



REPORT TO THE STATE OF VERMONT

To: House Committee on Commerce and Economic Development
Senate Committee on Economic Development, Housing and General Affairs

From: David Adams, Chief of Program Operations
Vermont Housing Finance Agency

A handwritten signature in blue ink, appearing to read "David Adams", is written over the "To:" and "From:" fields.

RE: Vermont State Housing Credits funding VHFA Down Payment Assistance Program under the provisions of S-138

DT: September 30-2016

Under the provisions of S-138, an act relating to promoting economic development, and as passed during the 2015 legislative session, the Vermont Housing Finance Agency (VHFA) was authorized to issue Vermont State Housing Credits in the amount of \$125,000 for each of State fiscal years 2015, 2016 and 2017. During the 2016 legislative session, this was extended for an additional four years to 2021 at the same level of \$125,000/year. The tax credits to be issued by VHFA are to be sold by VHFA to fund a Down Payment Assistance (DPA) program for first-time homebuyers. S-138 requires VHFA to file semi-annual activity reports to the House Committee on Commerce and Economic Development and to the Senate Committee on Economic Development, Housing and General Affairs, on or before September 30th, and March 31st of each year. This is the third of the required activity reports.

As proposed under S-138, VHFA is to make available down payment and closing cost assistance loans to qualified first-time homebuyers, in amounts up to \$5,000, not to exceed actual cash required to close. The loans will be made at a zero percent interest rate, with repayment of principal due at the time of sale or refinancing of the home.

The 2015; 2016 and 2017 credits have been sold to Union Bank, a VHFA Participating Lender in our Homeownership program. Union Bank has funded the first two years with investments of \$1,187,500 and will purchase the 2017 credits in July 2017 with an additional \$593,750. In exchange for their purchase of the credits price, Union Bank will offset \$125,000 in Vermont state tax liability each year for five 5 years from the date of each purchase. VHFA is grateful for the level of interest and support shown by Union Bank, and for the other offers we received.

VHFA implemented the Down Payment Assistance Program as of August 26, 2015, providing up to \$5,000 per household in the form of a 0% second mortgage, wherein no payments are due until the time of resale or refinancing of each home. For the first twelve months since inception, VHFA has taken reservations for 249 down payment assistance loans totaling \$1,191,978 in applications. Requests for DPA loans comprise 52% of VHFA's

total loan production and is more than twice the expected demand from what was initially proposed to the legislature. Funding from the sale of the 2015 and 2016 tax credits is fully committed. VHFA has supplemented the DPA funding by using IORTA funds, and cash generated as part of a recent single family bond issue. (See below)

FUNDS COMMITTED AND REMAINING PROGRAM INCEPTION TO DATE (9-29-2016)

| | |
|---|-------------------|
| Proceeds from the sale of 2015 Credits (Union Bank) | \$ 593,750 |
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| Cash from the sale of premium PAC Bonds | \$ 10,875 |
| <u>IORTA Funds VHFA Down Payment Assistance Loans Funded (49 loans)</u> | <u>\$ 100,000</u> |
| Total Funding Available: | \$1,298,375 |

| | | |
|--|---------------------|--------------------|
| DPA Loans Funded to Date | (191 loans) | \$ 910,066 |
| DPA Loan Reservations Pending | (58 loans) | \$ 276,432 |
| Recording Fee Expenses | | <u>\$ 5,480</u> |
| Total DPA Loans and Funds Committed | (249 loans) | \$1,191,978 |

FUNDS REMAINING \$ 106,397

Funds remaining for new applications are sufficient for roughly 20-25 applications. To supplement the DPA Program funding, VHFA is working with the Federal Home Loan Bank of Boston and will likely apply for an advance under their Helping to Housing New England Program in an amount sufficient to fund the program until the 2017 tax credits can be sold and funded in July. We estimate this will be up to \$600,000.

BORROWER DEMOGRAPHICS ON CLOSED LOANS

Based on the 191 loans that have closed and have been funded:

- **Average Down Payment Assistance Loans is \$4,714**
- **Average Credit Score is 711, with 95% of loans with scores above 660**
- **Average Household size is 2.0 family members**
- **Median Household Income for borrowers in the DPA program is \$62,319 or 109% of the 2015 Statewide Median Income reported at \$56,990. (U.S. Census Bureau; 2015 American Community Survey).**
- **Average Housing Expense to Household Income Ratio is 24% (Below the benchmark of 30%)**
- **Average Age of borrower is 30**

GEOGRAPHIC DISTRIBUTION BY COUNTY

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|------------|----|------------|----|------------|----|---------|----|
| Addison | 10 | Essex | 3 | Orange | 3 | Windham | 10 |
| Bennington | 9 | Franklin | 26 | Orleans | 7 | Windsor | 4 |
| Caledonia | 16 | Grand Isle | 2 | Rutland | 27 | | |
| Chittenden | 53 | Lamoille | 11 | Washington | 10 | | |

Summary Comments

Overall the Down Payment Assistance is exceeding expectations by greater than a 2:1 margin, clearly demonstrating the need and demand for this program. The demographics also show that the program is serving younger households with an average age of 30, high credit quality with average credit scores of 711, and housing

debt ratios well within normal underwriting requirements. Household incomes served at 109% of the statewide median income is appropriate and consistent the original intent of the program. With a commitment from Union Bank to fund the 2017 credits in July, VHFA will not seek bids for the 2018-2021 credits until July 2018. Funding gaps that occur if demand continues at current levels will need to be addressed.