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S T A T E *of*
H O U S I N G



NEW MEXICO MORTGAGE FINANCE AUTHORITY

A WORD FROM LIEUTENANT GOVERNOR DIANE D. DENISH



Welcome to New Mexico Mortgage Finance Authority's (MFA) first *State of Housing Report*. MFA created this report to serve as an essential resource for public policy makers, private-sector decision makers, and others interested in a better understanding of New Mexico's housing sector.

As Chair of MFA's Board of Directors, I have learned much about housing in New Mexico and, most importantly, the critical role housing plays in our state. Housing is a basic necessity of individual, family, and community life. Yet housing costs are burdensome for many families in New Mexico. Furthermore, the ever-changing nature of economic forces around our state has necessitated adjustments in the type and quantity of housing New Mexicans require.

Inside you will find summary information about recent changes in the housing markets, discussion ranging from economic and demographic trends to homeownership and rental housing, and thoughtful analysis of persistent affordable housing challenges. Supporting data have been gathered from numerous reliable sources to provide you with a compelling, multifaceted assessment of New Mexico's many varied housing markets.

I hope you find this report to be a valuable resource. Thank you for your interest in Housing New Mexico's People.

Sincerely,

A handwritten signature in white ink that reads "Diane D. Denish". The signature is written in a cursive, flowing style.

Lieutenant Governor Diane D. Denish, Chair
New Mexico Mortgage Finance Authority
Board of Directors

STATE OF HOUSING REPORT NEW MEXICO 2008

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NEW MEXICO MORTGAGE FINANCE AUTHORITY



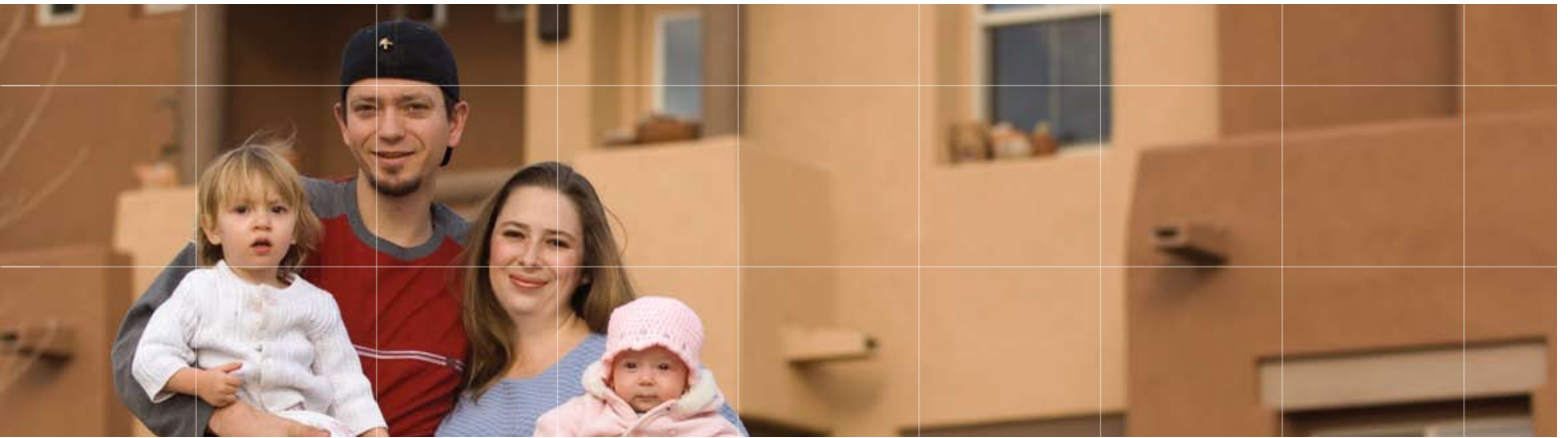
“IN THE HOMES OF AMERICA ARE BORN THE CHILDREN OF AMERICA; AND FROM THEM GO OUT INTO AMERICAN LIFE, AMERICAN MEN AND WOMEN. THEY GO OUT WITH THE STAMP OF THESE HOMES UPON THEM; AND ONLY AS THESE HOMES ARE WHAT THEY SHOULD BE, WILL THEY BE WHAT THEY SHOULD BE.”

**- JOSIAH GILBERT HOLLAND,
1819 - 1881, AMERICAN AUTHOR,
POET, AND MORALIST**

Home matters. Homes are part of our identities, our communities, our economies. Where they are located and how much they cost influence our environment, our education, and our livelihoods. Because housing—home—plays such an indelible role in New Mexico’s quality of life, the New Mexico Mortgage Finance Authority (MFA) developed this *State of Housing Report* as a means of exploring the current housing environment. Empirical evidence suggests that when families are able to live in stable, affordable homes, children perform better in school and adults are better able to get and keep jobs. When people are able to live near their places of employment, they spend less time in the car, reducing traffic and increasing time with family and friends. When the workers essential to our hospitals, schools, retail establishments, public and non-profit agencies, and businesses are able to live in the communities where they work they enjoy not only the basic shelter those homes provide, but also an effective means for building assets and creating wealth.

Clearly, economic and demographic trends influence housing (and vice versa). After several years of strong, sustained growth, New Mexico’s economy slowed in 2007. New Mexico’s unemployment rate is low, and employment growth and personal income growth have both exceeded the national average. However, after a prolonged period during which the rate never dropped below 2 percent, employment growth has declined. Despite weakening in the construction, manufacturing, and mining sectors, the state can expect to see moderate growth in the next five years. As a result of deliberate, persistent diversification efforts, New Mexico’s economy will likely experience continued growth in the areas of healthcare and social assistance, gaming, and professional and business services, and new expansion of the information sector (which includes film), the aerospace industry, and federal homeland security activity.

Population growth shapes housing market demand as much, if not more than, the economy. The University of New Mexico’s Bureau of Business and Economic



EXECUTIVE SUMMARY

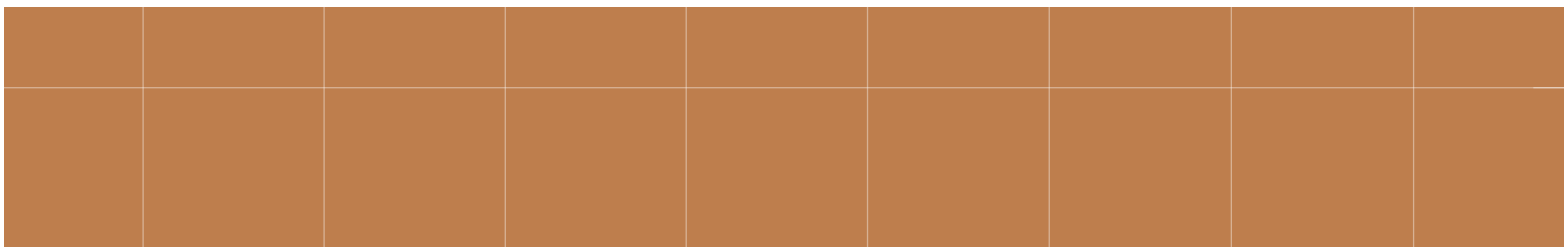
Research projects that the state’s population will grow to 2.6 million by 2030. If recent history is any indicator, New Mexico is also likely to grow more urbanized: since 2000, the greatest population growth in the state has occurred in the Albuquerque, Las Cruces, Santa Fe, and Farmington MSAs, and Sandoval County has been the fastest growing county. The *immigration* of people from outside the United States will likely alter New Mexico’s demographic landscape, possibly adding to the labor force, reducing the median age, and increasing the state’s birth rate, all of which have implications for the state’s economy and housing demand. Similarly, the population’s “graying” will affect nearly all aspects of the state’s economy and many businesses. Healthcare coverage, senior centers, and appropriate housing needs could come into direct conflict with education, child care, and employment needs of a younger population.

New Mexico’s high homeownership rate may be attributed, at least in part, to its economy and demographics. Home equity is by far the greatest source of wealth for most Americans; as true as that was for New Mexico’s young agrarian families and entrepreneurs years ago, it rings even truer today. Eighty percent of lower income households’ net wealth is represented by home equity; thus, it represents a significant part of wealth building. In addition to the economic benefits described above, the housing stability homeownership offers can bring

many social benefits to bear. The sustainability of homeownership—and stable housing in general—is a goal New Mexico policy makers and practitioners must strive to achieve.

MFA would be remiss if we failed to include an in-depth analysis and discussion of front-page-news housing purchase markets and subprime lending mortgage market corrections. Residential real estate sales activity has slowed in most New Mexico markets, but it should not be characterized as stagnant or stalled. What is more, prices in many markets have increased over last year despite the abundant supply in some areas. Not unlike the economic analyses presented in this report, real estate market analyses confirm that markets are very different throughout the state and it is difficult to draw statewide conclusions.

Background information regarding the subprime mortgage market reveals that the national rise in serious delinquencies among subprime adjustable-rate mortgages has multiple causes. Most of the factors influencing national serious delinquency rates are not as pronounced in New Mexico as in other states, resulting in prime and subprime delinquency rates that are lower than the national rates. Although the impact of default and foreclosure on individual families and neighborhoods shouldn’t be underestimated, there is considerable debate as to whether a subprime mortgage lending “crisis” exists in New Mexico. The data suggest that New Mexico is



not experiencing payment shock, foreclosures, and defaults to the degree other states are. Still, any issue that touches upon homeownership—and the fear of losing one’s home—is bound to generate passionate discussion. For troubled borrowers the consequences of defaulting can be severe, and their neighbors may suffer as well, as geographically concentrated foreclosures tend to reduce property values in the surrounding area.

Rental housing is an equally important component of the housing market in every community: almost everyone rents a home at one point or another during their lives, and a community must have rental housing in order to offer robust housing choices to its residents. Population and demographic changes—not to mention unprecedented growth in the for-sale housing market, which siphoned many moderate- and higher-income households from the rental market—have influenced the demand for rental housing as well as the composition of renter households. In order to meet this new demand mix, rental housing developers need to pay greater attention to affordability issues, provide more amenities for middle-aged and senior citizens, and address cultural differences of people born outside the United States.

The disappearance rate of New Mexico’s existing affordable rental stock only compounds an already daunting affordable rental housing demand throughout the state. Numerous areas in New Mexico possess characteristics that cause them to be at risk of losing existing affordable rental units, such as rural economic “boom” areas, high cost areas, and tribal and border communities. In light of ever-increasing land prices, building material costs, and limited resources, it behooves policy makers and practitioners alike to view preservation as a complement rather than a competitor to new production programs, and recognize its value as an effective economic and environmental resource conservation strategy.

New Mexico’s housing challenges may be characterized by three general components: affordability, availability, and sustainability. Many New Mexico housing markets are increasingly unaffordable to working families, as home prices have simply increased much faster than wages. Given the widening gap between what low- and moderate-income New Mexicans can afford and what they actually spend on housing, enormous political will and resources are required to reduce the number of severely cost-burdened households. New Mexico has taken some very positive steps forward, but the affordability challenge persists and is worsening in many markets.

In many places in New Mexico affordability may not be the issue: rather, *availability* is the more difficult challenge. Many communities in rural New Mexico lack sufficient housing for families across the income spectrum, causing extreme difficulty recruiting and retaining essential employees and stifling economic development initiatives. The capacity to develop and build new housing is limited or nonexistent in many of these communities. Skilled laborers and people who possess the technical knowledge required to develop housing either do not reside there or they choose to work in other fields that may be more lucrative. What is more, private lenders are often unwilling to finance the development of what may be an unprecedented number of homes in areas where the land values do not sufficiently collateralize the value of the predevelopment or construction financing, or where market comparables do not exist and/or are so outdated that they do not justify proposed development cost budgets.

Owner-occupied housing rehabilitation and preservation of affordable rental housing—*i.e.*, preserving what we have—are two of the most important activities we can pursue as part of sound, sustainable housing policy in New Mexico, and



yet our resources to pursue these activities are extremely limited. Resource-efficient housing is another means of addressing the sustainability component of New Mexico's housing challenge. In too many instances, rising energy costs counteract gains achieved with housing subsidy. Sustainability is also achieved through stable, well-understood, predictable financing mechanisms and education. Homeownership at any cost is not sustainable for either the borrowers or their greater communities.

MFA has worked to address New Mexico's housing challenges in a number of ways. Since its inception, MFA has provided \$3.5 billion in housing resources throughout the state in the form of below-market rate loans and down payment assistance for first-time homebuyers, low-interest rate loans and tax credit equity for developers of new housing, and deep subsidy for non-profit housing service providers who carry out activities ranging from single family housing development to owner-occupied housing rehabilitation and weatherization to sheltering the homeless. MFA has managed multifamily and single family loan portfolios for more than 25 years, including loan servicing and monitoring for compliance with program regulations. An impeccable track record of clean audits, low default rates, and early loan pay-offs is a testament to MFA's experience and commitment to stewardship of New Mexico's affordable housing assets.

