

## **Vermont Down Payment Assistance Program Proposal**

The Vermont Housing Finance Agency (VHFA) Board of Commissioners and our partners, including the Vermont Affordable Housing Coalition and the Lake Champlain Chamber of Commerce, have been discussing the need now to make homeownership more affordable and accessible, and in particular finding ways to support young families to become homebuyers. We know that once you purchase a home you are more likely to remain and become invested in your community.

Most states fund a Down Payment Assistance (DPA) Program with state or federal funds; and there is concurrence that a DPA program is very much needed in Vermont. We realize that a request to approach the State to fund a down payment assistance program (DPA) with cash resources might be preferable, but recognize this may not be possible this year. So VHFA is seeking an increase in the Vermont Affordable Housing Tax Credit to fund a DPA initiative.

In the past any limited down payment assistance VHFA has been able to offer was funded through premiums paid on higher rate loans. Loans with down payment assistance are priced at higher than loans that do not include down payment assistance. Only borrowers who can qualify for the higher rate can take advantage of this assistance. If down payment assistance is provided from a different source than a loan premium, VHFA would be able to help many more Vermonters achieve home ownership.

VHFA is recommending the program be structured as follows:

### **Increase the Homeownership Tax Credits under 32 V.S.A. § 5930u annually by \$125,000. Allow VHFA to sell these credits to create a DPA pool of funds.**

Down Payment Assistance would be structured as a 0% loan subject to repayment upon resale or refinancing.

We recommend the amount of down payment assistance be up to a maximum of \$5,000 per loan transaction, with the actual amount not to exceed actual cash required to close the loans and no cash funds be given to the borrower.

To generate the funds for a DPA program, we propose selling \$125,000 in Vermont State Housing Credits. This would generate approximately \$530,000- \$560,000 in funding for down payment assistance, and would support approximately 100-110 homebuyers. Variables include, the market price of the State Credits (assumed at .88+/1.00), with a tax credit to the investor for 5 years.

To the degree borrowers do not need the full \$5,000 to close; those funds would be leverage the number of households served beyond the 100 homebuyers calculated.

Homebuyers must meet all VHFA eligibility requirements and be a first-time homebuyer. Accordingly, all down payment assistance loans would be made in conjunction with a first mortgage loan with VHFA to insure eligibility. VHFA would work with community lenders on origination of the loans.

VHFA would request this program run for a period of at least 5 years, with \$125,000 in State Credits provided each year. This would run out to a maximum of \$625,000 a year at the end of the 5<sup>th</sup> year. Total invested by the State at the end of nine years will be \$3.1 million, and should serve approximately 500 to 550 home purchase transactions with the initial funds, and we hope at least another 400 -500 homes as the funds recycle.

As the loan repayments occur with resale and refinancing, VHFA will retain the repayments to leverage the program into future years. It would be VHFA's desire that this program fund itself thereafter from repayments.

The changes would be to amend 32 V.S.A. § 5930u. We would need some clarification about the ability of VHFA to directly sell credits to create a DPA pool. As you notice there is no distinction of the current allocation of the \$300,000 in homeownership credits. The original allocation was \$100,000 was intended for new construction or substantial rehab, and \$200,000 was intended for manufactured housing or Irene replacements, and we would expect that to continue.

The original statute was amended to add in the homeowner ship credits later, so speaks more to permanently affordable rental projects. For the manufactured housing credits we added in FY 13 we made an interpretation that if those were structured as second loans and paid back to be used for future affordability that would meet to intent. This would be similar.

There will need to be some minor tweaks to the statute to accommodate DPA loans. Also the Tax Dept. has been tracking the homeownership credits by individual property which is cumbersome for both VHFA and them. It would be easier if the credits could be used as pools of funds.

This proposal will assist Vermonters to enter the homebuyer market, and assist to accelerate the return of the real estate market in the State. We are often asked by members of the Legislature how we can support first time buyers, and realize that new construction may not be needed or is too expensive to reach the borrowers we need to reach. A DPA program would be a modest way to remove one of the most common barriers to affordable home buying.

The House version of S.138 contains the language needed to implement this program.