

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

**October 17, 2019
New Mexico Mortgage Finance Authority Office
344 Fourth St. SW
Albuquerque**

The fourth meeting of the Mortgage Finance Authority Act Oversight Committee was called to order by Representative Eliseo Lee Alcon, chair, on Thursday, October 17, 2019, at 10:10 a.m. at the New Mexico Mortgage Finance Authority (MFA) office in Albuquerque.

Present

Rep. Eliseo Lee Alcon, Chair
Sen. Nancy Rodriguez, Vice Chair
Sen. Gregory A. Baca
Rep. Alonzo Baldonado
Sen. Stuart Ingle
Rep. Rod Montoya
Sen. Michael Padilla
Rep. Andrea Romero

Absent

Advisory Members

Rep. Rachel A. Black
Rep. Kelly K. Fajardo
Rep. Roberto "Bobby" J. Gonzales
Rep. Javier Martínez
Sen. Richard C. Martinez
Rep. Sheryl Williams Stapleton

Rep. Georgene Louis
Sen. Gerald Ortiz y Pino
Sen. Sander Rue

Staff

Anthony Montoya, Staff Attorney, Legislative Council Service (LCS)
Tabitha Enriquez, Research Intern, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Thursday, October 17

Welcome and Introductions

Representative Alcon welcomed members of the committee, staff and guests. Committee members and staff introduced themselves.

MFA Update

The chair recognized Gina Hickman, deputy director of finance and administration, MFA, who welcomed the committee and provided an update of events since the last meeting. Ms. Hickman reported that approximately 250 people attended the MFA's open house on September 12, 2019. She announced that the MFA will present its budget and program details/overview in an annual hearing before the Legislative Finance Committee (LFC). Ms. Hickman then informed the committee that on October 2, the MFA sold its largest bond mortgage for \$120 million.

Reports on Bonds Issued, Financing Strategies and Market Update

Ms. Hickman introduced the MFA's financial advisors, David Jones, principal, CSG Advisors, and Mina Choo, director, Housing Finance Group, RBC Capital Markets, who discussed financing trends among housing finance agencies and their implications for the MFA.

Mr. Jones explained that as home prices increase and affordable housing grows more scarce, housing finance agencies' originations of subsidized single family loans increase. He said that the current environment is good for loan growth due to low unemployment, wage growth, low interest rates and improved consumer confidence.

Mr. Jones pointed out that a homebuyer in New Mexico would need an annual income of at least \$61,383 to make a down payment, but average incomes range from \$19,554 to \$52,312. He said that the MFA addresses this issue by offering down payment assistance (DPA) to eligible borrowers using its Housing Opportunity Fund.

Mr. Jones noted that the MFA has experienced significant production growth since 2015, when it implemented the Next Home mortgage program for low- and moderate-income households. He explained that the MFA is able to offer lower loan rates by selling mortgage-backed securities via the "to be announced" (TBA) market and by issuing tax-exempt bonds.

Mr. Jones said that the MFA generates immediate revenue from the TBA market and long-term revenue from bonds. He reported that over the last two years, bonds have proven to be more beneficial for the MFA. Mr. Jones noted that CSG Advisors and the MFA monitor and review the TBA market on a daily basis and the municipal bond market on a weekly basis.

Ms. Choo provided an update on bond issuance in New Mexico. She said that this year's bond issuance has declined compared to that of the past five years. Ms. Choo noted a significant increase in the retail sales of the MFA's single-family mortgage class I bonds, noting that the financial crisis caused a pull back in the bond market, but now, new money volume is up.

Ms. Choo explained that during the financial crisis, the Federal Reserve intervened with quantitative easing to keep rates artificially low. She pointed out that mortgage rates, municipal bond rates and United States Treasury bond rates were on the rise last year. Ms. Choo noted that in a low-rate environment, closing costs are often a barrier for first-time homebuyers. She said that the MFA has several different DPA programs to help borrowers. She reported that homeownership rates are at historic lows for the young and are at 30-year lows for African-American households. She said that higher-income households accounted for a substantial share of growth in renters over the past decade.

