

On-site Loan Program Testimony
House Commerce & Economic Development Committee
Bill H.578
January 17, 2014

Thank you Chairman Botzow, Vice Chair Marcotte, and committee members for your time and consideration today. I am Bryan Redmond, a Project Development Supervisor at the Agency of Natural Resources (Agency), charged with leading the implementation of the On-site Loan Program. With me today are Eric Blatt and Robert Giroux. Mr. Blatt is the Director of the Agency's Facilities Engineering Division. Mr. Giroux is the Executive Director of the Vermont Municipal Bond Bank (VMBB). The VMBB, along with the Vermont Economic Development Authority (VEDA), partner with the Agency to manage the State Revolving Fund.

Summary of the program:

The Wastewater and Potable Water Revolving Loan Fund (On-site Loan Program or Program) was authorized in the 2012 legislative session. The purpose of the On-site Loan Program is to fill a funding gap that exists statewide for the repair or replacement of failed residential wastewater and drinking water systems. Prior to the On-site Loan Program, the Agency only provided financial support to municipally owned water and wastewater systems and certain privately owned public water systems. Individual homeowners did not have direct financial support from the State for failed residential systems.

Program Implementation:

I was hired in January of 2013 to lead the implementation of the On-site Loan Program for the Agency. The Program is much different from the other financing programs administered by the Agency in that it provides loans to individual homeowners to replace failed wastewater systems and failed drinking water systems on residential properties that are secured with a lien. Our existing water and wastewater infrastructure financing programs are administered in partnership with the VMBB, concerning loans to municipalities (24 VSA §4754-§4762), and VEDA, concerning loans to privately owned public water systems (24 VSA §4770-§4776). In consultation with both the VMBB and VEDA we determined we did not have the expertise or capacity within our existing partnerships to administer this new consumer loan program.

Recognizing we were venturing into new territory, I reached out to a broad spectrum of individuals with expertise in the residential mortgage lending arena. This list included the Vermont Bankers Association, several financial institutions serving Vermont, Office of the State Treasurer, Department of Financial Regulation, Department of Finance and Management,

Agency of Commerce and Community Development, and other governmental and not for profit organizations such as the U.S. Department of Agriculture–Rural Development and Neighborworks of Vermont. Through this process it became clear the path forward for the Agency of Natural Resources was to develop a new partnership with a financial institution with expertise in residential mortgage lending. In June of 2013 I released a request for proposal to seven Vermont financial institutions for loan underwriting and servicing functions for the On-site Loan Program. No proposals were received in response to the request. I then reached out directly to the Opportunities Credit Union (OCU) in Winooski, Vermont and they expressed interest. Over the course of the last several months I have worked closely with OCU to develop the details of the program and under the authority provided under Bulletin 3.5 (SOV Contracting Procedures), the Agency has entered into a contract with OCU to provide underwriting and servicing functions for the Program.

The On-site Revolving Loan Fund is an important Program because it fills a critical need by providing low-cost financing to homeowners that could not otherwise receive financing in the commercial marketplace. One of the key program eligibility criteria is the homeowners must be denied financing from at least one lending institution. We believe OCU is an excellent fit for the Program considering their stated mission is to “provide innovative, affordable financial products and services ... to unbanked and underserved low income Vermonters.” As part of their regular programming, OCU will work with On-site borrowers throughout the loan process and provide them with financial education and counseling services to improve their financial health, help them to address credit issues that are barriers to financing, and successful loan repayment. We believe these services will prove valuable to the loan applicants as well as the Program and we are very excited about this new partnership.

Legislative Requests:

The changes we are seeking to the enabling legislation will more accurately reflect the direction the Program has taken as well as facilitate this important relationship with OCU. We are seeking two changes in this regard. The first change is to recognize in statute the ability to contract with a financial institution or community development credit union in the administration of the Vermont Wastewater and Potable Water Revolving Loan Fund. Note the language in the draft bill needs to be changed to include community development credit unions (see suggested changes from VT Bankers Association). As stated above, we have worked closely with the VMBB and VEDA and have their support for this important change.

The second change is to increase the amount that can be paid from the fund for administrative expenses associated with third party administration. There are three fees the Agency will pay OCU for their services, described as follows; annual software licensing fee of \$1,000, a per application fee of \$325, and an annualized servicing fee of 3% on the outstanding principal

balance of all notes receivable, which is equivalent to the interest rate charged to borrowers on their loans. The contract with OCU requires the parties to meet on a bi-annual basis to analyze and discuss the performance of the fund, respective roles and responsibilities, the servicing fee structure and re-negotiate the contract if necessary. In terms of the application fee, banking regulations do not allow an application fee to be charged to the borrower if the mortgage for the loan is in a subordinate position. We anticipate a high percentage of the loans issued in this program will be secured by second and third mortgages on the property. To maintain consistency across the Program and to keep costs down for borrowers already in a difficult financial situation, the Agency is planning to pay for this fee directly from the fund.

We believe these changes will help us achieve the goals of the Program; providing financial capacity to correct an environmental and public health issue to Vermonters that otherwise cannot obtain financing in the commercial marketplace.

Thank you for your time today and your consideration on this issue. We welcome your questions.

Supplemental Information:

On-Site Loan Program Fact Sheet