In addition to these efforts MFA has worked closely with many partners to bolster the State's support for affordable housing activities, and the State has responded. In 2005 New Mexico saw the enactment of the New Mexico Housing Trust Fund—to which \$13 million has been appropriated to date—and a state Affordable Housing Tax Credit. These measures represented unprecedented State investment in housing and continue to serve as flexible funding sources. MFA has also devised strategies to mitigate New Mexico's housing availability challenge, and is working closely with the State and other partners to achieve affordable housing sustainability through programs and incentives for preservation of existing affordable housing stock, energy efficient and "green" housing design and building methodologies, and sustainable financing and education.

New Mexico's housing challenges are as diverse as its people. One approach will not fit all situations, and statewide investments and incentives must be flexible and tailored to best serve our state's many and varied housing markets. Although the New Mexico Mortgage Finance Authority's Board and staff recognize and understand the many challenges that lie before us, we also believe that New Mexico is poised to capitalize on its strengths in a way unlike at any other time in recent memory. We hope the *State of Housing Report* will serve as an informative springboard for discussion about some of these challenges and opportunities because housing—home—matters.

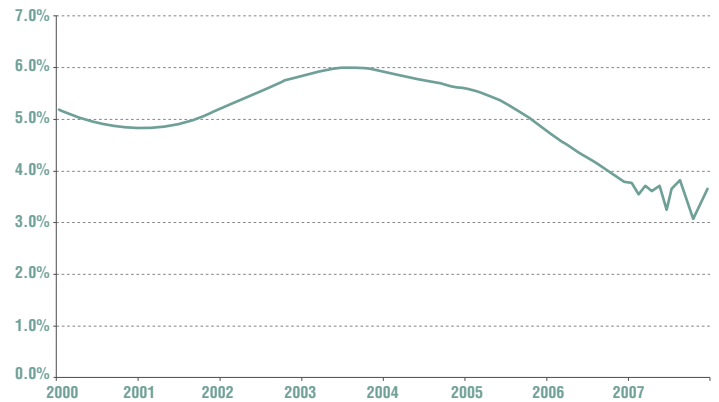


ECONOMIC TRENDS

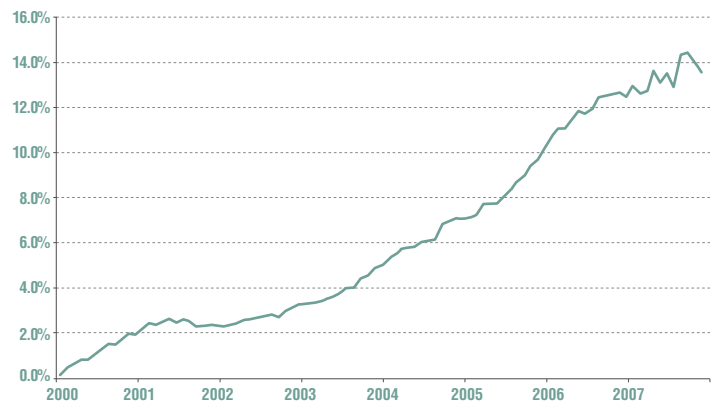
At the beginning of 2008, the economic outlook for New Mexico is mixed, posing both opportunities and challenges. After several years of strong, sustained growth, the state's economy slowed in 2007. Since 2000, New Mexico's economy has been strong – one of the strongest in the nation. When most other states were experiencing fiscal hardship after the events of September 11, 2001, New Mexico was one of only three states not to suffer budget deficit and one of only five states to not fall into recession. New Mexico benefited from circumstances not shared by most other states including fiscal conservatism and an 8 percent state contingency fund, rapid growth in the healthcare sector, a generally strong construction sector, rapid expansion in Native American gaming, an influx of call centers, and a booming mining (oil and gas) sector.¹

New Mexico's unemployment rate is low—it reached an historic low in October 2007 at 3.1 percent—and employment growth and personal income growth have both exceeded the national average. However, after a 28-month period during which the rate never dropped below 2 percent, employment growth peaked at 3.6 percent in June 2006 and has declined steadily since. Current job growth is below the long-term trend and projections for this quarter.² The economic slowdown can be traced to the construction and manufacturing sectors and, to a lesser degree, the mining sector.³

**NM UNEMPLOYMENT RATE TREND
2000-2007**



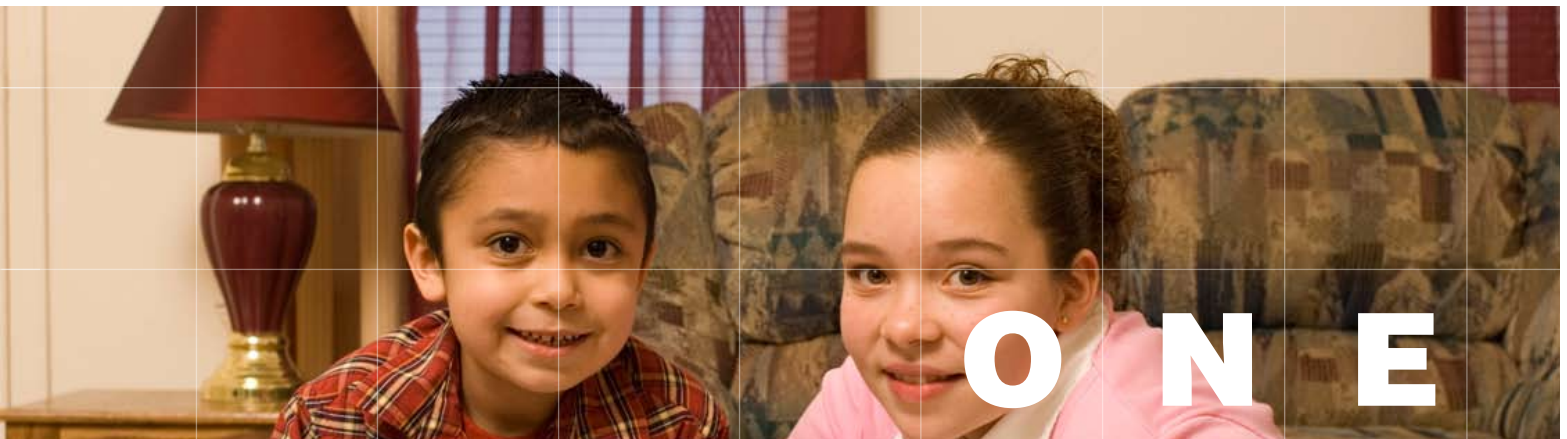
**NM EMPLOYMENT GROWTH
2000-2007**



¹ Waldman, Larry, "The New Mexico Economy: Recent Developments and Outlook," New Mexico Economic Outlook Conference, January 2006.

² "Employment and Unemployment Monthly Release," New Mexico Department of Workforce Solutions, December 28, 2007 and January 24, 2008.

³ Waldman, Larry, "The New Mexico Economy: Recent Developments and Outlook," New Mexico Economic Outlook Conference, January 2008.



ECONOMIC TRENDS AND DEMOGRAPHIC DRIVERS

During the past few years, mining and construction have contributed substantially to the strength and growth of New Mexico's economy. Declines in construction have also been affected by the completion of several large projects and rising costs of construction materials. The number of single family residential building permits issued dropped in 2007 across most of state with the exception of southeastern New Mexico.⁴ Many experts assert that the subprime mortgage market crisis has not posed as significant a threat to New Mexico as other states. Still, our real estate markets remain sluggish compared to recent years. (The "Housing Markets" section of this report explores this topic in more detail.)

Weakening of the electronics market and Intel's subsequent reduction in force bruised New Mexico's manufacturing sector. Eclipse Aviation, Advent Solar, Sun-Baked Biscuits and Millennium Transit also recently announced layoffs. Closures by DFA Cheese Plant, Sparton Electronics and Tewa Moulding also negatively impacted the manufacturing sector.⁵

Although not expected to continue at the same pace, the mining sector enjoyed vigorous growth in 2005 and 2006, posting employment gains of 12 percent and 10.9 percent, respectively.⁶ Not surprisingly, most of the gains were in oil and gas extraction, exploration and drilling, and productivity

enhancement on the basis of very high and rising energy prices. Several hundred jobs were added at the Phelps Dodge copper operation in Grant County. New Mexico may see some resurgence in the growth of uranium mining: five companies have received permission to drill, five others have applications pending, and Grant, Cibola, and McKinley Counties have passed resolutions encouraging uranium mining.⁷ It is doubtful, however, that uranium mining can contribute enough jobs to sustain double-digit employment growth rates in this sector.

Despite weakening in these sectors, the state can expect to see moderate growth in the next five years. As a result of deliberate, persistent diversification efforts, New Mexico's economy will likely experience continued growth in the areas of healthcare and social assistance, gaming, and professional and business services, and new expansion of the information sector (which includes film), the aerospace industry, and federal homeland security activity.

Growth in the information sector is expected to be strong as a result of state incentives to attract the film industry. For the fiscal year ended June 30, 2007, the state had 21 film and television projects begin production. New Mexico now has the largest contingent of trained film crew (1,600) outside of the West Coast. However, because of the short duration and often inconsistent

⁴ *Ibid.*, and "Wells Fargo New Mexico Market Report," *New Mexico Business Weekly*, Third Quarter 2007.

⁵ Waldman, Larry, "The New Mexico Economy: Recent Developments and Outlook," New Mexico Economic Outlook Conference, January 2008.

⁶ "New Mexico Review and Outlook," *FOR_UNM Bulletin*, University of New Mexico Bureau of Business and Economic Research, Vol. 18, No. 2, Summer 2007.

⁷ Dormrzalski, Dennis, "State Economy Slow," New Mexico Economic Outlook Conference, January 2008.



nature of film work, the film industry has experienced employment swings as large as 2,000 jobs in a single month. In order to stabilize this burgeoning industry, New Mexico is attracting a permanent film presence with the new ABQ Studios at Mesa del Sol, Sony Pictures Imageworks' production facilities, Lions Gate Entertainment's studio, and the redevelopment of Traditions! into the \$25 million New Mexico Film Studios with four sound stages.⁸

Aerospace entrepreneurs have chosen New Mexico as the ideal location to launch their business ventures. In January 2008, Eclipse Aviation received an infusion of capital to continue its operations. Spaceport America is expected to begin construction on a 100,000 square foot hanger and terminal facility in 2008. The spaceport could bring thousands of high-paying jobs to southern New Mexico.

Also important to note looking forward is the importance of the federal government in New Mexico's economy. The federal government impacts the

New Mexico economy through direct employment, total expenditures including retirement, disability, and direct payments, and through inter-governmental grants. When combined these factors make the federal government the largest industry in the state. The state economy is somewhat dependent on federal government spending.⁹ Recent layoffs at both Los Alamos and Sandia National Laboratories have contributed to the slowing of the economy. However, White Sands Missile Range is expected to receive 6,000 new troops. Also, the expansion of Fort Bliss in El Paso County, Texas will spill over into Doña Ana and Otero counties as 45,000 new troops are expected by 2012.¹⁰ Increased spending through the U.S. Department of Homeland Security for border patrol and law enforcement training may also impact the New Mexico economy. Furthermore, any changes in federal spending could affect New Mexico.

The table on the next page summarizes some of the activity taking place in markets throughout the state.

⁸ University of New Mexico Bureau of Business and Economic Research, New Mexico Department of Workforce Solutions, and Dormrzalski.

⁹ Popp, Anthony V., James Peach, and Christopher Erickson, "On the Horizon for New Mexico: Concerns and Opportunities." *Capitol Report New Mexico*, Vol. 2., Issue 1, Winter 2008.

¹⁰ Erickson, Chris and James Libbon, "Talking Points," *New Mexico Business Outlook*, New Mexico State University, January 2008.