In response to questions, Mr. Jones stated that the need for affordable housing and mortgage production has grown. He described the TBA market for the committee. Mr. Jones explained that periods of decreased homeownership are associated with increased rent, foreclosures and homelessness. He noted that income qualifications and underwriting criteria have become more stringent since the 2008 financial crisis. Members of the committee then discussed the gap in wealth accumulation between homeowners and renters.

MFA Single-Family Mortgage Products

Jeff Payne, senior director of mortgage operations, MFA, began by explaining that the MFA offers homebuyers and homeowners DPA and low-interest mortgages. He said that the MFA also offers rehabilitation and weatherization programs to homeowners.

Mr. Payne pointed out that the MFA experienced record-breaking single-family loan activity in fiscal year (FY) 2019. He reported that 77% of loans purchased were Federal Housing Administration loans, 22% were conventional loans and 1% were United States Department of Veterans Affairs (VA) loans. Mr. Payne noted that more homebuyers use and rely on government loan programs than conventional loans.

Mr. Payne explained that mortgage interest rates were very high in the 1990s but have been declining ever since. He noted that the very low rates in the last few weeks have helped home affordability. Mr. Payne reported that New Mexico home prices have increased 4.4% since 2018 and are forecasted to increase another 2% in the next year. He said that the median sales price in New Mexico rose to \$215,000 in 2019.

Mr. Payne reported that the MFA's delinquent and seriously delinquent borrower rates are lower than the Mortgage Bankers Association's delinquency rates. He informed the committee that the national foreclosure rate is one in every 2,554 households and New Mexico's overall foreclosure rate is one in every 2,397 households. Mr. Payne noted that Sandoval, Bernalillo, Valencia, Otero and Union counties have higher foreclosure rates.

In response to questions, Mr. Payne stated that the MFA's mortgage programs are for low- to medium-income levels; higher-income homebuyers have access to standard commercial loans. He explained that veterans qualify for 100% of the purchase price of a house through the VA loan program, so they do not need DPA programs. When asked about a possible recession, Mr.

Payne said that national housing finance agencies have seen a reduction in production, but statewide home prices, incomes and number of loans are increasing. He said that New Mexico has a history of being late to get in and out of recessions.

MFA FY 2020 Operating Budget

Ms. Hickman presented the MFA's 2019-2020 budget overview to the committee. She stated that the MFA's estimated funding for 2019 totals \$796.4 million and that funding is projected from the following sources: \$548.9 million from private activity bonds; \$147 million from federal housing programs; \$66.3 million from private funding and other sources; \$19.8 million from the MFA's general fund; and \$14.3 million from state funding and appropriations. She noted that the affordable housing tax credit incentives provided over \$9 million in potential private donations for affordable housing. She noted that the MFA had a record \$4.2 billion of managed assets in 2019.

Ms. Hickman explained that the MFA's managed assets declined from 2010 to 2015 but have increased since 2016. She said that average financial assets recovered after the decline and assets under management greatly increased.

Ms. Hickman reviewed the MFA's operating revenue and expenditures since 2013. She noted that the revenue base has increased, interest income has increased and administrative fees have decreased. Ms. Hickman pointed out that servicing income was a new business line in 2016, noting that it represented 13% of the MFA's operating revenue last year and 18% this year and that it will continue to grow in the future.

Ms. Hickman announced that the MFA's FY 2020 general fund budget of \$4.3 million was approved by the MFA Board of Directors on September 18, 2019. She reported that the MFA's operating budget for FY 2020 estimates revenue at \$23.5 million; the expense budget is projected at \$19.3 million; and the capital budget is \$4.8 million. Ms. Hickman noted that the new fiscal year began October 1, 2019 and will end September 30, 2020.

