

**MINUTES
of the
FOURTH MEETING OF THE 2018 INTERIM
of the
MORTGAGE FINANCE AUTHORITY ACT OVERSIGHT COMMITTEE**

**October 31, 2018
New Mexico Mortgage Finance Authority Office
344 Fourth St. SW
Albuquerque**

The fourth meeting of the 2018 interim of the Mortgage Finance Authority Act Oversight Committee was called to order by Senator Nancy Rodriguez, chair, on October 31, 2018 at 10:06 a.m. at the New Mexico Mortgage Finance Authority (MFA) office in Albuquerque.

Present

Sen. Nancy Rodriguez, Chair
Rep. Eliseo Lee Alcon, Vice Chair
Sen. Gregory A. Baca
Rep. Kelly K. Fajardo
Sen. Cisco McSorley
Rep. Rod Montoya
Rep. Sheryl Williams Stapleton

Absent

Sen. Stuart Ingle

Advisory Members

Rep. Alonzo Baldonado
Rep. Roberto "Bobby" J. Gonzales
Sen. Richard C. Martinez
Sen. Gerald Ortiz y Pino
Sen. Michael Padilla
Rep. Dennis J. Roch

Rep. George Dodge, Jr.
Rep. Bealquin Bill Gomez
Rep. Bill McCamley
Sen. Sander Rue
Rep. Nathan P. Small
Sen. Jeff Steinborn

Staff

Mark Edwards, Drafter, Legislative Council Service (LCS)
Anthony Montoya, Drafter, LCS
Nancy Martinez, Staff, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Wednesday, October 31

Senator Rodriguez welcomed the members, staff and guests. She asked committee members and staff to introduce themselves.

Welcome and Update

Jay Czar, executive director, MFA, provided the committee with an update of events since the last committee meeting. Mr. Czar stated that at a recent national conference, the MFA was recognized and received a national special achievement award for its work on Native American lands. Mr. Czar noted that the MFA has dedicated staff working on tribal land issues and he was proud that the staff of the MFA had received this recognition.

Mr. Czar then discussed the recent presentation that the MFA provided to the Legislative Finance Committee (LFC) and noted that this was the first time the MFA has presented to the LFC in several years. Mr. Czar stated that the MFA emphasized in its presentation the importance of and return on investment of the New Mexico Housing Trust Fund.

Reports on Bonds Issued, Financing Strategies and Market Update

The committee welcomed David Jones, principal, CSG Advisors, and Mina Choo, director, Housing Finance Group, RBC Capital Markets. Mr. Jones began by providing an overview of housing finance authorities production growth nationwide. Mr. Jones stated that declining unemployment rates, wage growth and low interest rates have driven the national rate of loan origination up over 200% over the past five years. Mr. Jones stated that the MFA has also had similar increases in production in New Mexico over that time frame. The MFA's production rates have more than tripled since 2013. Mr. Jones then stated that CSG Advisors actively monitors the MFA's use of funds to ensure that funding is used efficiently and that the MFA sets proper lending rates.

Mr. Jones said that, since 2006, it has been difficult for housing finance agencies to compete with the interest rates set by the Federal Reserve. However, he said that due to a strengthening economy and the MFA's efficient management and use of bonds, the MFA has been able to improve its ability to offer competitive rates to borrowers. Moody's Investors Service has acknowledged the MFA's solid financial performance by awarding the MFA an Aa3 credit rating. Mr. Jones noted that, while there is opportunity for the MFA to continue to grow and improve, there are also challenges with the evolving regulatory environment, tax reform and the availability of affordable housing in the state.

Ms. Choo began her presentation by providing mortgage issuance data from before the financial crisis in 2008. In the years preceding the crisis, there was a significantly higher bond issuance rate due to a higher demand. Ms. Choo stated that the data show the issuance rate has been increasing over the last three years. Before the financial crisis, the higher disparity between mortgage rates set by the Federal National Mortgage Association and the rates the MFA was able to offer allowed for effective lending by the MFA. Ms. Choo stated that during the years

immediately following the financial crisis, the compression of the differences between rates made efficient lending more difficult. Ms. Choo said that the rates have been steadily normalizing, which will allow the MFA to set lower rates than the federal agencies.

Ms. Choo finished her presentation by discussing the importance of homeownership and the assistance that the MFA can provide due to its increasing efficiency in lending. She stated that, historically, New Mexico has outperformed the national average in homeownership rates. Ms. Choo then referenced studies that show that homeownership provides not only economic benefits to the state but also societal benefits, such as neighborhood stability, increased community and civic engagement and significantly increased median net worth of homeowners.

The committee raised questions regarding the uncertain nature of millennial homeownership rates and the effect on MFA future projections. Ms. Choo acknowledged that this generational group does have unique characteristics, such as higher rates of mobility, but it does seem that millennials are beginning to enter the housing markets at higher rates. Ms. Choo stated that it is still too early to definitively tell whether there will be an impact on homebuying trends. The committee then asked whether "no documentation loans" had been provided after the financial crisis. Mr. Jones stated that due to strict Internal Revenue Service (IRS) guidelines for the MFA, this type of loan cannot be offered. The committee then inquired about the MFA's tracking of fee collection by secondary and tertiary bondholders. Mr. Czar answered that he is unaware of any misconduct at the secondary levels. He stated that the MFA is completely transparent with its transactions and typically goes through over 20 audits a year.