MARKET	ECONOMIC ACTIVITY ¹¹
ALBUQUERQUE	<ul style="list-style-type: none"> • Overall employment growth has slowed • Construction growth negative for last three quarters • Manufacturing employment down (largely due to Intel layoffs) • Information, healthcare, and leisure and hospitality strong
FARMINGTON	<ul style="list-style-type: none"> • Overall employment growth has slowed, but remains above state average • Growth outlook favorable, especially for construction and mining (oil and gas) • New single-family building permits up 32 percent between 3Q 2006 and 3Q 2007 • Good-producing, private services-providing industries have both added jobs
LAS CRUCES	<ul style="list-style-type: none"> • Las Cruces MSA added 900 jobs over the past year; job growth above state average • Growth has slowed due to reduced employment levels in manufacturing, information, and financial services • New single-family building permits were down 49 percent from 3Q 2006 • Educational and health services gained more jobs than any other industry
SANTA FE	<ul style="list-style-type: none"> • Santa Fe is the fastest growing metro economy in the state • Educational and health services, government, information (film), and professional and business services industries driving growth • New single-family building permits down 19 percent from 3Q 2006
EDDY COUNTY	<ul style="list-style-type: none"> • Strong job growth for the past two years significantly above state average • Carlsbad more than doubled the number of new single-family building permits in 3Q 2007 over that of 3Q 2006 • Housing surge may be attributed to WIPP site job opportunities and economic development efforts to attract nuclear industry to the area
LEA COUNTY	<ul style="list-style-type: none"> • Strong employment growth throughout 2006-2007 period (5.7 percent in 2007) • Job growth fueled by oil and gas, construction (uranium enrichment facility and a new power plant), utilities, and professional/technical services • New single-family building permits in Hobbs increased 225 percent between 3Q 2006 and 3Q 2007 • Economic diversification through Hobbs' racetrack and casino, Eunice's uranium enrichment facility, and other businesses
GRANT COUNTY	<ul style="list-style-type: none"> • Significant growth in 2006 and early 2007, but . . . • Growth has slowed significantly (some month-to-month job loss in late 2007) • Growth in this area attributed to the addition of hundreds of jobs at the Phelps Dodge Copper operation and the opening of a new call center

¹¹ University of New Mexico Bureau of Business and Economic Research, New Mexico Department of Workforce Solutions, and Waldman are sources for the information summarized in this table.

DEMOGRAPHIC DRIVERS

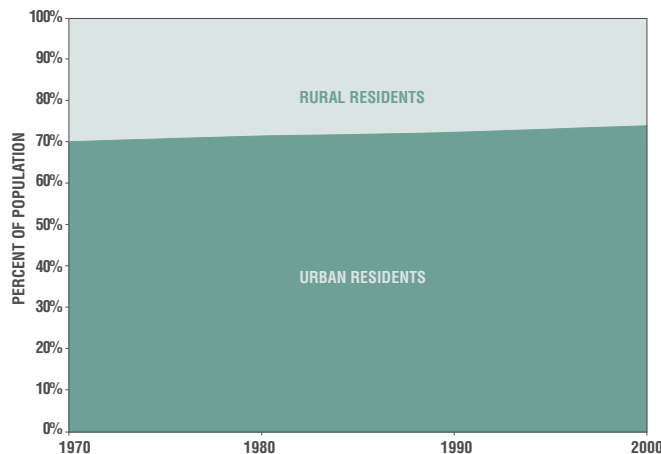
New Mexico’s economy will be profoundly influenced by dramatic demographic changes over the next decades. Since the 1970s, New Mexico’s population has grown faster than the national average. In addition to influencing the economy, population growth obviously dictates housing market demand. Although considerable debate exists about the size of the state’s future population, the University of New Mexico’s Bureau of Business and Economic Research (BBER) projects that the state’s population will grow to 2.6 million by 2030.¹²

Housing markets are impacted not only by the magnitude of population growth, but where the growth is taking place. Since 2000, the greatest population growth in New Mexico has occurred in the Albuquerque, Las Cruces, Santa Fe, and Farmington MSAs,¹³ and Sandoval County has been the fastest growing county. At the same time, many rural counties have experienced a negative net domestic migration

as well as negative population change: 13 of the state’s 33 counties are estimated to have lost population between 2000 and 2006.¹⁴

In addition to *in*-migration and migration of people within the state, the *immigration* of people from outside the United States alters New Mexico’s demographic fabric. The Federation for American Immigration Reform estimates that immigration may be adding as many as 9,200 people to the state’s population annually, representing more than two-fifths of the state’s population growth.¹⁵ The Census Bureau estimates that between 2000 and 2006 net international immigration to New Mexico accounted for 24 percent of the change in population. A significant number of people immigrating to New Mexico will add to the labor force, could reduce the median age of the population, and may increase the state’s birth rate, all of which have implications for the state’s economy and housing demand.

**NM URBAN MIGRATION
1970 - 2000**



Some demographers have observed that although immigration may contribute downward pressure on our state’s median age, a significant segment of the population is aging. Over the last three decades, New Mexico’s median age has increased from 24 to 36 years.¹⁶ The population’s “graying” will affect nearly all aspects of the state’s economy and many businesses. The size of the labor force is directly related to age; the labor force is likely to continue to increase for a few more years, but as our population gets older, it will stabilize and possibly decline unless offset by an influx of younger people. A declining labor force will present a challenge in attracting new businesses to New Mexico.

¹² University of New Mexico Bureau of Business and Economic Research, “New Mexico County Population Projections, July 1, 2000 to July 1, 2030.” In contrast, the Census Bureau projects that New Mexico’s population will grow more slowly than it has the last three decades, reaching only 2.1 million people by 2030. Forecasts prepared at New Mexico State University suggest a population of 2.7 million by 2030.

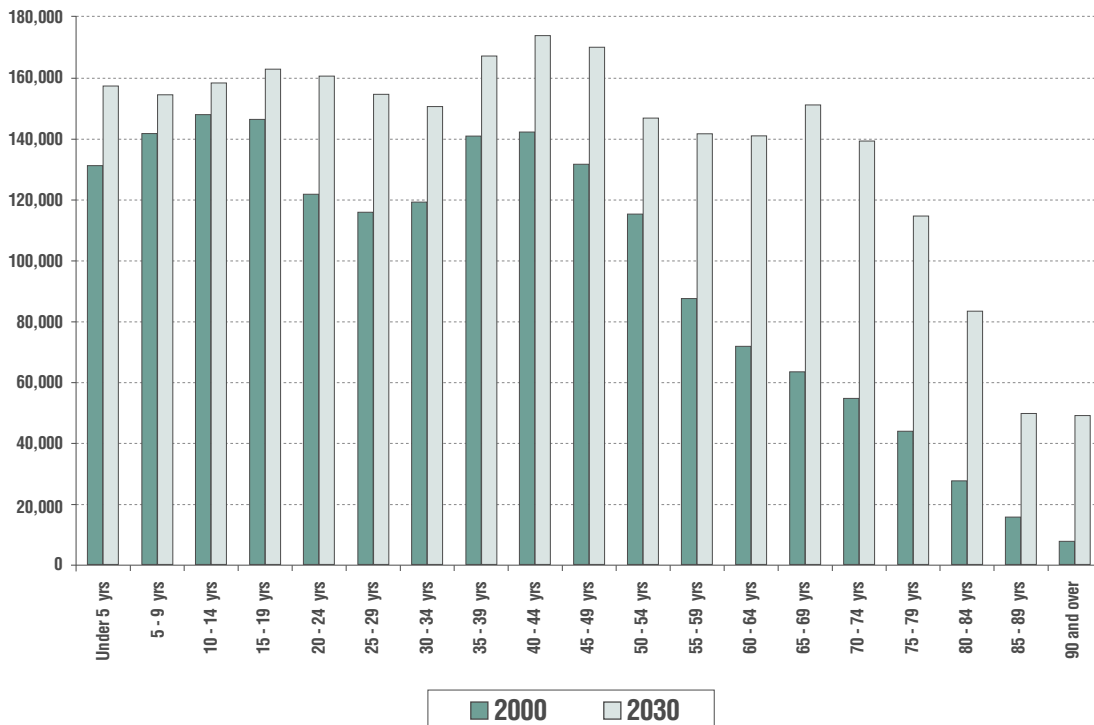
¹³ The Albuquerque MSA comprises Bernalillo, Sandoval, and Valencia Counties. The Las Cruces MSA is Doña Ana County. Santa Fe County is the Santa Fe MSA, and the Farmington MSA consists of San Juan County.

¹⁴ U.S. Census Bureau.

¹⁵ Federation for American Immigrant Reform, <http://www.fairus.org>.

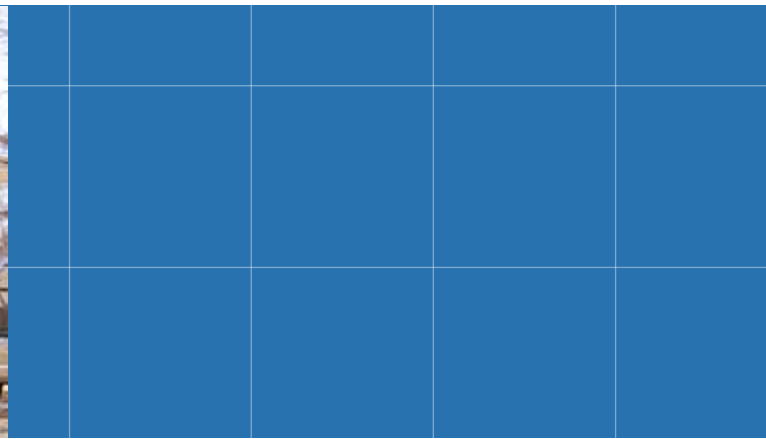
¹⁶ Popp, Peach, and Erickson.

NM POPULATION BY AGE 2000 vs. 2030



An aging population will also alter the demand for goods and services in the state. Healthcare coverage, senior centers, and appropriate housing needs will come into direct conflict with education, child care, and employment needs of a younger population. Older households tend to downsize their housing: apartments, retirement communities, and assisted living facilities will be in greater demand, and the demand for single-family detached housing units will grow less rapidly. Older individuals and couples are also more likely to own their own homes and have greater home equity. New Mexico may observe an increase in per capita income and a reduction in the poverty rate as its population ages.¹⁷

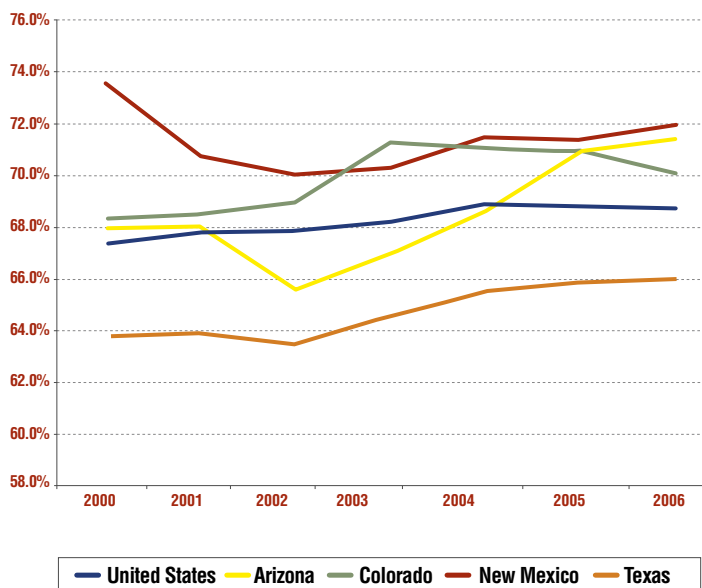
¹⁷ *Ibid.*



NEW MEXICO'S HOMEOWNERSHIP RATE

New Mexico has enjoyed a fairly high homeownership rate for most of its statehood. According to the U.S. Census, in 2006 New Mexico's homeownership rate was 72 percent. In comparison, the United States' homeownership rate was 68.9 percent. The chart below illustrates these rates as well as homeownership rates for New Mexico's neighboring states.

SELECTED HOMEOWNERSHIP RATES 2000 - 2006



BENEFITS OF HOMEOWNERSHIP

Home equity is by far the greatest source of wealth for most Americans, and data suggest striking differences in the wealth accumulation of households who own a home compared to those who do not. According to the Survey of Consumer Finances, in 2004, the median family net wealth of home-owning households earning between \$20,000 and \$49,999 annually was \$118,080, while renter households in the same income bracket had a median net wealth of only \$6,000.¹⁸

Even though stocks and mutual funds now rival the amount of home equity held by the household sector, home equity is much more broadly distributed. According to the Federal Reserve Board's Flow of Funds report, home equity constituted 18 percent of household wealth at the end of the third quarter 2007—nearly as great as the share of stocks and mutual funds combined.¹⁹ And the disproportionate distribution of home equity versus other financial holdings is even more pronounced for lower-income families: upwards of 40 percent of households in the bottom income quintile owned a home in 2004, for example, but only 5 percent held stocks and fewer than 4 percent invested in retirement or mutual funds. *For lower income households, home equity represented 80 percent of their net wealth.* Thus, increasing home equity is a significant part of wealth building.

¹⁸ Bucks, Brian K., Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances." *Federal Reserve Bulletin*, vol. 92 (February 2006), pp. A1-A38.

