MINUTES
of the
FOURTH MEETING
of the
MORTGAGE FINANCE AUTHORITY ACT
OVERSIGHT COMMITTEE

October 12, 2011
Mortgage Finance Authority Office
344 Fourth St. SW
Albuquerque, New Mexico

The fourth meeting of the Mortgage Finance Authority (MFA) Act Oversight Committee was called to order by Representative Joni Marie Gutierrez, chair, at 10:05 a.m. on October 12, 2011 at the office of the New Mexico Mortgage Finance Authority in Albuquerque, New Mexico.

Present	**Absent**
Rep. Joni Marie Gutierrez, Chair	Rep. Nate Gentry
Sen. Nancy Rodriguez, Vice Chair	Sen. Gerald Ortiz y Pino
Rep. Alonzo Baldonado	
Sen. Mark Boitano	
Rep. Ernest H. Chavez	
Sen. Cisco McSorley	
Advisory Members	
Rep. Thomas A. Anderson	Sen. Rod Adair
Rep. Roberto "Bobby" J. Gonzales	Sen. Lynda M. Lovejoy
Rep. Sandra D. Jeff	Rep. Dennis J. Roch
Rep. Rick Little	
Rep. James Roger Madalena	
Sen. Richard C. Martinez	
Sen. Sander Rue	
Sen. David Ulibarri	

Guest Legislator
Rep. Patricia A. Lundstrom

Staff
Claudia Armijo, Legislative Council Service (LCS)

Guests
The guest list is in the meeting file.

Handouts

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

Minutes Approval

These minutes have not been approved by the MFA Oversight Committee as the committee has finished its work for the interim.

Wednesday, October 12

Welcome

Representative Gutierrez called the meeting to order at 10:05 a.m. She welcomed the members and guests and reminded them that the meeting was being webcast. She then asked the committee members to introduce themselves, which they did. Next, the chair asked Jay Czar, executive director for the MFA to make his opening remarks. Mr. Czar greeted everyone and welcomed them to the meeting.

MFA Update

Mr. Czar began by thanking the committee members that were able to attend the August meeting in Farmington, New Mexico, noting that holding the meeting in a city other than Albuquerque provides a great opportunity to get an overview of the MFA's activities at a local level.

Next, Mr. Czar advised the members that at the upcoming November 9, 2011 meeting, the MFA will be bringing forth its finalized legislative initiatives for the 2012 legislative session. He also noted that the MFA is involved in new training programs to assist entities around the state that do the work involved with many of the MFA's programs. The trainings will include executive workshops for the various entities' executives and chief financial officers. He added that New Mexico's state auditor will participate in the trainings, as well as representatives from the United Way. He added that the United Way has training programs to assist board members in both nonprofit entities and those for profit.

Mr. Czar told the members that the MFA will be hosting its open house on October 22, 2011. He noted that the open house is held every other year, and legislators are invited and encouraged to attend.

MFA Strategic Plan for FY 2011-2012

Erin Quinn, senior program and policy adviser, MFA, presented the MFA strategic plan to the members. She noted that the pertinent information could be located behind tab 1 of the MFA Housing New Mexico handout, dated October 12, 2011, and provided for the members' reference.

Ms. Quinn advised members of the MFA's goals and objectives for fiscal years 2012 through 2014 as follows:

Goal 1. Develop Stronger Communities. Create, facilitate, promote and support planning and development of sustainable affordable housing strategies, programs and delivery systems that foster healthy living environments and livable communities.

Goal 1 Objectives:

1) incorporate sustainable, healthy and energy-efficient design in all applicable MFA products and programs;

2) increase the capacity of local governments, nonprofit developers, for-profit developers and housing authorities to deliver services and housing;

3) improve customer satisfaction, as measured by regular customer satisfaction surveys, by September 30, 2014;

4) research, design and develop responsive programs;

5) provide at least 50 educational and networking opportunities per year for MFA stakeholders;

6) develop a public awareness campaign strategy and implement the strategy by September 30, 2014; and

7) research and assess the feasibility of new sustainable revenue-generating activities by September 30, 2012.

