

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 an additional \$125,000 in Vermont Affordable Housing Tax Credits for each of the State fiscal years 2016, 2017 and 2018. This would fund a down payment assistance program (DPA) for first time home buyers. The program would then sunset and no new credits would be issued.
- The tax credit is a five-year credit, where the investor is able to offset \$125,000 in state tax liability for each of five years.
- Those tax credits are sold upfront to capitalize a pool of funds each year for down payment assistance loans to first time homebuyers in concert with first mortgage loans from VHFA.
- VHFA will lend up to \$5,000 per household in the form of a 0% second mortgage, with no monthly payments 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 for each of the years it is authorized credit.

Program's Early Success (8/15/15 – 3/15/16)

- VHFA was able to sell the tax credits at a very favorable price (\$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 a number of interested Vermont investors. [Union Bank agreed to purchase all three years of available credits at the same high price.]
- During the first 6 months of the program's implementation VHFA has committed Down Payment Assistance loans to 84 borrowers who have closed or who are in the pipeline.
- Of the 49 loans that have closed:
 - 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, and then new credits would sunset in FY 2019. After 3 years the estimated proceeds from early repayments would be marginal, and while committed to be re-lent for new DPA loans, the program would be very limited.
- With an additional four years' of funding, the estimated number of households served grows to 753. The additional funding should allow time for prepayments from loans made in the earlier years to begin at levels sufficient to sustain the program at 90-115 loans per year, and beyond the proposed tax credit sunset in FY 2022.
- 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.
- Extending the sunset does not affect the tax expenditure budget until FY19

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