¹⁹ Board of Governors of the Federal Reserve System, "Flow of Funds Accounts of the United States: Flows and Outstandings Third Quarter 2007." Washington, D.C., 2007.



HOMEOWNERSHIP

The economic spinoff of homeownership has also been well documented. The National Association of Home Builders estimates that the construction of 100 single-family homes supports about 250 full-time equivalent jobs and \$11.6 million in wages. The families occupying these homes then bring an estimated \$2.8 million in income and 65 jobs to the local economy. Home building activity also adds significantly to federal, state, and local revenues in the form of taxes and fees. Once constructed, housing continues to contribute to local government coffers through property taxes—as well as the income, sales, and excise taxes—that homeowners pay.

SUSTAINING HOMEOWNERSHIP

In addition to the economic benefits described above, the housing stability homeownership offers can bring many social benefits to bear. Empirical evidence suggests that stable housing boosts the educational performance of children, induces higher participation in civic and volunteering activity, improves health care outcomes, lowers crime rates and reduces welfare dependency. Importantly however, many argue that *housing stability* leads to these positive social outcomes, not necessarily ownership of the housing. To that end, if homeownership is not sustainable for certain families—that is, if they are set up to fail either with limited consumer education

and/or with mortgages they cannot afford—they may be worse off than if they had continued to rent in a stable environment.

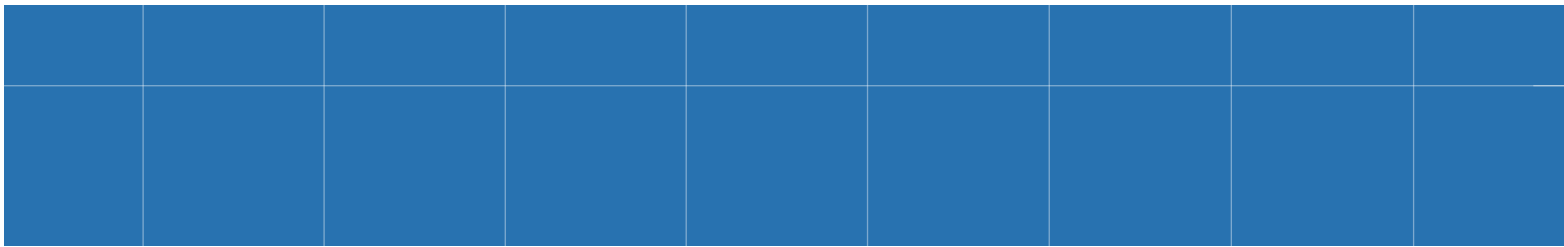
The sustainability of homeownership—and stable housing in general—is a goal New Mexico policy makers and practitioners must strive to achieve. Further discussion regarding this and other housing challenges appears later in this report.

PURCHASE HOUSING MARKETS

New Mexico Markets Are Localized

Residential real estate sales activity appears to have slowed in most New Mexico markets, but it should not be characterized as stagnant or stalled. What is more, prices in many markets have increased over last year despite the abundant supply in some areas. A word of caution: not unlike most analyses of New Mexico, real estate market analyses confirm that markets are very different throughout the state and it is difficult to draw statewide conclusions. The market “snapshots” on the next page demonstrate market distinctions throughout the state.

As the table illustrates, most markets in New Mexico experienced a slow down in sales, and yet in many markets, average sales prices were greater



MARKET ²⁰	AVERAGE SALES PRICE			NUMBER OF CLOSED SALES		
	4Q 2006	4Q 2007	% Change	4Q 2006	4Q 2007	% Change
ALBUQUERQUE ²¹	\$236,465	\$240,360	1.7%	2,528	1,759	-30.4%
ARTESIA	\$127,803	\$167,522	31.1%	45	28	-37.8%
CARLSBAD	\$119,442	\$133,479	11.8%	109	98	-10.1%
CLOVIS	\$122,927	\$134,319	9.3%	142	119	-16.2%
DEMING	\$104,757	\$107,148	2.3%	43	41	-4.7%
GALLUP	\$153,178	\$150,760	-1.6%	33	27	-18.2%
HOBBS	\$128,719	\$160,272	24.5%	76	58	-23.7%
LAS CRUCES	\$218,567	\$218,010	-0.3%	443	323	-27.1%
OTERO COUNTY	\$140,126	\$140,963	0.6%	197	154	-21.8%
ROSWELL	\$115,175	\$132,477	15.0%	186	142	-23.7%
RUIDOSO	\$249,187	\$253,116	1.6%	170	137	-19.4%
SAN JUAN COUNTY ²²	\$193,346	\$208,749	8.0%	250	186	-25.6%
SANTA FE ²³	\$415,000	\$433,500	4.5%	398	273	-31.4%
SILVER CITY	\$169,690	\$188,893	11.3%	99	77	-22.2%
TAOS	\$367,572	\$392,760	6.9%	87	90	3.5%

in 2007 than they were in 2006. This market phenomenon is not unique to New Mexico. Wells Fargo Chairman Richard Kovacevich made the following observation in a *Washington Times* article published on December 12, 2007: “There’s no credit crunch, not when you see people investing billions of dollars into financial institutions,” he said, referring to recent equity sales to foreign investors by Fannie Mae and Citigroup to bolster their capital. “The crunch is that there are buyers who don’t think values are low enough yet and sellers who don’t want to sell at these levels.” This appears to be the case in many New Mexico markets.

The Subprime Mortgage Market²⁴

Subprime mortgages are loans made to borrowers who are perceived to have high credit risk, often because they lack a strong credit history or have other characteristics that are associated with high probabilities of default. Having emerged more than two decades ago, subprime mortgage lending began to expand in earnest in the mid-1990s, the expansion spurred in large part by innovations that reduced lenders’ risk assessment and pricing costs. In addition, the growth of the secondary market has given mortgage lenders greater access to the capital markets, lowered transaction costs, and spread risk more broadly, thereby increasing the supply of mortgage credit to all types of households.

²⁰ Sales data provided by the REALTORS® Association of New Mexico (RANM) unless otherwise noted. Information is furnished to RANM by Local Boards, Associations, MLS and Multi-Board MLS and may not reflect all real estate activity in the market area.

²¹ Greater Albuquerque Association of REALTORS® sales data for Greater Albuquerque, defined as Albuquerque, Corrales, Rio Rancho, Bernalillo, Placitas, East Mountain, Bosque Farms, Los Lunas, and Valencia County (not including Belen).

²² San Juan County Board of REALTORS® sales data.

²³ Santa Fe Association of REALTORS® sales data for Santa Fe City and Santa Fe County combined; price reported here is median price, not average price.

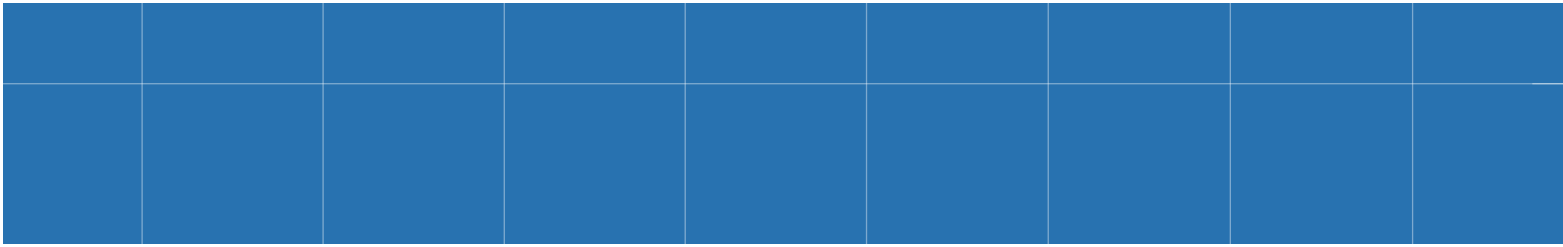
²⁴ Much of the background provided here is excerpted from remarks delivered by Federal Reserve Board Chairman Ben Bernanke at the Federal Reserve Bank of Chicago’s 43rd Annual Conference on Bank Structure and Competition, Chicago, IL, May 17, 2007.

The expansion of subprime mortgage lending has made homeownership possible for households that in the past might not have qualified for a mortgage and has thereby contributed to the rise in the homeownership rate since the mid-1990s. Homeownership has helped many families build wealth, and accumulated home equity may serve as a financial reserve that can be tapped as needed at a lower cost than most other forms of credit. Broader access to mortgage credit is not without its downside, however: not surprisingly, in light of their weaker credit histories and financial conditions, subprime borrowers face higher costs of borrowing than prime borrowers do and are more likely to default than prime borrowers are.

The national rise in serious delinquencies (loans 90 or more days late or in foreclosure) among subprime adjustable-rate mortgages (ARMs) has multiple causes. After rising at an annual national rate of nearly 9 percent from 2000 through 2005, house prices have decelerated, even falling in some markets. At the same time, interest rates on both fixed- and adjustable-rate mortgage loans moved upward, reaching multi-year highs in mid-2006. Some subprime borrowers with ARMs who may have counted on refinancing before their payments rose may not have had enough home equity to qualify for a new loan given the sluggishness in house prices. In addition, some owners with little equity may have walked away from their properties, especially owner-investors who do not occupy the home and thus have little attachment to it beyond purely financial considerations. Regional economic problems have played a role as well; for example, some of the states with the highest delinquency and foreclosure rates are among those most hard-hit by job cuts in the auto industry.

The practices of some mortgage originators have also contributed to the problems in the subprime sector. Mortgage applications with little documentation (*i.e.*, “low doc” or “no doc” loans) were vulnerable to misrepresentation or overestimation of repayment capacity by both lenders and borrowers, perhaps with the expectation that rising house prices would come to the rescue of otherwise unsound loans. Some borrowers may have been misled about the feasibility of paying back their mortgages, and others may simply have not understood the sometimes complex terms of the contracts they signed. Some misalignment of incentives, together with a highly competitive lending environment and, perhaps, the fact that industry experience with subprime mortgage lending is relatively short, likely compromised the quality of underwriting.

A number of the factors influencing national serious delinquency rates are not as pronounced in New Mexico as in other states, resulting in prime and subprime delinquency rates that are lower than the national rates. Importantly, New Mexicans tend to be fairly conservative in their mortgage borrowing practices, and subprime loans are a smaller portion of the state’s overall mortgage portfolio than is true nationally: about 10 percent of all mortgages originated in New Mexico are subprime, versus about 20 - 25 percent nationwide. Also, as the “Economic Trends” section of this report stated, New Mexico’s economy witnessed broad growth during and since the 2001 national recession and personal incomes have risen correspondingly. Finally, although housing prices have risen steadily, most communities in New Mexico did not realize appreciation at the same magnitude as that experienced on the east and west coasts and in other high-cost/high-growth areas.



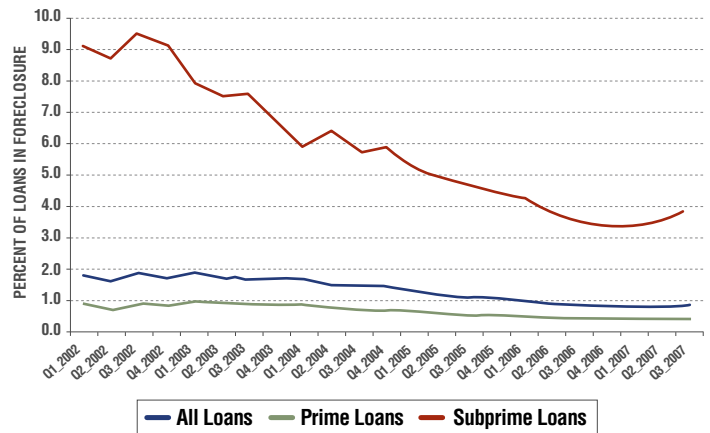
	ALL LOANS		PRIME LOANS		SUBPRIME LOANS	
	Seriously Delinquent	In Foreclosure	Seriously Delinquent	In Foreclosure	Seriously Delinquent	In Foreclosure
UNITED STATES	2.95%	1.69%	1.31%	0.79%	11.38%	6.89%
ARIZONA	2.02%	1.18%	0.90%	0.53%	7.47%	4.56%
COLORADO	2.73%	1.71%	1.09%	0.34%	10.39%	6.96%
NEVADA	3.48%	2.15%	1.59%	0.95%	11.46%	7.37%
NEW MEXICO	1.60%	0.88%	0.74%	0.43%	6.44%	3.97%
TEXAS	2.81%	1.21%	1.05%	0.52%	8.93%	4.43%

Delinquency and Foreclosure Statistics and Trends

According to the Mortgage Bankers Association National Delinquency Survey, New Mexico’s third quarter 2007 serious delinquency rate (loans 90 or more days late or in foreclosure) was 1.6 percent (4,127 loans of 257,934 loans currently serviced) versus 2.95 percent nationally. Among prime credit borrowers, 0.74 percent in New Mexico were seriously delinquent versus 1.31 percent nationally, and 6.44 percent of subprime borrowers fell into this category versus 11.38 percent nationally. The table above is excerpted from the 3Q2007 Survey.