Goal 2. Homeownership. Provide financial and educational resources to create and preserve affordable homeownership opportunities, with an emphasis on quality customer service, support for underserved markets and sustainable homeownership.

Goal 2 Objectives:

1) provide first mortgage financing to 3,180 first-time homebuyers, including assisting 105 new homebuyers to purchase and rehabilitate their homes;

2) increase assistance to rural households, which may include first mortgage loans, down payment assistance loans, pre-purchase counseling and loss mitigation counseling;

3) assist at-risk homeowners to obtain loss mitigation counseling;

4) assist 3,180 first-time homebuyers to obtain face-to-face or online pre-purchase homebuyer counseling;

5) rehabilitate 4,107 existing housing units in New Mexico to achieve MFA health and resource conservation standards;

6) provide funds to acquire and rehabilitate 30 units, for sale or rent, to reduce the inventory of foreclosed homes and to stabilize affected communities; and

7) research, analyze and develop an acquisition and rehabilitation program that is similar to the MFA's neighborhood stabilization program (NSP). If the board and staff determine it is in the MFA's best interests to implement an NSP-like program, establish unit targets for fiscal years 2013 and 2014.

Goal 3. Rental and Group Shelter. Provide and preserve quality affordable rental opportunities, including shelter for people experiencing homelessness. Educate, design programs and provide oversight to ensure availability, quality maintenance, operations and preservation.

Goal 3 Objectives:

1) create a net increase in affordable rental units in MFA's portfolio;

2) create and maintain long-term viable rental properties through strong underwriting and proactive oversight. Continue risk management and analysis efforts on the existing portfolio; and

3) program 100 of all homeless funds for full annual expenditure in accordance with continuum-of-care and federal Department of Housing and Urban Development (HUD) planning objectives.

Goal 4. Talent and Operations. Provide support in employment, technology, facilities management and operations.

Goal 4 Objectives:

1) monitor strategic plan progress at quarterly and annual intervals;

2) each department must implement a minimum of one internal policy, process or procedure that enhances and/or streamlines functions and practices, including elimination of unnecessary processes or procedures, aligned to accomplish its goals in FY 2012, and submit that policy, process or procedure by September 30, 2012;

3) continue to refine and implement policies and processes that attract and retain quality employees;

4) in FY 2012, research suggested or identified processes and programs and develop those that are found to be feasible to ensure employee satisfaction and staff development by September 30, 2012;

5) identify board, staff and management training needs and develop and implement training using internal resources, local universities, trade schools and/or consultants, where applicable;

6) provide maximum system availability through continued maintenance and upgrades, leveraging current technology. All production servers and applications will be available during business hours. Production servers cannot be unavailable for more than a total of 20 business hours during a 12-month period;

7) protect and secure the MFA's data and systems from unauthorized access. Perform vulnerability tests every six months and mitigate any vulnerabilities identified as high risk within one business week following notification;

8) research, implement and support technology solutions to improve operational efficiencies and data-tracking capabilities for the MFA and its partners;

9) research and evaluate the benefits and implications of implementing and maintaining a social media presence and present findings and recommendations to management by January 15, 2012; and

10) maintain and enhance the MFA facilities and grounds within an approved budget (within the MFA's control) and continue to utilize "green" measures where feasible.

Goal 5. Financial Stewardship. Provide sustainable financial support for programs and administration.

