

Extending VHFA's Down Payment Assistance into a Self-Funding Revolving Loan Program

How the Program Works

- The 2015 Economic Development bill authorized VHFA to issue \$125,000 in Vermont State Housing Credits for each of State fiscal years 2016, 2017 and 2018.
- Those tax credits were sold to a Vermont bank to fund a down payment assistance program for first-time homebuyers who are applying for a VHFA loan.
- VHFA can lend up to \$5,000 per household in the form of a 0% second mortgage, and no payments are made during the life of the loan. The loan is repaid to VHFA when the first mortgage is refinanced or the home is sold, creating the potential for a self-sustaining revolving loan fund.
- VHFA estimates it can serve at least 115 first time home buyers per year.
- The tax credit is a five-year credit, where the investor is able to forego \$125,000 in state tax liability for five years.

Program's Early Success

- VHFA was able to sell the tax credits at a very favorable rate (\$0.95 cents on the dollar), well above what is typical in the market for state credits sold recently.
- There is a strong market for the credits, and there were several interested investors. Union Bank agreed to purchase all three years of available credits at the same high rate.
- VHFA has 84 loans either closed or in the pipeline from the first 6 months of the program:
- Based on 49 closed loans
 - Average age of the homebuyer is 30 years
 - Average purchase price is \$157,250 (range of \$85,000-\$285,000)
 - Average income of buyers is \$60,700
 - Average assistance amount is \$4,620
- To date these loans have been spread across 11 counties.

Creating a Legacy Program

- As it stands today, about 345 first time buyers will be provided assistance through the program during the three years it is funded. With an additional four years' of funding, that total grows to 978 within the first 10 years of the program, and will increase by about 120 buyers every year thereafter. The additional four years are needed to turn the program into a self-sustaining revolving loan fund after the tax credit sunsets.
- Having funding for approximately 100 buyers per year is large enough to warrant marketing and training to consumers and lenders to keep the program running. Much less than that and it would not be sustainable to offer a down payment assistance program to lenders and consumers if only a handful of buyers are eligible, statewide, annually.

Program as it was passed:

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Total
Annual cost to Vermont										
FY16's Credits	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000					
FY17's Credits		\$125,000	\$125,000	\$125,000	\$125,000	\$125,000				
FY18's Credits			\$125,000	\$125,000	\$125,000	\$125,000	\$125,000			
<i>Total cost to VT</i>	<i>\$125,000</i>	<i>\$250,000</i>	<i>\$375,000</i>	<i>\$375,000</i>	<i>\$375,000</i>	<i>\$250,000</i>	<i>\$125,000</i>	<i>\$0</i>	<i>\$0</i>	<i>\$1,875,000</i>
Households Receiving Assistance										
# of new loans	115	115	115	<i>Not enough loans were generated in the three years of the program to create enough funding to be recycled into a meaningful program when they pay off.</i>						345
# loans paying back	0	0	0	0	0	0	0	17	35	Approx. 15% of loans will repay annually after the 1 st 7 years
# of outstanding loans	115	230	345	345	345	345	345	328	293	Portfolio will decline annually

The program will begin to wind down as loans pay off and not enough new loans are generated.

Program with four years additional funding would make it sustainable:

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	Total
FY16's Credits	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000							
FY17's Credits		\$125,000	\$125,000	\$125,000	\$125,000	\$125,000						
FY18's Credits			\$125,000	\$125,000	\$125,000	\$125,000	\$125,000					
<i>FY19's Credits</i>				<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>				
<i>FY20's Credits</i>					<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>			
<i>FY21's Credits</i>						<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>		
<i>FY22's Credits</i>							<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	<i>\$125,000</i>	
<i>Total cost to VT</i>	<i>\$125,000</i>	<i>\$250,000</i>	<i>\$375,000</i>	<i>\$500,000</i>	<i>\$625,000</i>	<i>\$625,000</i>	<i>\$625,000</i>	<i>\$500,000</i>	<i>\$375,000</i>	<i>\$250,000</i>	<i>\$125,000</i>	<i>\$4,375,000</i>
# outstanding loans at beginning of year	0	115	230	345	460	575	690	805	805	805	805	Total households assisted: 978. This increases by 120/year in perpetuity
# loans paying back	0	0	0	0	0	0	0	17	35	52	69	
# of new loans made during FY	115	115	115	115	115	115	115	17	35	52	69	
# of outstanding loans at end of year	115	230	345	460	575	690	805	805	805	805	805	

While the portfolio would remain at around 805 loans, VHFA would have enough loans repay each year to re-lend the money to new buyers, thereby helping approximately 120 additional households annually.