To be sure, sometimes bad things happen to good borrowers: Freddie Mac research has found that 41 percent of New Mexico borrowers who become seriously delinquent on their mortgages have suffered a job loss or major income curtailment and another 23 percent fall behind due to major illness or death in the family.²⁵ For the most part however, credit quality for New Mexico’s mortgage portfolio appears to be improving rather than deteriorating, and foreclosures have actually declined across all mortgage types over the last five years. The graph at right illustrates New Mexico’s foreclosure trend from 2002 through the third quarter of 2007.

NM FORECLOSURE TRENDS 2002 - 2007



Market Corrections

As subprime mortgage problems have become more widespread, some signs of market self-correction have emerged. Investors are scrutinizing subprime loans more carefully and, in turn, lenders have tightened underwriting standards. Credit spreads on new subprime securitizations have risen, and the volume of mortgage-backed securities issued indicates that subprime originations have slowed. Although credit has not evaporated, the supply of credit to this market has been reduced.

²⁵ "Housing and Mortgage Statistics – New Mexico," Freddie Mac, 2007.

Subprime market corrections have already had spillover consequences in the greater mortgage market, and despite the state's fairly strong mortgage portfolio performance and improving credit quality, most lenders will scrutinize New Mexico homebuyers to the same extent as they will homebuyers in other markets as they tighten requirements. This additional scrutiny may narrow the first-time homebuyer market as prospective market entrants encounter increased difficulty in qualifying for a mortgage.

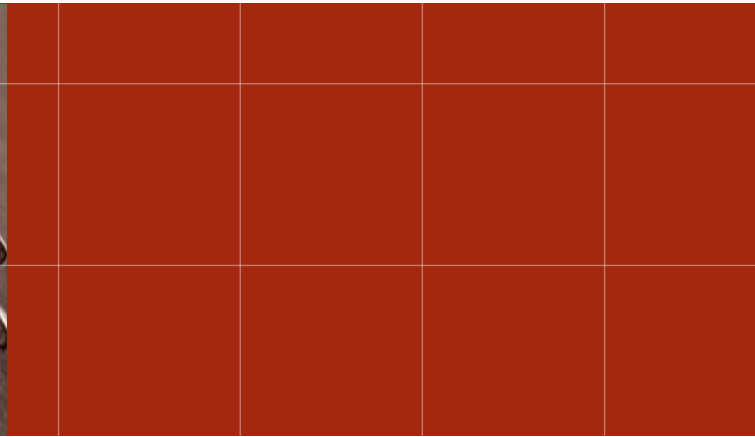
What about borrowers already in distress? In cases where loans can be effectively restructured, borrowers facing temporary economic setbacks may be able to work through their problems while staying in their homes, and lenders may be able to avoid the costs of foreclosure and the losses usually associated with selling a repossessed home. Some large national lenders have announced major initiatives to restructure loans anticipated to reset. Still, financial resources and proposed solutions may be inadequate on a national order of magnitude. What is more, some New Mexico housing and credit counseling agencies report that it has become increasingly difficult to conduct workouts.

Throughout the country, local community organizations that work to promote homeownership and prevent foreclosures have launched special

advertising campaigns and outreach programs. A survey conducted by NeighborWorks® America found that many homeowners do not understand that in most cases, lenders also want to avoid foreclosure. Thus, the simple step of encouraging borrowers in trouble to contact their mortgage servicers and/or lenders can be productive. The Federal Reserve and the other supervisory agencies have encouraged financial institutions to identify and contact borrowers who, with counseling and financial assistance, may be able to avoid entering delinquency or foreclosure.

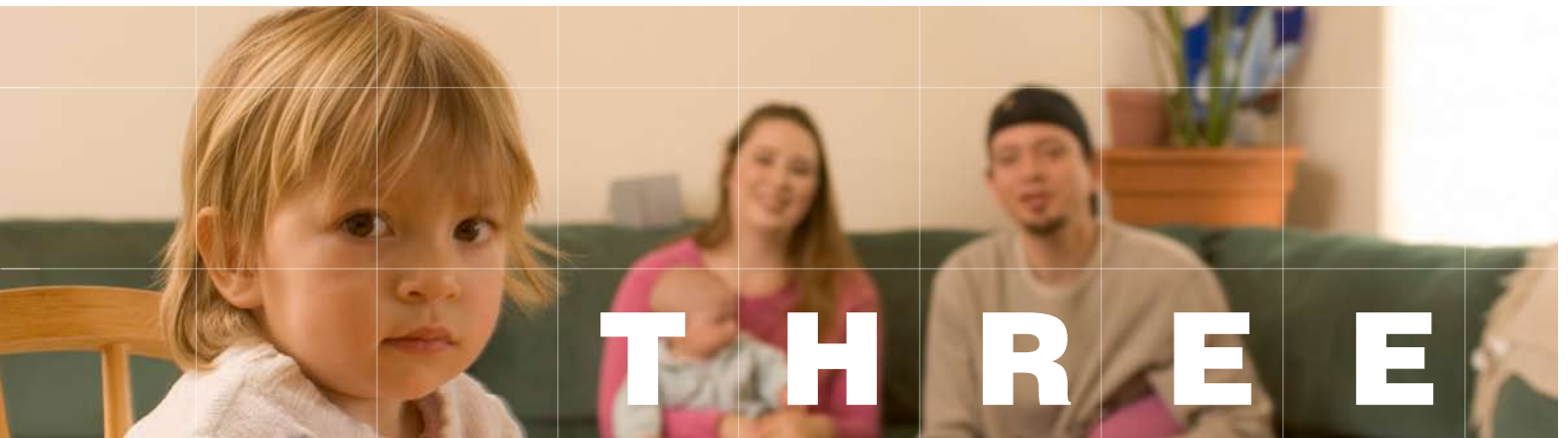
Although the impact of default and foreclosure on individual families and neighborhoods shouldn't be underestimated, there is considerable debate as to whether a subprime mortgage lending "crisis" exists in New Mexico. The data suggest that New Mexico is not experiencing payment shock, foreclosures, and defaults to the degree other states are. Still, any issue that touches upon homeownership—and the fear of losing one's home—is bound to generate passionate discussion. For troubled borrowers the consequences of defaulting can be severe, possibly including foreclosure, the loss of accumulated home equity, and reduced access to credit. Their neighbors may suffer as well, as geographically concentrated foreclosures tend to reduce property values in the surrounding area.





“MULTIFAMILY HOUSING HAS BEEN, AND REMAINS, AN ESSENTIAL THREAD IN AMERICA’S REAL ESTATE FABRIC. [IT] PROVIDES A HOME TO MILLIONS OF AMERICANS, AND INDEED, THE RESIDENTS OF MULTIFAMILY HOUSING ARE AS DIVERSE AS THE UNITED STATES ITSELF. . . . THE MOST SUCCESSFUL COMMUNITIES OF TOMORROW. . . WILL NEED TO OFFER THE CHOICE OF MULTIFAMILY HOUSING.”

***- OLIVER JERSCHOW
URBAN LAND INSTITUTE***



RENTAL HOUSING

IMPORTANCE OF RENTAL HOUSING

Roughly three of every ten New Mexican households rent their homes. Rental housing is every bit as important a component of the housing market as for-sale homes. Almost everyone rents a home at one point or another during their lives, and a community must have rental housing in order to offer robust housing choices to its residents.

A recent study pointed out that many higher-income renters could buy homes but prefer to rent because they want to maintain a flexible lifestyle, with easy access to work and amenities they may not have in a private home. Others rent because they want to take advantage of relatively low transaction costs as compared with those associated with buying and selling homes. Still others rent to avoid the risk of a potentially volatile purchase market.²⁶

For working families and individuals with more modest incomes, rental housing provides a place to live during such life transitions as higher education pursuits, a job change/relocation, or divorce. Renting also enables many of these moderate income households to save to purchase a home. In combination with higher-income renters, these “middle market” households are sufficient in number and purchasing

power to support a viable market for the construction, maintenance, and management of good-quality rental housing.

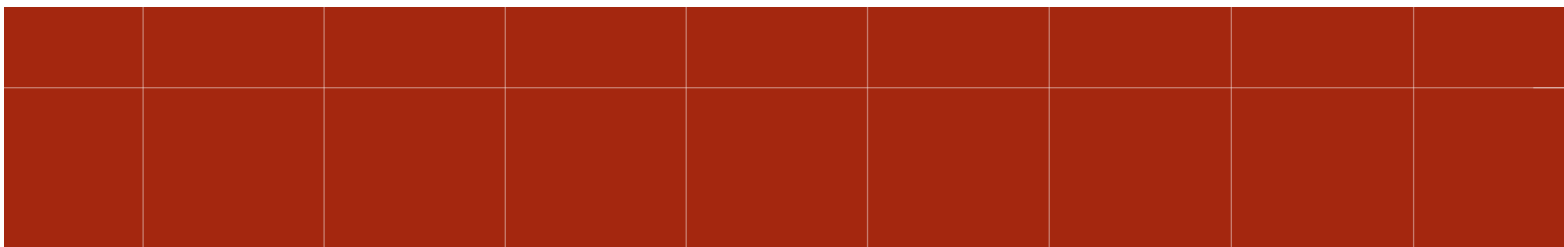
For those at the bottom of the income distribution, though, renting is not a matter of choice. Roughly 42 percent of New Mexican renters are cost-burdened.²⁷ What is more, the National Low Income Housing Coalition estimates that almost half of renters cannot afford the fair market rent for a two-bedroom apartment in New Mexico.²⁸ These households struggle to pay for food, medicine, and other essentials, and education, retirement savings, and other investments that would secure their futures are luxuries.

Although policy makers cannot ignore the equity- and asset-building arguments that homeownership proponents set forth, they are also well-advised to not dismiss the critical role rental housing plays in the lives of individuals and their greater community. As discussed in the Homeownership section of this report, affordable, sustainable, *stable* housing, regardless of tenure, yields tremendous social and quality-of-life dividends. Well-balanced housing strategies should therefore focus on the greater goal of expanding access to high-quality affordable housing for owners and renters alike.

²⁶ Joint Center for Housing Studies of Harvard University, “America’s Rental Housing: Homes for a Diverse Nation.” http://www.jchs.harvard.edu/publications/rental/rh06_americas_rental_housing

²⁷ US Census Bureau, 2006 American Community Survey.

²⁸ National Low Income Housing Coalition, “Out of Reach 2006.” <http://www.nlihc.org/oor/oor2006>



RENTAL MARKET TRENDS

Population and demographic changes—not to mention unprecedented growth in the for-sale housing market, which siphoned many moderate- and higher-income households from the rental market—have influenced the demand for rental housing as well as the composition of renter households. Nationally, rental markets have become more racially and ethnically diverse, as well as more skewed toward middle-aged and lower-income households.

Census 2000 revealed some unexpected shifts in types and sizes of households, and the implications for housing are striking. Long-term demographic trends will lead to unusually strong national apartment demand for at least the next 10 years, as the echo boomers (born 1977 to 1994) enter the household formation years and the leading edge baby boomers (born 1946 to 1964) consider downsizing their housing. The fastest growing segment of the U.S. population—households without school-age children—is the segment most likely to rent. As the definition of the “typical” household changes, policy makers have to re-think housing assumptions.²⁹

Given the demographic and for-sale housing phenomena discussed earlier in this report, it is reasonable to believe New Mexico is experiencing similar trends. In order to meet this new demand mix, rental housing developers need to pay greater attention to affordability issues, provide more amenities for middle-aged and senior citizens, and acknowledge cultural and lifestyle differences of people born outside the United States in their designs.³⁰

Not unlike New Mexico’s for-sale housing market, rental markets are localized as well. Anecdotal information suggests that rents have increased exponentially in economic “boom” areas simply

because rental units are in such short supply relative to recent job and population growth. Many housing experts and community leaders have indicated a need for additional rental housing throughout the state. Larger cities (Albuquerque, Las Cruces, and Santa Fe) have expressed a need not only for additional units but for units designed specifically for larger families, *i.e.*, three- and four-bedroom units.³¹ Although it should warrant some increase, it remains to be seen what a slowdown in home sales (albeit moderate in most New Mexico markets)—due in large part to tighter mortgage market underwriting standards and diminishing subprime credit availability—will contribute to the magnitude of rental housing demand in New Mexico.