Goal 5 Objectives:

1) determine an optimal five-year rolling average consolidated rate of return on earning assets;

2) research, develop and implement a cost-benefit assessment tool for evaluating new and existing programs and projects in relation to the mission, the margin and risk tolerance;

3) maintain general fund cash reserves at a minimum level for support of program activities, operations and financial strength;

4) manage and distribute grant funds to ensure that no funding is lost as a result of failure to expend or commit the fund, within the contract term;

5) obtain an unqualified opinion on the MFA's financial statements and ensure that no material weaknesses are identified by the auditor in internal control over financial reporting or major programs, excluding first-time program audits, for the next three years;

6) maintain an average internal rate of return on single-family bond programs of at least 4.5 for FY 2012;

7) maintain loan defaults, workouts and foreclosures and grant non-compliance losses to the MFA below $l,550,000 through FY 2014; and

8) add two income-generating loan servicing portfolios that utilize the current servicing model.

MFA Budget FY 2011-2012

Gina Hickman, deputy director of finance and administration, MFA, presented the MFA's budget to the members. She noted that the budget information provided in the handout excludes the federal Section 8 Performance Based Contract Administration (PBCA) contract information and added that after the scope of work for next year's PBCA contract is finalized, the MFA staff will present a budget amendment for that activity.

Next, Ms. Hickman explained that revenues are projected at $11,394,000, a decrease of $1,225,000, or 10% under the projected revenues for September 30, 2011. The expense budget is projected at $9,166,000, an increase of $162,000, or 2% over September 30, 2011 projections. She added that the 2011-2012 budgeted excess revenue over expenses is $2,228,000.

Next, Ms. Hickman provided an analysis of significant increases and decreases in the proposed budget compared to projected actual and prior year budgets. She noted that the decrease under the prior year's actual expenditures and budget is related to the loss of the Section 8 PBCA contract revenue. In addition, the decrease under the prior year's budget also reflects the loss of revenue related to the weatherization program training and technical assistance funds, which were budgeted but not realized.

Ms. Hickman next explained that the MFA's operating expenses have decreased. She noted that salaries decreased and explained that regular merit increases are budgeted at zero for the next year. The decrease in actual and budget salary expenditures is a result of changes in staff positions. There was an elimination of five positions related to the Section 8 PBCA contract, which included the layoff of one position and three term positions that will be eliminated with the termination of the federal American Recovery and Reinvestment Act (ARRA) of 2009 Energy$mart grant on March 31, 2012. The decrease is offset by the addition of the director of program administration position, who returns from military leave for the last two months of the fiscal year. The decrease in actual expenditures is also offset by the capitalization of compensation related to software development. She added that there has been a decrease in payroll taxes primarily due to the changes reflected in salaries and incentives.

Ms. Hickman directed the members' attention to a chart behind tab 2 of the handout that provides in detail the MFA's fiscal year 2012-2013 budget. The chart is followed by a proposed organizational chart for the MFA, with 68.75 full-time-equivalent employees as of September

21, 2011. Still referring to the charts in the handout, Ms. Hickman advised the members of the funding received by the MFA.

Members engaged in a lengthy discussion regarding the current and impending wave of foreclosures of residential properties in New Mexico. Many members voiced serious concerns over the issues associated with mass foreclosures, including the impacts to individuals, families, neighborhoods, businesses and the economy as a whole. Members of the MFA staff offered knowledge and guidance regarding foreclosure statistics and trends for the state. After the detailed discussion, a motion was made, seconded and passed without objection as follows.

The MFA board was requested to amend its strategic plan to create a priority goal for the MFA staff to research and develop strategies to reduce foreclosures in New Mexico. The goal should provide detailed information, including but not limited to:

1) a report covering:

a) the scope and magnitude of the foreclosure issue in New Mexico with demographic details that include the number of foreclosures involving affordable housing in New Mexico;

b) a study of successful foreclosure mitigation strategies employed by other states and localities; and

c) an analysis of the potential for partnerships with other New Mexico state agencies to provide a coordinated effort to reduce the number of foreclosures in the state; and

2) a recommendation by MFA staff to the MFA board and the MFA Act Oversight Committee, as well as the legislature, for possible legislative actions designed to reduce the number of foreclosures in New Mexico.

