*, Ms. Quinn began by telling members that the recession experienced by the entire country has been deep, wide and long. She noted that more than 52,000 jobs have been lost in New Mexico since 2008, adding that all 33 counties within the state and all industry sectors have experienced job losses. New Mexico has endured 31 consecutive months of negative job growth, which Ms. Quinn advised is longer than that experienced by the rest of the country. She opined that New Mexico will experience a very slow recovery with continued high unemployment rates. This slow recovery is related in part to the fact that 95% of New Mexico's businesses are small businesses and the tight credit market is even tighter for such businesses.

Ms. Quinn next spoke about economic trends, noting that constrained state and local budgets would likely continue. One reason for such tight budgets is lower gross receipts and income taxes collected by governments. She added that oil prices are expected to fall further, as will natural gas prices, which will affect New Mexico's revenues as well. On top of these revenue shortfalls, the state is experiencing some increase in expenses. Notably, in New Mexico, the Income Support Division of the Human Services Department has seen a rise in its caseloads, with enrollment in New Mexico's Supplemental Nutrition Assistance Program up 22%, Temporary Assistance for Needy Families up 9% and general assistance up 28%. Lastly, she noted that most of the stimulus funds received by New Mexico and administered through state agencies like the MFA have been spent and all of the remaining funds must be spent by March 2012. In short, Ms. Quinn concluded that uncertainty remains regarding the national and state economies.

Next, Ms. Quinn told the members that the 2010 census showed New Mexico's population to be 2,059,179, an increase of 13.2%. The data show that most of the population growth was experienced in the metropolitan areas of the state. Fourteen of New Mexico's counties experienced a decline in their populations. Ms. Quinn added that immigration was down during the past decade, as was household growth and mobility. She noted that families are "doubling-up", meaning that multiple generations of a family are living in one household. She opined that this trend might continue as long as unemployment continues to rise.

Ms. Quinn informed committee members that the 2010 census indicates that the median age in New Mexico is 35.6 years, considered "old" for a population. She also said that one in four New Mexico homes has a household member at or older than age 65. This creates certain housing needs for older citizens. Also, Ms. Quinn noted that younger New Mexicans are seeking housing that fits their lifestyles. These citizens are renting longer, and when they purchase a home, they purchase more modest houses located in areas with an urban feel, with access to transit and in neighborhoods with "character". Again, this generational shift in housing choices will impact New Mexico's housing market in the future.

Regarding homeownership trends, Ms. Quinn said that the rate of homeownership peaked at 69.2% nationally in 2004 and has been on a steady decline since 2006. At the end of 2010, the national homeownership rate was 66.5%, while New Mexico's rate was 68.8%. Ms. Quinn further noted that the merits of homeownership have been called into question. She attributes this trend to increased home prices that spurred consumer activity, the recession associated with the house price busts that have been deeper and longer than other downturns and the \$6.8 trillion of homeowners' equity lost since 2005. Ms. Quinn also pointed out some commonly accepted benefits of homeownership, including the purchase and ownership of a home as an alternative savings vehicle, particularly for people without retirement plans or investments, have faded since the start of the recession. Ms. Quinn opined that in recent years, a combination of rapidly increasing housing prices coupled with speculative and risky lending practices combined to create an unsustainable housing market.

Ms. Quinn next reported on rental housing trends. She began by noting that nearly everyone rents a home at some point and, for many people, renting makes better economic sense than purchasing. One-third of New Mexican households rent their homes. Among renters, 31% say they are more likely to rent as a result of the housing crisis, which is illustrated by a significant growth in renter households since 2006. Ms. Quinn pointed out that homeownership rates and unemployment rates positively correlate.

Ms. Quinn told the committee that predictions for multifamily rental housing development and investment are mixed. There is a demand from the young adult population, as well as a need from former homeowners. Apartments and townhomes located near stores and attractions have gained favor with the aging population and those downsizing their homes. There also continues to be a demand for senior housing, student housing and affordable housing.

Ms. Quinn spoke at length regarding the challenges of affordable housing. She said that in the decade leading up to the housing crisis, national median home prices increased 45%, while the median wage per worker increased only 10%. Although home prices have fallen in recent months, unless a homebuyer is employed, has strong credit, has plenty of cash for a down

payment and is not burdened with an existing home mortgage on a house not yet sold, buying a new home is extremely challenging.

Ms. Quinn explained that the affordability of owning a home has become more challenging in recent years with homeowners becoming cost-burdened. For example, in 2000, homeowners paid an average of 20% of their income for housing costs. That cost increased to 25% in 2009. In 2009, 43% of homeowners earning less than \$50,000 per year were cost-burdened. Additionally, more renters are also cost-burdened. In 2000, renters paid 44% of their income in housing costs, versus 47% in 2009. In 2009, 72% of renters earning less than \$35,000 were deemed cost-burdened.