Federal Fiscal Year 2019 MFA Budget

Gina Hickman, deputy director of finance and administration, MFA, presented the committee with the MFA's proposed budget for 2019. Ms. Hickman stated that, in 2018, over 77% of funding for the MFA was received through bond activity. She said that this move toward bonding is the current market trend and will likely continue. Ms. Hickman then provided the committee with an overview of the MFA's general fund revenue. She stated that the largest source of earnings is the collection of administrative fees on loans. Administrative fees are also the largest source of expenditures for the MFA.

Ms. Hickman stated that the MFA has a general fund budget of \$4.6 million in excess revenue over expenses before capital items and \$1.5 million after capital items. This budget was approved by the MFA's board of directors in September. The MFA's operating budget for fiscal year 2019 estimates revenue at \$21.6 million and projected expenses at \$17 million. Ms. Hickman stated that the MFA is a self-supporting entity that must efficiently manage its reserves to continue operations, maintain the requisite issuer credit ratings, cover unanticipated expenditures and meet long-term and immediate goals. Ms. Hickman finished her presentation by discussing the importance of the MFA's housing opportunity fund, which operates as the MFA's internal revolving fund. To date, the MFA has reinvested \$159.7 million of its own capital to help fund its many housing assistance programs in the state.

MFA Single Family Mortgage Programs

Jeff Payne, senior director of homeownership, MFA, presented on a number of programs that the MFA has to offer. Mr. Payne said that there are two categories of assistance. One is for first-time homebuyers and the second is for second-home purchases. The first category is called "First Home" and offers a first mortgage loan with a competitive interest rate to first-time homebuyers. Eligibility for this program is based upon household income, family size and the purchase price of the home. There is also a minimum credit score requirement of 620 and an investment of \$500. These requirements are regulated by the IRS, and the MFA follows them closely. The "First Down" payment assistance program is used in conjunction with the First Home program. This program is used as a second mortgage with up to \$8,000 available for assistance with down payments and costs, a six percent interest rate and a 30-year amortization. The "Home Now" program is a fairly new program that is also used in conjunction with the First Down program. It is a second mortgage loan with assistance limited to the lesser of 8% of the purchase price or \$8,000. It has 0% interest and a 10-year, non-amortizing, forgivable loan.

Mr. Payne then talked about families who are purchasing a second home. The second category is the "Next Home" program, which provides non-first-time homebuyers the opportunity to purchase a second home but is also available to first-time homebuyers. This program is a first mortgage loan for low- to moderate-income homebuyers that includes a 3% down payment. Mr. Payne expressed to the committee that, since 2017, the MFA has seen the percentage of minority participation rise from 36% to 41%, the average age of program participants decrease from 36 to 35 and average home purchase prices increase from \$143,300 to \$147,000. There has also been a slight decline in the average credit score from 684 to 679. Mr. Payne then gave an overview of household payment affordability in metropolitan areas. He noted that foreclosure rates are improving on a national level. In closing, Mr. Payne said that there are rising interest rates and affordability and delinquency concerns and a strong need for funding to provide homebuyer education.

Approval of Minutes

Upon a motion made and seconded without any objections, the committee approved the minutes for the August 14 and October 1, 2018 meetings.

Foreclosure Process Task Force: Status Update

Representative Patricia Roybal Caballero and Diana Dorn-Jones, executive director, United South Broadway Corporation (USBC), gave committee members a status update. The goal of the Foreclosure Process Task Force is to prevent the number of foreclosures from continuing to escalate. The task force was created by House Memorial (HM) 15 (2014 regular session). The memorial asked the USBC to provide housing counseling and to study the statewide foreclosure process legal defense. The memorial also asks the task force to make policy recommendations to protect neighborhoods and community stability, prevent unnecessary and improper foreclosures and preserve the due process rights of financially strapped families. Senator Padilla reminded the committee that HM 15 has no appropriations and that the work is done on a volunteer basis.

Representative Roybal Caballero said that, in her county alone, there are currently 300 foreclosures and that District 13 mirrors what is happening around the state in regard to foreclosures. One of her major concerns is to address the issue of families not being able to continue living in the same home. In the upcoming 2019 legislative session, the USBC will be reintroducing Senate Bill 142 (2015 regular session), which clarifies that New Mexico is ensured due process in regard to all homeowners. Another piece of legislation that will be reintroduced is Senate Bill 143 (2015 regular session), which describes the process for foreclosures and clarifies the language for a judicial sale. The task force has noticed that neighborhoods with foreclosures have experienced reductions in home prices. Representative Roybal Caballero said that there is a need for financial knowledge and a fair due process for homeowners.

Committee members entered into a discussion about the term "unnecessary foreclosure".

Adjournment

There being no further business before the committee, the meeting adjourned at 1:15 p.m.