Mr. Czar and the MFA staff agreed to convey the motion to the MFA board.

Regional Housing Authority Updates

Ed Romero, executive director for the Northern Regional Housing Authority (NRHA), spoke to the members. He started by explaining that the mission of the NRHA is to provide decent, safe and affordable housing to low-income families. The NRHA board of commissioners consists of the following members:

Sandoval County: Santiago Chavez;
San Juan County: Ryan Downy;
San Miguel County: Tim Gallegos;
Cibola County: Andy Morrow;
Taos County: Della Barrone;
Rio Arriba County: Lauren Reichelt;

Los Alamos County: Rick Bohn;
McKinley County: Danny Garcia;
Colfax County: Kathryn Parker; and
Mora County: vacant.

According to Mr. Romero, the NRHA has no operational capacity at this time. The region currently has 15 housing authorities. Of those, eight have fewer than 100 combined public housing and voucher units, and seven are classified by the HUD as "Troubled Agencies". A capacity building assessment was conducted in 2010 outlining strengths, weaknesses and strategies for establishment of this regional authority.

Mr. Romero told the members about some of the NRHA programs, including the housing choice voucher program whereby 1,164 vouchers are allocated to authorities within the region. This Section 8 housing choice voucher program is a federally funded program managed by the NRHA. This program helps low-income households by subsidizing their rents. The subsidy payments are made directly to the landlords and are usually the difference between 30% and 40% of the tenant's monthly adjusted gross income and are used for rent and utilities. Families in the programs are allowed to choose their own rental homes as long as the landlord is willing to participate in the voucher program.

Mr. Romero next described the HUD low-rent public housing program. Under this program, the majority of the families that participate pay 30% of their monthly adjusted gross income as rent. To qualify for the program, the family's gross income must be within the set income limits established by the HUD and other criteria established by the NRHA.

Mr. Romero advised members that the NRHA faces many challenges and constraints. The most pressing concern is the lack of available funding. He noted that at least eight of the authorities have operational budgets of less than $60,000.

Cathy De Marco, executive director for the Western Regional Housing Authority (WRHA), next spoke to the members. She began by explaining that the mission of the WRHA is to provide decent, safe and affordable housing to low-income families, as well as to promote economic opportunity and a suitable living environment free from discrimination. She added that the WRHA is committed to maintaining a high level of standards and professionalism in the day-to-day management of all programs administered.

The WRHA board of commissioners includes the following members:

Luna County: Beverly Kostelnik;
Grant County: Awish Baechtle (resident commissioner);
Catron County: Vera Turner;
Valencia County: Carol Anaya;
Sierra County: G. Vincent Barrett;
Socorro County: Leo Cordova;

Torrance County: Patricia Lincoln; and
Hidalgo County: vacant.

Next, Ms. De Marco told the committee that the WRHA is currently ranked as a "high-performer" by the HUD. The authority's 2010 audit revealed no negative audit findings and the WRHA was given an unqualified audit opinion. Ms. De Marco said that the WRHA anticipates the same result with the 2011 audit, which has not yet been released by the state auditor. The WRHA has achieved high-performer status through the HUD for the last nine years as well as unqualified audits for more than 13 years. One of the authority's biggest accomplishments this past year was the progress made on the Montana Vista Housing Project, located in Silver City, New Mexico. The project will consist of 21 rental units, providing a mix of one-, two- and three-bedroom units. The project targets families at or below 30% to 50% of adjusted gross monthly income. In addition, five units will be set aside for supportive housing for special needs households. The architectural firm Integrated Design is currently working through the final design development and construction documents phase. Ms. De Marco noted that the MFA recently approved $1.4 million in funding commitments for the project through the 2011 HOME and the New Mexico Housing Trust Fund, as well as the previously awarded MFA primero supportive housing pre-development grant of $74,000.

Another accomplishment for the WRHA was the achievement this past year of closing on its first voucher homeownership family in Catron County. The program has been in operation since 2009 and there have been several families that were not able to qualify because of credit issues, lack of resources or an inability to find affordable housing.