Ms. Quinn next talked about housing availability. She said that new construction has declined dramatically. In Albuquerque, Rio Rancho and Hobbs, single-family building permits have dropped nearly 85% from their peak. Rio Rancho did not issue any multifamily building permits in 2009 or 2010. Between 2006 and 2010, total construction employment in New Mexico fell by almost 26%, with a loss of 15,250 jobs.

Moreover, other housing challenges exist in New Mexico. Ms. Quinn told members that more than half of the state's housing stock was built prior to 1980. Consequently, there is a need and desire to improve housing efficiency and livability. Location of housing has become more important due to rising gas prices. Ms. Quinn advised that there is a trend at looking at housing affordability in a new light, which includes considering the cost of transportation when determining housing affordability.

In its efforts to address the housing affordability challenges, in 2010, the MFA provided almost \$152 million in mortgages and down payment assistance to approximately 1,200 first-time homebuyers in New Mexico. Also, the MFA processed \$23.6 million in Section 8 rental assistance payments for 5,318 apartments. Lastly, the MFA processed \$5.1 million in funding to service providers who served 13,900 homeless and "precariously housed" individuals.

Ms. Quinn told members that the MFA is also addressing availability challenges. In 2010, the MFA provided approximately \$95 million in funding for the development of 1,245 affordable rental homes in New Mexico. The MFA financed \$8.5 million in loans for the construction, acquisition, rehabilitation and resale of 115 affordable single family for-sale homes, including 32 foreclosed properties. The MFA provided approximately \$2 million in funding for various affordable housing activities on tribal land and about \$10.5 million in the colonias. Lastly, the MFA provided \$168,000 in helping hand down payment assistance loans to 28 homeowners with disabilities.

Ms. Quinn said that the MFA continues to address sustainability challenges. In 2010, the MFA:

1. provided \$19.7 million in owner-occupied housing rehabilitation and weatherization funds to address the critical needs of more than 4,000 homeowners;
2. financed preservation of 300 affordable rental homes;
3. received a competitive award of \$920,000 from the federal Department of Energy to establish a Weatherization Training Center;

4. received the U.S. Green Building Council New Mexico Chapter's 2010 "Leadership in Green Building Award"; and
5. provided roughly \$300,000 in housing counseling funds to educate 1,523 prospective homebuyers and troubled homeowners.

According to Ms. Quinn, the MFA is addressing housing challenges through the federal American Recovery and Reinvestment Act of 2009 (ARRA) program implementation as well. The MFA received more than \$95 million in ARRA stimulus funds for housing and residential energy efficiency initiatives. As of June 30, 2011, 79% of those funds had been expended. Approximately 4,000 homes will be weatherized utilizing these funds (more than 2,500 households are already enjoying warmer, more energy-efficient homes). Also, more than 660 new affordable rental homes will be built (469 units are complete).

Lastly, Ms. Quinn concluded that these are challenging times for both the United States as a whole and for New Mexico. She opined that now is a good time to reassess how to plan for and use housing resources.

Members thanked Ms. Quinn for her thorough and informative report. A general discussion ensued about the cost of housing, including property taxes and insurance. Members noted that landlords cannot afford to absorb the rising costs of rental property ownership without passing those costs on to their renters. Many agreed that the population of people capable of affording to purchase a home in New Mexico is dwindling.

A number of members commented in agreement with the concept of calculating transportation costs into the equation for determining home purchase affordability. Ms. Quinn noted that although transportation costs are a real factor to be considered, it is extremely difficult to use it as a determining factor for qualification because people may change job locations, may use public transportation or car pool and the cost of transportation can fluctuate.

Members discussed the potential effects resulting from the end of the federal stimulus money that has flowed into New Mexico. Mr. Czar said that the MFA is contemplating that factor as it creates its three-year strategic plan. One of the things the MFA is considering is whether to expand its loan servicing. Additionally, the MFA is exploring other business avenues available.

Members inquired as to the MFA's relationship with the Federal National Mortgage Association, commonly known as Fannie Mae. Ms. Quinn replied that the MFA's mortgages are sold to either Fannie Mae or the Federal Housing Authority (FHA). Occasionally, Fannie Mae provides the MFA with money for special projects, and sometimes Fannie Mae has purchased tax credits. However, now that Fannie Mae is in receivership, the MFA is involved in very few conventional loans. Consequently, 96% of the MFA's loans are now sold to the FHA.

Lastly, there was a discussion about the weatherization program. Ms. Quinn noted that the MFA is partnering with Santa Fe Community College in a certificate program designed to develop weatherization service providers. The intent is to open up the area of expertise to more people throughout the state. The MFA sees the program as a means to create jobs in New Mexico while providing a much-needed service.

Adjournment

There being no further business before the committee, the meeting adjourned at 12:30 p.m.