PRESERVING RENTAL HOUSING

Numerous areas in New Mexico possess characteristics that cause them to be at risk of losing existing affordable rental units, such as rural economic boom areas, high cost areas, and tribal and border communities. Preserving older, lower-cost, small multifamily and single-family rentals is essential. Accessing capital for this submarket involves many of the same complexities as for large multifamily properties, but oftentimes without the scale to spread financing and underwriting costs.

The disappearance rate of New Mexico’s existing affordable rental stock only compounds an already daunting affordable rental housing demand throughout the state. In 2007 the National Housing Trust identified 73 U.S. Department of Housing and Urban Development (HUD)-subsidized Section 8 contract properties that are scheduled to expire before the end of fiscal year 2012. If these properties opt out of federal use restrictions New Mexico could lose over 4,000 affordable apartments to market rate conversion. Similarly, the U.S. Department of

²⁹ National Multi Housing Council. *Creating Successful Communities: A New Housing Paradigm*. Washington, D.C. 2002.

³⁰ Joint Center for Housing Studies of Harvard University. *The State of the Nation’s Housing: 2007*. Cambridge, Massachusetts, 2007.

³¹ New Mexico Mortgage Finance Authority. *State of New Mexico Consolidated Plan, 2006 – 2010*. Albuquerque, NM, 2005.



Agriculture (USDA) estimates that roughly one-third of its subsidized Section 515 rural rental portfolio, or approximately 1,000 units, will be eligible for mortgage prepayment before the end of 2009. In a predominantly rural state such as New Mexico the portfolio provides a critical component—and in some cases the entire inventory—of rental housing in some small communities. Preservation of this rural portfolio is paramount.

The erosion of federal tax credit markets may pose a new challenge for housing preservation. Considerable discussion has taken place recently in the tax credit community about the withdrawal of many equity investors from the market, the projected difficulty developers may have finding investors, and an anticipated drop in tax credit prices. As instrumental as tax credits are in affordable housing preservation efforts, they still require additional sources of gap financing. A squeeze in credit prices will exacerbate the demand for limited gap funding.

In light of ever-increasing land prices, building material costs, and limited resources, it behooves policy makers and practitioners alike to view preservation as a complement rather than a competitor to new production programs, and recognize its value as an effective economic and environmental resource conservation strategy. New Mexico communities will be well served by not only increasing the quantity of units preserved, but also by growing the number of developers who carry out preservation activities, enhancing the quality of preservation efforts (*e.g.*, physical and/or amenity improvements, strengthening financial performance, improving reserve level resilience, *etc.*), and enticing developers to tackle especially difficult preservation projects.



The Governor’s Finance Council’s “Invest New Mexico” strategy, published in 2003, described many issues that impact New Mexico’s housing environment. The Governor’s Finance Council, MFA, and its partners have made progress addressing many of the issues; still, some of the same problems exist and have been exacerbated by changes in market conditions. New Mexico’s housing challenges may be characterized by the components described below.

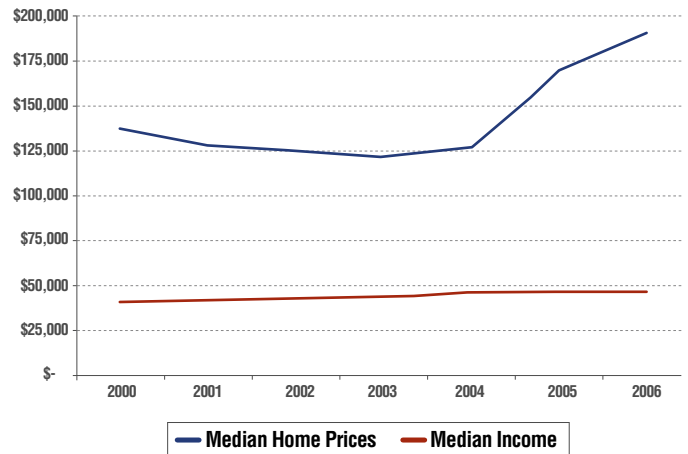
AFFORDABILITY

Many New Mexico housing markets are increasingly unaffordable to working families: home prices have simply increased much faster than wages. As discussed in the “Purchase Housing Markets” section of this report, the average sales price of a home in Albuquerque exceeded \$240,000 in the fourth quarter 2007; the median sales price was \$200,000. The median price of a home in San Juan County was \$195,000 in December 2007, and it exceeded this amount in Las Cruces, Santa Fe, Ruidoso, and Taos. Just four years ago median home sales prices in Albuquerque and Santa Fe were reported as \$141,500 and \$170,000, respectively, in the “Invest New Mexico” strategy.

The graph to the right illustrates how dramatically the increase in New Mexico’s median home sales price has outpaced the growth in median household income since 2000.

In order to qualify for a \$200,000 home, a homebuyer with a strong credit history, minimal monthly debt, and \$6,000 for a down payment (*i.e.*, 3% of the

NM MEDIAN HOME PRICES vs. MEDIAN INCOME 2000 - 2006



purchase price) would have to earn roughly \$70,000 annually. The 2007 median income for a family of four in the Albuquerque MSA was \$55,900, so the affordability gap between the income needed to qualify for the median-priced home in Albuquerque and the actual median income is about \$15,000. The same homebuyer earning the median income in Albuquerque would not qualify for the median-priced home in Albuquerque; he or she would qualify for a home in the \$115,000 - \$120,000 range.

The table on the opposite page illustrates this and other homeownership affordability gaps in various New Mexico markets.



FOUR

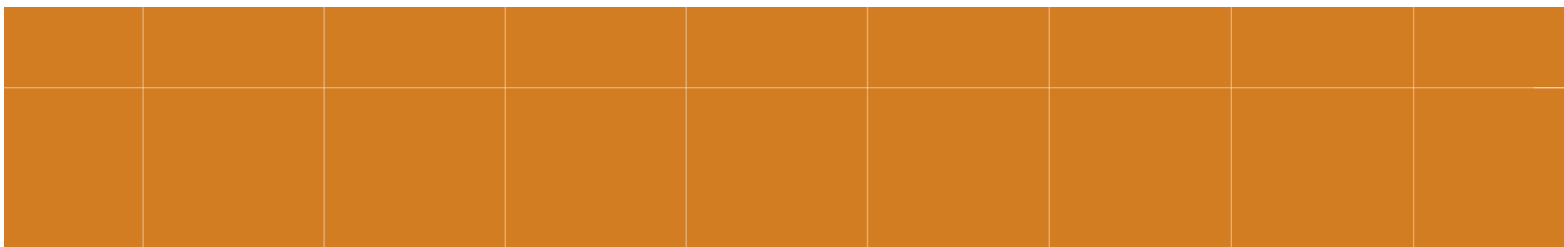
HOUSING CHALLENGES

MARKET	4Q2007 MEDIAN OR AVERAGE HOME SALES PRICE ³¹	ESTIMATED MONTHLY PAYMENT ON MEDIAN/ AVERAGE HOME SALES PRICE ³²	ANNUAL INCOME NEEDED TO AFFORD ESTIMATED MONTHLY PAYMENT ON MEDIAN PRICED HOME	2007 MEDIAN HOUSEHOLD INCOME	AFFORDABLE MONTHLY PAYMENT FOR MEDIAN INCOME EARNING HOUSEHOLD ³³	INCOME GAP	HOME SALES PRICE GAP
ALBUQUERQUE	\$200,000	\$1,559	\$62,345	\$55,900	\$1,398	\$6,445	\$16,562
ARTESIA	\$167,522	\$1,306	\$52,220	\$44,000	\$1,100	\$8,220	\$23,134
CARLSBAD	\$133,479	\$1,040	\$41,608	\$44,000	\$1,100	-\$2,392	-\$10,909
CLOVIS	\$134,319	\$1,047	\$41,870	\$40,000	\$1,000	\$1,870	\$3,057
DEMING	\$107,148	\$835	\$33,400	\$29,200	\$730	\$4,200	\$11,327
GALLUP	\$150,760	\$1,175	\$46,996	\$32,300	\$808	\$14,696	\$44,766
HOBBS	\$160,272	\$1,249	\$49,961	\$41,200	\$1,030	\$8,761	\$25,073
LAS CRUCES	\$218,010	\$1,699	\$67,959	\$37,500	\$938	\$30,459	\$94,952
OTERO COUNTY	\$140,963	\$1,099	\$43,942	\$40,600	\$1,015	\$3,342	\$7,733
ROSWELL	\$132,477	\$1,032	\$41,296	\$38,000	\$950	\$3,296	\$7,779
RUIDOSO	\$253,116	\$1,973	\$78,902	\$47,400	\$1,185	\$31,502	\$97,571
SAN JUAN COUNTY	\$184,522	\$1,438	\$57,520	\$44,700	\$1,118	\$12,820	\$37,837
SANTA FE	\$433,500	\$3,378	\$135,132	\$57,000	\$1,425	\$78,132	\$246,452
SILVER CITY	\$188,893	\$1,472	\$58,882	\$40,000	\$1,000	\$18,882	\$57,631
TAOS	\$392,760	\$3,061	\$122,433	\$40,400	\$1,010	\$82,033	\$260,186

³¹ For markets for which the median home sales price is available, median price is used. For markets for which only the average home sales price is available, average price is used.

³² Assumes a homebuyer with a fairly strong credit history, \$1,000 in other monthly debt (car payments, student loans, credit card payments, etc.), and 3% of the purchase price is available for down payment. Also assumes 1% property tax rate, 0.9% private mortgage insurance premium rate, and 0.5% homeowner's insurance rate.

³³ The commonly accepted definition for an "affordable" house payment implies that the household spends no more than 30% of its gross monthly income on principal, interest, taxes, and insurance (including private mortgage insurance premiums).



Households that spend more than 30 percent of their gross household incomes on housing costs are considered cost-burdened. Severe cost burden occurs when households spend 50 percent or more of their incomes on housing costs. Lower income households are more likely to be cost-burdened in tight housing markets. High income households can also be cost-burdened, but this is usually an issue of preference, e.g., households may choose to take on a higher mortgage payment than they can afford in anticipation of rising earnings, because they view their home purchase as an investment, *etc.*³⁴ Given the affordability gaps in many New Mexico markets, it should come as no surprise that about one in five homeowners earning less than \$50,000 annually are cost-burdened.³⁵

In addition to upward purchase and rental price pressures and mortgage market corrections, building costs have risen dramatically. According to the U.S. Department of Labor’s Producer Price Index, residential construction materials and components have increased about 40 percent over the last ten years, and 30 percent of that increase has taken place in the last four years. In 2006, copper prices increased 79 percent over 2005, asphalt paving and roofing materials (*i.e.*, petroleum-based construction materials) increased 19 percent, and iron, steel, and cement prices increased 10 percent.

All of these construction material prices continued to increase in 2007. Case in point: in MFA’s 2007 federal Low Income Housing Tax Credit application round, the average cost per unit was \$154,157 as compared with the average 2006 cost per unit of \$128,543 and the 2003 average of \$77,276. In other words, *the cost of rental housing developed using the federal Low Income Housing Tax Credit has doubled in only four years.* In contrast, housing assistance as a share of total

nondefense discretionary spending dropped from 10.2 percent in 1998 to 7.7 percent in 2006, and spending on housing assistance failed to keep up with inflation, amounting to a 2.3 percent cut in real terms.³⁶ Affordable housing practitioners have warned policy makers for years that federal and state subsidies do not go as far as they once did; if funding levels remain stagnant or decline in the face of sky-rocketing land and building materials costs, fewer and fewer units will be developed to satisfy an ever-growing demand.

Given the widening gap between what low- and moderate-income New Mexicans can afford and what they actually spend on housing, enormous political will and resources are required to reduce the number of severely cost-burdened households. New Mexico has taken some very positive steps forward, but the affordability challenge persists and is worsening in many markets. It will take the combined efforts of both for-profit and not-for-profit entities, working with governments at all levels, to ease the housing cost burdens of low- and moderate-income renters and homeowners and, by doing so, open the doors of economic and social opportunity to thousands of New Mexico families.

AVAILABILITY

In many places in New Mexico affordability may not be the issue: rather, *availability* is the more difficult challenge. Many communities in rural New Mexico lack sufficient housing for families across the income spectrum, causing extreme difficulty recruiting and retaining essential employees and stifling economic development initiatives. According to the Area Development 2007 Annual Corporate Survey, housing availability and housing costs are rated as “important” or “very important” quality-of-life factors by roughly 60 percent of corporate executives responsible for corporate site selection decision-making activities.³⁷

³⁴ New Mexico Mortgage Finance Authority. *State of New Mexico Consolidated Plan, 2006 – 2010*. Albuquerque, NM, 2005.