Ms. De Marco explained that the WRHA serves Grant, Catron, Hidalgo, Luna, Sierra, Socorro, Valencia and Torrance counties. After describing some of the programs administered by the WRHA, Ms. De Marco explained that the greatest concern for the WRHA is the lack of decent, safe and affordable housing in the area, particularly in the more rural areas, such as Hidalgo County. One way to address this problem is to start a rental rehab program. The WRHA administered this type of program through the HUD about 15 years ago and it was beneficial to both landlords and tenants. One of the major constraints for the WRHA is the lack of funding available to properly administer the programs throughout the region. The WRHA has only 12 staff members between two offices and does not have the resources to hire additional staff.

Chris Herbert, executive director for the Eastern Regional Housing Authority (ERHA), explained that the mission of the ERHA is to provide decent, safe and affordable housing to low-income families. The ERHA board of commissioners is composed of the following members:

Curry County: Waymon Dowdy, (chair);
De Baca County: Alan Sparks, (vice chair);
Otero County: Michael O'Hara, (treasurer);
Lincoln County: Mary Beth Fowler, (secretary);
Lea County: Ella Turner;

Chaves County: Dr. Fundador Adajar; and
Union County: William Birdwell.

Mr. Herbert told the committee that the ERHA serves Chaves, De Baca, Eddy, Guadalupe, Harding, Lea, Lincoln, Otero, Quay, Roosevelt, Union and Curry counties. He added that the ERHA is currently ranked as a "high-performer" through the HUD for both the housing choice voucher program and the low-rent public housing program. The ERHA's 2010 audit resulted in an unqualified audit opinion, and Mr. Herbert anticipates the same results for the 2011 audit, which has not yet been released by the state auditor. The ERHA has had high performer status through the HUD for the last six years, as well as unqualified audits for more than six years. One of the ERHA's biggest accomplishments is the successful merger of the Vaughn Housing Authority's assets into the ERHA public housing portfolio. Control over the Vaughn Housing Authority was assumed by the ERHA on July 1, 2010. He added that the ERHA was able to bring the Vaughn Housing Authority's performance level up to the same level as the ERHA's public housing stock, and, as a consequence, the ERHA was awarded high performer status by the HUD. Additionally, when the ERHA assumed the assets for the former Vaughn Housing Authority, it was steadily at a 50% occupancy rate. That rate has been increased to 90%.

Mr. Herbert explained the programs administered by the ERHA and then turned his attention to the authority's concerns and challenges, citing that the greatest concern is the lack of decent, safe and affordable housing in the area served by the ERHA, particularly in Curry, Roosevelt, Chaves, Lincoln, Eddy and Lea counties. He added that all of the housing authorities are limited by the HUD fair market rents (FMR). FMRs for the above-mentioned counties fall short of what actual comparable rents are for the area. This produces a situation in which Section 8 voucher holders are unable to find units that will pass the housing quality standards inspection and have rents that are less than 110% of the counties' FMR.

Another major constraint for the ERHA is the lack of funding available to properly administer programs throughout the entire region. The HUD has reduced the housing choice voucher program administrative fees by 22% for the current year's budget. The ERHA anticipates the same level of reduction in administrative fees for the upcoming year starting in November 2011. Basically, the housing authorities will have to do more with less. Mr. Herbert continued, saying that the ERHA is in current negotiations with one of the counties to fund homebuilding for 26 units for approximately $3,250,000. Additionally, the ERHA hopes to locate other sources of funding to hire additional staff and expand outreach and additional housing programs.

