

## Vermont's Down Payment Assistance Program

### How the down payment assistance (DPA) program works

- The Vermont Affordable Housing Tax Credit program began in 2000 as a way to fund the creation of rental housing. Since then, it expanded to funding creation of owner homes and manufactured housing replacements.
- Seeing the need for more homeownership support, in 2015 the Legislature authorized VHFA to issue an additional \$125,000 in credits for state fiscal years 2016, 2017 and 2018.
- In 2016, authorization was extended another four years through state FY 2022.
- An investor purchasing these credits can offset \$125,000 of Vermont tax liability in each of 5 years, for a total of \$625,000 in tax benefits. In exchange, the credits available for sale are purchased up front and generate just under \$600,000 for DPA each year when they become available.
- VHFA uses the proceeds from the sale of the credits to provide up to \$5,000 to each qualifying first-time homebuyer in the form of a non-amortizing, 0% second mortgage. Only available in conjunction with a VHFA first mortgage, the DPA loan is repaid when the first mortgage is refinanced or the home is sold. This is expected to create a self-sustaining revolving loan fund after the last round of tax credits is sold, assuming historical move and payoff rates.
- This is not an appropriation nor a regular part of the Governor's budget. This is a tax credit and represents potential forgone revenue that was authorized legislatively.

### Demand for the program

- Investors were readily available to purchase the DPA credits when they first became available. Union Bank was selected to buy all available credits for the first three years having made the highest offer price and a commitment to buy the credits each year at that price.
- Initial projections of demand were 110 DPA loans per year totaling \$600,000. Actual demand has been over 200 loans totaling roughly \$1.2 million per year.
- VHFA's success reaching first-time home buyers has helped us identify the great demand for the program. More than 90% of VHFA's borrowers each year are first-time home buyers compared to [58% for all lenders](#).

### Program outcomes

- **The DPA program has reached 600 first-time Vermont homebuyers since September 2015.**
- The average household receiving down payment assistance:
  - receives \$4,700 in DPA as a second mortgage and purchases a home priced at \$160,000;
  - has household income of \$65,000 and a very high credit score of 709; and
  - is 31 years old and lives in a 2-person household.
- Vermonters generally have [higher student loan and auto debt](#) than most states. Compared to other borrowers, VHFA's DPA borrowers have lower housing debt as a percentage of their income (likely due to DPA's lowering of the mortgage amount and resulting monthly mortgage payments), but higher total household debt.

## Continued unmet needs of Vermonters

- When VHFA sold the annual allotment of DPA tax credits in July 2017, 100% of the funding had already been reserved by buyers looking to close on their homes in summer/fall of 2017.
- To continue providing DPA and avoid suspending the program, VHFA borrowed funds from the Federal Home Loan Bank of Boston through a program only available for a limited period.
- In a survey by the Urban Institute and Federal Reserve, 53 percent of renters cited their inability to afford a down payment as the reason they rent. This was by far the most frequently cited explanation for continuing to rent.
- With the 5<sup>th</sup> highest closing costs in the country, according to [National Mortgage News](#), young adults making entry-level Vermont salaries saddled with student loan and/or car loan debt face an uphill battle saving the cash needed for closing costs and a down payment.
- [Closing costs in Vermont](#) include down payment, secondary market fees, origination fees, Property Transfer Tax, title search and insurance and third-party fees.
- **Without a future increase in the tax credits available each year for DPA, VHFA may need to cut the program in half. Yet, the demand and need for this program is unchanged.**

## Benefits of the program

- Directly supporting state goals of economic development and making housing more affordable, the state's investment in DPA is quickly recouped through benefits to Vermont's economy. The average first-time home buyer generates an estimated \$40,500 in economic benefits statewide through property tax revenue and spending on home improvements, renovations, furniture, and equipment.
- DPA helps Vermonters buy their first home in Vermont, rather than moving to more affordable locations. With the [population](#) of every Vermont county outside of the northwest on the decline, Vermont communities need this tool to help retain much-needed young workers.
- Vermonters using DPA so far work for 363 different employers across the state. The top employers include healthcare providers, state and federal government and schools. Many DPA borrowers also work for small businesses or are self-employed.
- The revolving loan fund that is being created for DPA (when the state is no longer funding the housing credit) will continue to produce additional benefits for Vermont in property transfer tax revenue and economic activity by supporting future potential first-time home buyers for years to come.