Ms. Hickman discussed the factors that could have a significant impact on the MFA's budget. She noted that single-family mortgage production is projected to decrease, which would decrease revenue. Ms. Hickman pointed out that the MFA has recently moved to bond execution due to favorable market conditions. She also cited compensation increases and major building renovations as other possible budget variances.

In response to questions, Ms. Hickman stated that the MFA tries to work with delinquencies to get them back on track. She noted that the same budget and program information would be presented to the LFC. Ms. Hickman explained that utility companies, like Public Service Company of New Mexico and New Mexico Gas Company, help fund the MFA's weatherization program.

Approval of Minutes

Upon a motion made and seconded, and without any objections, the committee approved the minutes of the September 12, 2019 meeting.

Rental Housing Affordability

Rebecca Velarde, director of policy and planning, MFA, discussed New Mexico's affordable rental housing needs. Ms. Velarde noted that New Mexico is geographically the fifth largest state in the country, with a population of approximately two million people. She reported that two-thirds of the state's population is located in four metropolitan areas.

Ms. Velarde explained that urban communities are younger and growing. She said that urban areas have low housing vacancy rates and offer more employment opportunities. Ms. Velarde noted that rural communities are aging and losing their populations and that rural areas have older housing stock and higher housing vacancies.

Ms. Velarde reported that New Mexico has a five-year growth rate of 0.24%, compared to the national five-year growth rate of 2.8%. She said that younger workers are out-migrating to seek economic opportunities in neighboring states. Ms. Velarde compared New Mexico's low median household income of \$46,718 and high poverty rate of 20.6% to the national averages of \$57,652 and 14.6%.

Ms. Velarde pointed out that among New Mexico homeowners, there is a lower percentage of family households and married-couple households than that of the United States and a higher percentage of male-headed and female-headed households. Ms. Velarde noted that the composition of New Mexico renter households is very similar to the rest of the country.

Ms. Velarde reported that most New Mexico counties have homeownership rates over 60%. She said that New Mexico has a higher percentage of single-family homes and a lower percentage of multifamily units than the overall percentage in the United States. Ms. Velarde pointed out that New Mexico has a notably higher percentage of mobile homes than that of the rest of the country. She said that most of the units constructed in 2018 were single-family units and were being constructed in urban areas, while multifamily units are being built in the Permian Basin region.

Ms. Velarde explained that the United States Department of Housing and Urban Development (HUD) considers housing costs that do not exceed 30% of gross income to be affordable; of 30%-49% to be cost-burdened; and of 50% or more to be extremely cost-burdened. She reported that 44.5% of New Mexico renter households are not cost-burdened; 21.9% are cost-burdened; and 22.6% are extremely cost-burdened. Ms. Velarde noted that affordability varies by county. She said that Santa Fe County has the highest average rents, while those of rural areas tend to be much lower.

Ms. Velarde discussed the low-income housing tax credit (LIHTC) programs and the affordable housing tax credit. She pointed out that eligible donations to the affordable housing tax credit program include land, stock, buildings, materials, cash or qualified services.

Ms. Velarde then provided an overview of the various loan and grant programs. She noted that the HUD's National Housing Trust Fund is enticing to developers and serves low-income individuals. Ms. Velarde explained that the United States Department of Agriculture's (USDA's) Section 538 and the HUD Risk Share 542(c) programs are both federal loan guarantee programs; the USDA Preservation Revolving Loan Fund provides federal funding for projects in rural areas; and the Ventana Fund offers construction loans for community development projects.

In response to questions, Ms. Velarde stated that the HOME Investment Partnerships Program requires no- or low-interest payments. She explained that the LIHTC is a federal program that it is based on census data. The committee discussed housing affordability on a minimum wage and the lack of housing in the Taos region.

Adjournment

There being no further business before the committee, the meeting adjourned at 12:54 p.m.