MFA's Proposed Legislation

Mr. Czar addressed the members concerning the MFA's proposed legislative initiatives for the 2012 session. He advised that the MFA would seek a $5 million appropriation for the New Mexico Housing Trust Fund. He explained that the New Mexico Housing Trust Fund was created in 2005 and capitalized with an initial appropriation of $10 million. The fund has received an additional $5 million since 2006: $1 million during the 2006 legislative session, $2 million during the 2007 session and $2 million during the 2008 session. An additional $9 million in loan repayments and interest earnings gives the New Mexico Housing Trust Fund $24 million in total award capacity.

Mr. Czar continued by reminding the members that the MFA serves as the fund's trustee and has awarded approximately $22 million for affordable housing development. This amount has leveraged approximately $237 million in other housing funding and will result in the new construction and preservation of 2,382 affordable homes throughout New Mexico.

In light of the mortgage market credit crunch and dwindling federal resources available for housing and economic development initiatives, the MFA requests a $5 million appropriation to further capitalize the New Mexico Housing Trust Fund to create homes and hundreds of construction jobs throughout the state.

The next legislative initiative Mr. Czar spoke about is a request for an appropriation of $1 million for the New Mexico Energy$mart program. He explained that in 2009, the MFA received $27 million for the weatherization assistance program under the ARRA. Since then, the MFA's partners have successfully weatherized more than 4,000 homes, and they are on track to spend all stimulus funds by March 31, 2012. This ramped-up production has saved New Mexicans millions of dollars and put hundreds of contractors back to work, but the MFA estimates that more than 85,000 homes are eligible for weatherization services through the New Mexico Energy$mart program and stimulus funds will soon be gone. The MFA leverages state funds with federal Department of Energy weatherization assistance program funding and low income home energy assistance program funding. The state's financial participation supplements the program and increases the number of assisted households. The state has consistently provided financial support to this program in the past.

According to Mr. Czar, the Energy$mart program plays a crucial role in reducing energy costs for low- to moderate-income families. Low-income homeowners can spend up to 25% of their monthly budgets on utility costs compared to about 5% of homeowners with higher incomes.

Next, Mr. Czar explained that the MFA would be seeking a $500,000 appropriation for an emergency repair fund. Currently, no resource exists to assist low-income homeowners when disaster strikes, as it did for thousands of homeowners during the gas shut-off last winter and the numerous fires last summer. This appropriation will enable the MFA to provide disaster relief to low-income households throughout the state. This fund will also enable the MFA to help pay for minor repairs, including roof repair and replacement as well as accessibility modifications for households in which one or more family members have a disability. When possible, funds will be leveraged with other programs to address major rehabilitation or energy efficiency improvement needs.

Mr. Czar advised members that the MFA would also seek a $1 million appropriation for the homebuyer education program. Just as the housing market was crashing in October 2008, the

Governor's Task Force on Mortgage Lending emphasized the need for funding for basic consumer financial literacy and pre-purchase counseling in its report and recommendations. Fast-forward to 2011: the federal government has eliminated traditional pre-purchase housing counseling funds, and yet foreclosures have increased dramatically and continue to trend upward, both nationally and in New Mexico.

Mr. Czar noted that foreclosures hurt New Mexico's real estate markets and weaken communities; consistent, quality education could prevent future foreclosures. The MFA will identify best practices and develop a basic curriculum standard for statewide use.

The last legislative proposal that Mr. Czar presented to the committee is an appropriation in the amount of $250,000 for the MFA's oversight of the regional housing authorities. He noted that New Mexico's regional housing authorities have undergone substantial changes in the last five years. As part of the regional housing authorities reform process, the state appropriated funds for regional housing authority board members to travel to board meetings, training expenses for regional housing authority staff members and other essential organizational governance and capacity-building expenses. The state also appropriated funds to pay for oversight expenses. In order to ensure appropriate oversight and continued success in the authorities' transition, the MFA requests $250,000 to offset costs associated with responsible oversight, governance and capacity building of the regional housing authorities as the legislature intended.

The members discussed the proposed legislation, and some members inquired as to specifics regarding homebuyer education programs. With no further business, the meeting adjourned at 2:00 p.m.