³⁵ US Census Bureau, 2006 American Community Survey.

³⁶ Joint Center for Housing Studies of Harvard University. *The State of the Nation’s Housing: 2007*. Cambridge, Massachusetts, 2007.

³⁷ Area Development Magazine, “22nd Annual Corporate Survey.” <http://www.areadevelopment.com>.

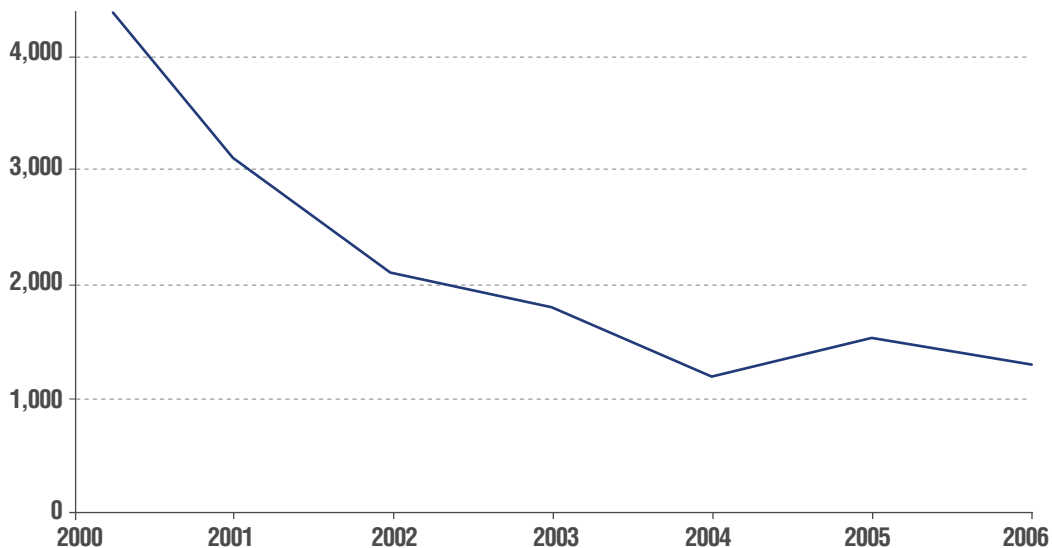
The capacity to develop and build new housing is limited or nonexistent in many of these communities: skilled laborers and people who possess the technical knowledge required to develop housing either do not reside there or they choose to work in other fields that may be more lucrative. Moreover, many of these communities cannot attract large-scale developers and production builders from larger cities. Some people simply have to pay more for their housing. Others live with relatives or friends in overcrowded conditions.

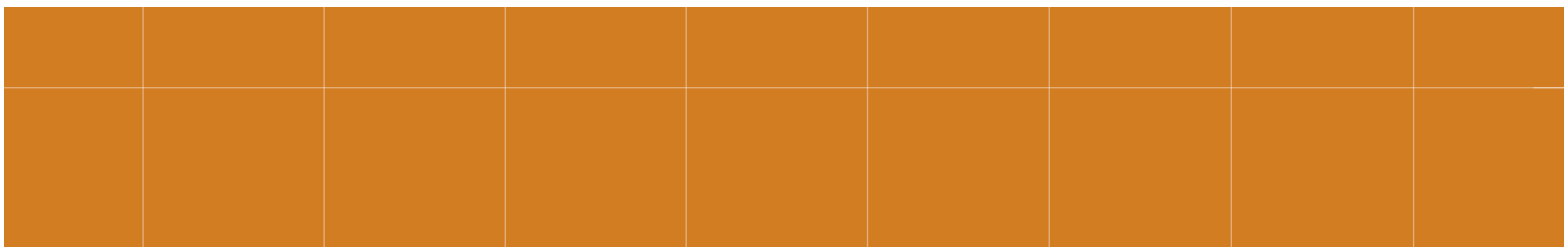
Still others purchase or rent manufactured homes, which do not require expensive, prolonged land development and expertise. In 2006, manufactured housing comprised over 17 percent of New Mexico's total housing stock, ranking it second among all states for the proportion of stock that is manufactured off-site. Contrary to popular belief, although the proportion of manufactured housing is relatively high in New Mexico, the number of new manufactured housing placements has declined since 2000. The graph below illustrates this trend.

Many observers suggest that two circumstances have contributed more to the proliferation of manufactured housing in certain areas than any others: the absence of residential land developers and builders and the fact that many New Mexicans tend to be land rich and cash poor. For many residents, manufactured housing serves as an affordable, attainable housing solution in markets that offer few other viable housing choices.

In the rare cases where developers *are* willing to build new housing in rural communities, private lenders are all too often *unwilling* to finance the development of what may be an unprecedented number of homes in areas where the land values do not sufficiently collateralize the value of the predevelopment or construction financing (*e.g.*, Eunice), or where market comparables do not exist and or are so outdated that they do not justify proposed development cost budgets (*e.g.*, Artesia, Deming, *etc.*).

NM MANUFACTURED HOUSING PLACEMENTS 2000-2006





The “Invest New Mexico” strategy identified this issue and suggested that New Mexico lacks funders and/or consortia to take up-front risks and provide credit enhancements. MFA serves in this capacity for affordable and workforce housing projects, but the funds to support this type of activity are limited and will not support many projects undertaken simultaneously. Additional parties are needed to share in the financing of these housing developments. This issue threatens the long-term viability of programs created to address the availability component of New Mexico’s housing challenge.

SUSTAINABILITY

Fifty-six percent of New Mexico’s housing stock was built before 1980, and much of it has fallen into disrepair—so much so that it may be unsafe. What is more, many of New Mexico’s older homes are also extremely energy- and water-inefficient. Not surprisingly, many of our most vulnerable populations reside in these homes: they are neither able to repair them themselves nor are they able to pay home renovation and retrofit loans. While all levels of government have encouraged homeownership for low- and moderate-income families, scant support is offered to ensure these households can meet the costs of owning and maintaining their homes. As a result, the number of low-income homeowners with severe housing cost burdens rises, and we jeopardize the same households we subsidized.

Owner-occupied housing rehabilitation and preservation of affordable rental housing—*i.e.*, preserving what we have—are two of the most important activities we can pursue as part of sound, sustainable housing policy in New Mexico, and yet our resources to pursue these activities are extremely limited. Unlike mortgage loans for which much capital exists in the marketplace, funding for income-restricted housing rehabilitation is provided

almost exclusively by the federal government. Fortunately, the acquisition and rehabilitation of rental housing may be financed with bond proceeds (*i.e.*, capital is more readily available).

Resource-efficient housing is another means of addressing the sustainability component of New Mexico’s housing challenge. In too many instances, rising energy costs counteract gains achieved with housing subsidy: energy costs can comprise up to 25 percent of low- and moderate income homeowners’ monthly budgets, and some experts estimate that by 2010, residential energy use will be 9 percent higher than it is today. New Mexicans can save hundreds—even thousands—of dollars annually when they live in energy efficient homes and apartments: the average household spends between \$1,300 and \$1,500 annually on energy bills, roughly half of which may be attributed to heating and cooling costs.

The good news is that “green” design and building techniques have gained momentum in recent years, and energy efficient mechanical and electrical systems and appliances are increasingly becoming the standard in new construction. In New Mexico, the industry is responding. For example, the Home Builders Association of Central New Mexico developed and launched *Build Green New Mexico* in 2006 to promote and facilitate sustainable construction. Build Green NM’s certification guidelines were included in the New Mexico Sustainable Building Tax Credit, and the program has earned praise from local, state, and federal elected officials.

Sustainability is also achieved through stable, well-understood, predictable financing mechanisms. Recognizing that the needs of consumers vary as widely as mortgage products, no single loan product meets the needs of all consumers. At the same time,



it is the responsibility of all parties engaged in the mortgage market to ensure that consumers have access to “good” loan products. What constitutes a good loan product is subject to debate, but most would agree that a good loan product is transparent and fairly priced, that on net provides benefits to the consumer, and that does not expose a borrower to unexpected foreclosure and default risks.³⁸

Education also greatly enhances sustainable housing efforts. Empirical evidence demonstrates the effectiveness of homebuyer education at reducing delinquency rates. According to a working paper sponsored by the Harvard University Joint Center for Housing Studies, borrowers who receive classroom and individual counseling are 23 percent and 41 percent less likely, respectively, ever to become 60-day delinquent than equivalent borrowers who do not undergo counseling.³⁹ Telling a prospective homeowner the answer is not “no,” just “not now” does a greater service than setting them up to fail. Homeownership at any cost is not sustainable for either the borrowers or their greater communities.

More resources are needed to educate borrowers—both before and after they purchase a home—in order for them to achieve and sustain successful homeownership. Basic consumer financial literacy is needed throughout New Mexico, and it should begin at the middle school level. MFA’s homebuyer counselor partners tell us that frequently, by the time a prospective homebuyer is in a counseling class they are deeply in debt and have little if any understanding of the importance of their credit score. In these cases the homebuyer education experience can become discouraging because the prospective buyer learns that if he or she wants to become a truly successful homeowner, he or she will have to be very patient, disciplined, and determined to qualify for what will be the most sustainable loan product in the long term. If the prospective buyer had been exposed to interest, debt, and credit concepts earlier in life, he or she might be much better positioned to purchase a home later.

³⁸ Essene, Ren S. and William Apgar. “Understanding Mortgage Market Behavior: Creating Good Mortgage Options For All Americans.” Joint Center for Housing Studies of Harvard University, Cambridge, Massachusetts, 2007.

³⁹ Hirad, Abdighani and Peter Zorn. “A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling.” *Low-Income Homeownership Working Paper Series*, Joint Center for Housing Studies of Harvard University, Cambridge, Massachusetts, 2001. This paper also asserts that the authors “find no statistical evidence that either home study or telephone counseling programs significantly mitigate risk.”



AFFORDABILITY

In addition to the affordable housing financing MFA has provided for a number of years, MFA has developed and implemented numerous strategies to address the affordability component of New Mexico’s housing challenge. Even so, additional funding is needed to further bridge affordability gaps and reach more New Mexican families.

Demand-side Strategies:

- MFA capitalized on market conditions and innovative financing strategies in structuring single family mortgage revenue bond issues such that the MortgageSaver 30-year fixed-rate mortgage is at least 50 basis points below market. In 2007, MFA financed the purchase of more than \$272 million in mortgages for 2,086 families throughout New Mexico.
- In 2005, MFA developed and launched the HERO mortgage and second mortgage products for teachers, public safety workers, health care professionals, and active members of the military. Since the program’s inception, MFA has provided HERO mortgages amounting to almost \$38 million to 237 HERO borrowers and their families, as well as \$1.1 million in HERO down payment and closing cost assistance to 132 of these borrowers.

- That same year, MFA also developed and launched MortgageBooster, a very favorable second mortgage product for first-time homebuyers to use as down payment and closing cost assistance. Over 600 borrowers have taken advantage of MortgageBooster’s low rates.
- In 2007, MFA developed and launched MortgageSaver Extra, a more deeply subsidized 30-year fixed-rate mortgage product (typically 1 - 1.5 percent below market) targeted to households earning no more than 50 percent of the area median income (AMI). MFA has financed approximately \$5.4 million in MortgageSaver Extra loans to 46 families.

Supply-side Strategies:

- Four years ago, MFA worked with Governor Bill Richardson, the New Mexico State Legislature, and numerous partners to develop and pass the Affordable Housing Act, which exempts from the Anti-Donation Clause land, buildings, infrastructure, and financing for affordable housing purposes. As a result, the state, counties, municipalities, and school districts may now play a more active role in providing affordable housing in their communities. More than a dozen communities throughout New Mexico have drafted ordinances under the Affordable Housing Act in order to assist in local housing efforts.



FIVE

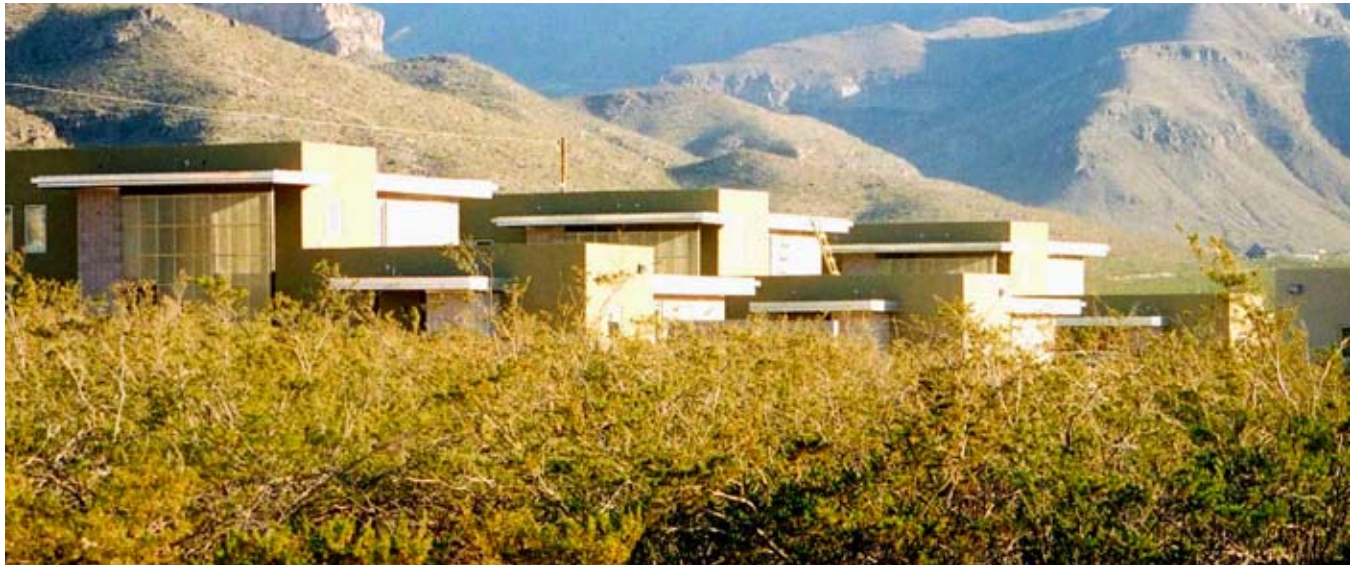
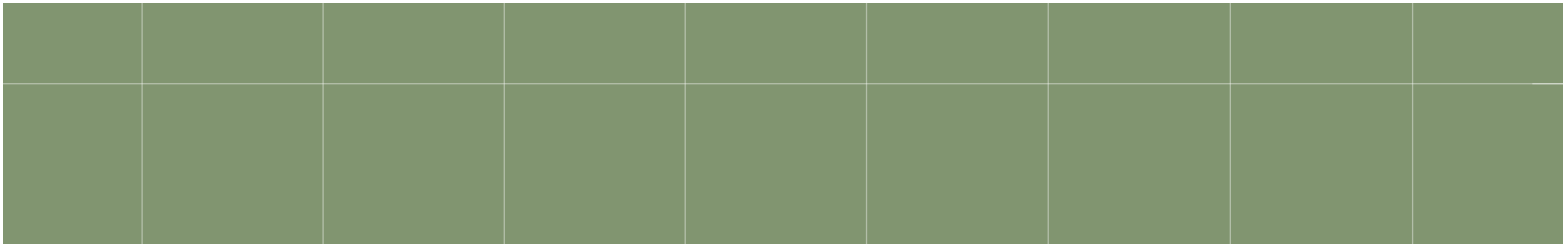
MFA IS ADDRESSING NEW MEXICO'S HOUSING CHALLENGES

- In 2005, MFA worked with the Governor, the New Mexico State Legislature, and numerous partners to develop, pass, and capitalize the New Mexico Housing Trust Fund, a flexible funding source that may be used to develop all types of affordable housing. To date, MFA has awarded \$12 million, which has leveraged over \$180 million in other housing funding and will result in more than 1,000 housing units throughout New Mexico.
- That same year, MFA worked with Governor Bill Richardson, the New Mexico State Legislature, and numerous partners to develop and pass the New Mexico Affordable Housing Tax Credit, a charitable tax credit that provides an incentive to individuals and organizations with state tax liability to donate cash, land, building materials, and other items to non-profit affordable housing providers. To date, MFA has allocated \$690,250 in state affordable housing tax credits, reflecting total donations valued at \$1,380,500 to new housing projects throughout the state.
- In 2007, MFA developed a Charitable Trust to serve as another donation vehicle for private individuals and organizations that wish to contribute to affordable housing purposes. The Trust's pending federal tax-exempt status is expected to be approved in 2008.

AVAILABILITY

MFA has received numerous inquiries from elected and administrative officials in many communities throughout the state as to how MFA can assist them in developing housing. In response, MFA developed and launched the Workforce Housing Development Program, which assists communities to address some of the housing barriers that may dampen efforts to attract and retain valuable employers and talented employees. Under the Program, state agencies, local governments, public school districts, and private mission-driven organizations such as hospitals or institutions of higher education that own land they want to develop for workforce housing (*i.e.*, "project sponsors") work in conjunction with MFA's Master Developer Team to develop housing for targeted professionals. By contributing the land in high-cost areas, the project sponsor reduces the overall cost of the housing.

Interestingly, MFA and the project sponsors have found that our pursuit of workforce housing development has piqued the interest of other private developers. MFA's hope is that developments that materialize as a result of the Workforce Housing Development Program will boost private market confidence and spur additional market development of for-sale and rental housing so that communities will



be better positioned to offer broad, quality housing choices to existing residents and residents to come.

For communities that may be too small to take advantage of the economies of scale that may be achieved through the Workforce Housing Development Program, MFA has developed a non-profit housing development organization, the Foundation for Building (FFB), in partnership with the New Mexico Homebuilders Association. FFB works in rural communities throughout the state to build small housing developments of roughly 25 units. The organization became fully operational in September 2007, is currently working on projects in Roswell and Silver City, and is exploring opportunities in other parts of the state.

SUSTAINABILITY

MFA has developed various strategies by which all our applicable financing programs available will provide incentives for energy efficient and otherwise sustainable design and building methods (including housing rehabilitation programs).

MFA sought and received state funding in 2006 to support a new EnergySavers program, which provides incentive financing to help developers offset the costs of incorporating energy efficiency upgrades in new development or retrofits in existing affordable housing. Funds are offered to developers and builders as low-interest rate loans that can finance energy efficient roofs, windows, and mechanical systems (among other things) in new construction or acquisition and rehabilitation projects. MFA anticipates that funds will also be made available to housing rehabilitation service providers to conduct energy efficiency retrofits on existing owner-occupied homes in early 2008.

Affordable rental housing preservation is an essential sustainability strategy. Notably, over the last 5 years MFA has participated in financing the rehabilitation and preservation of 3,433 units. MFA has financed preservation efforts representing a wide array of projects that vary in size (39 units to 280 units), location (rural, urban, tribal, and border), and complexity. Project types range from rehabilitation of single-family rental housing on tribal trust land

to rehabilitation and preservation of properties previously funded through HUD and USDA/Rural Development to the rehabilitation and conversion of market-rate units. MFA also furthers affordable housing preservation efforts through its outreach and training activities, program policies, planning processes, and pursuit of new funding sources.

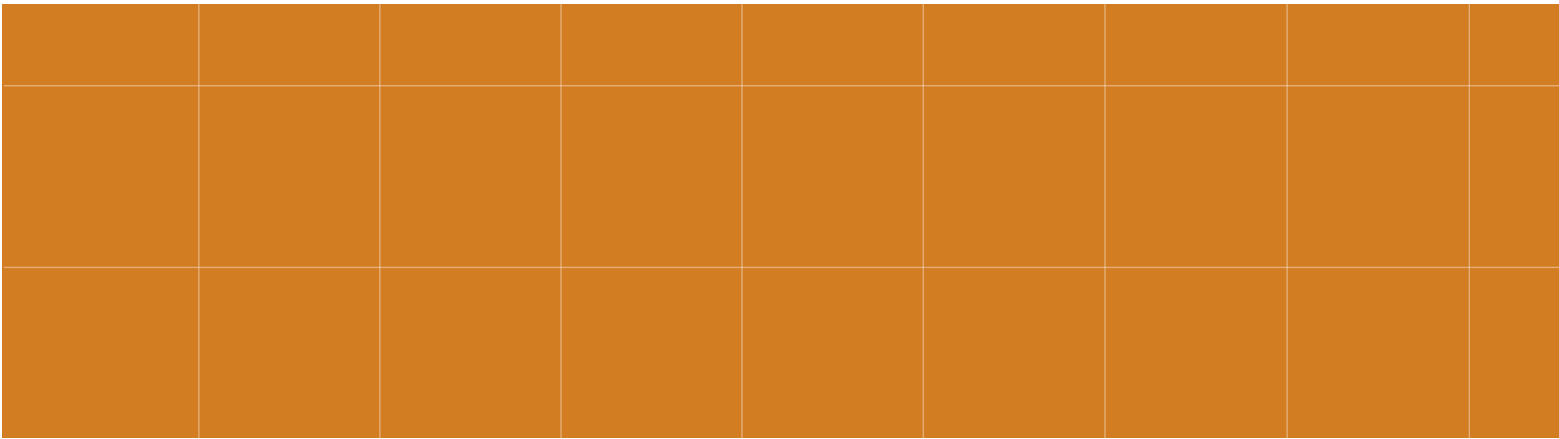
For several years, MFA has sought and successfully received competitive grant funding from HUD to provide pre-purchase housing counseling. MFA administers this funding to a network of non-profit organizations throughout the state that provide the counseling services free of charge to prospective homebuyers. All MFA borrowers are strongly encouraged to take a homebuyer counseling class, and some MFA loan products require classroom counseling. In addition, for the last several years, MFA has underwritten the cost of a NeighborWorks® America Train-the-Trainer week-long training event in Albuquerque in order to increase the capacity of the housing counseling community throughout the state. MFA recognizes that well-informed borrowers are much better positioned for sustainable homeownership, and will continue its commitment to homebuyer education.

Conservative, secure mortgage products that are well-suited to the needs of low- to moderate-income first-time homebuyers also further sustainable homeownership. MFA borrowers are rarely forced to foreclose, and although default rates are up slightly, they pale in comparison with defaults and delinquencies reported on more exotic loan products such as adjustable rate mortgages, interest-only mortgages, or mortgages with 40-year terms. Because MFA does not offer loan products designed to create a homeowner at any price, MFA loan performance tends to fare better than the national average. MFA loan products provide predictable, sustainable payments, and are also designed for

borrowers who have good credit and can qualify for conventional and government-insured loans. People who cannot qualify easily for our loan products are encouraged to participate in credit counseling and homebuyer education until such time as they can qualify.

Additionally, MFA's Servicing Department counsels borrowers with the objective of keeping them in their homes. Last year, MFA earned national recognition for its efforts at helping New Mexico mortgage holders sustain their homeownership status. The agency was named a "top performer" in HUD's loss mitigation initiative, a program of the Federal Housing Administration. In 2006, MFA used federally recommended loss mitigation tools to save almost 10 percent of its FHA loan portfolio from going into default.

New Mexico's housing challenges are many. Clearly, enormous political will and resources are required to address our housing challenges, not to mention expertise from all sectors involved in housing-related industries and policy-making. The New Mexico Mortgage Finance Authority's Board and staff developed the *State of Housing Report* in the hopes that it may spark important dialogue about some of the challenges we all face in strengthening this critical component of New Mexico's infrastructure and quality of life.



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MFA BOARD OF DIRECTORS

The MFA board is composed of seven members from around the state. Four are appointed by the Governor with the advice and consent of the New Mexico Senate. Three are ex-officio voting members, who serve by virtue of their state office.

Lt. Governor
Diane D. Denish
Chair, Ex-officio

Attorney General
Gary King
Ex-officio

Jimmy Daskalos
Albuquerque, Member

Michael Loftin
Santa Fe, Member

Michael Sivage
Vice Chair
Albuquerque, Member

State Treasurer
James B. Lewis
Ex-officio

Justin Harper
Las Cruces, Member

LEGISLATIVE OVERSIGHT COMMITTEE

Rules and regulations formulated by the MFA must be approved by an oversight committee of the New Mexico Legislature. The committee is comprised of members from both the House of Representatives and Senate.

MEMBERS

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(D – Santa Fe, District 24)

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Vice Chair
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(D – DeBaca, Curry, Guadalupe
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(D – Santa Fe, District 25)

Sen. Richard C. Martinez
(D – Los Alamos, Rio Arriba &
Santa Fe, District 5)

Sen. H. Diane Snyder
(R – Bernalillo, District 15)

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Debbie Davis, Programs and Initiatives Manager

Erin Quinn, Senior Policy and Program Advisor

www.housingnm.org

The New Mexico State Legislature established the New Mexico Mortgage Finance Authority (MFA) in 1975 to help provide safe, decent, affordable housing for low- and moderate-income New Mexicans. The MFA fulfills its legislative mandate by financing single-family and multifamily mortgages through the issuance of mortgage revenue bonds and the administration of state and federal housing programs. MFA is not a state agency. It is self-supporting and MFA's bonds and notes are not obligations of the state. MFA's operating expenses are paid from loan fees and interest charges, not from appropriated tax dollars.



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