



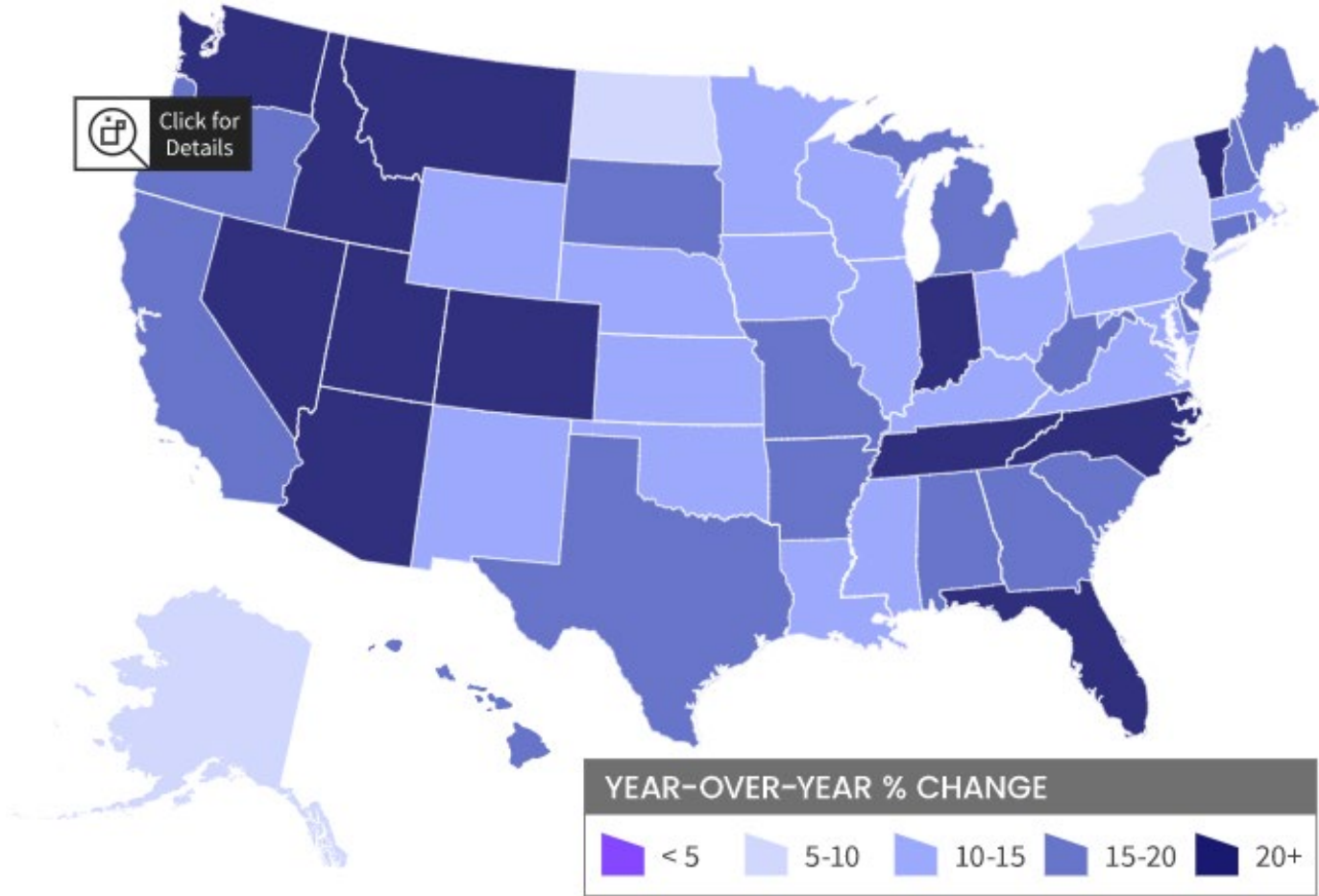
Building Access to Homeownership

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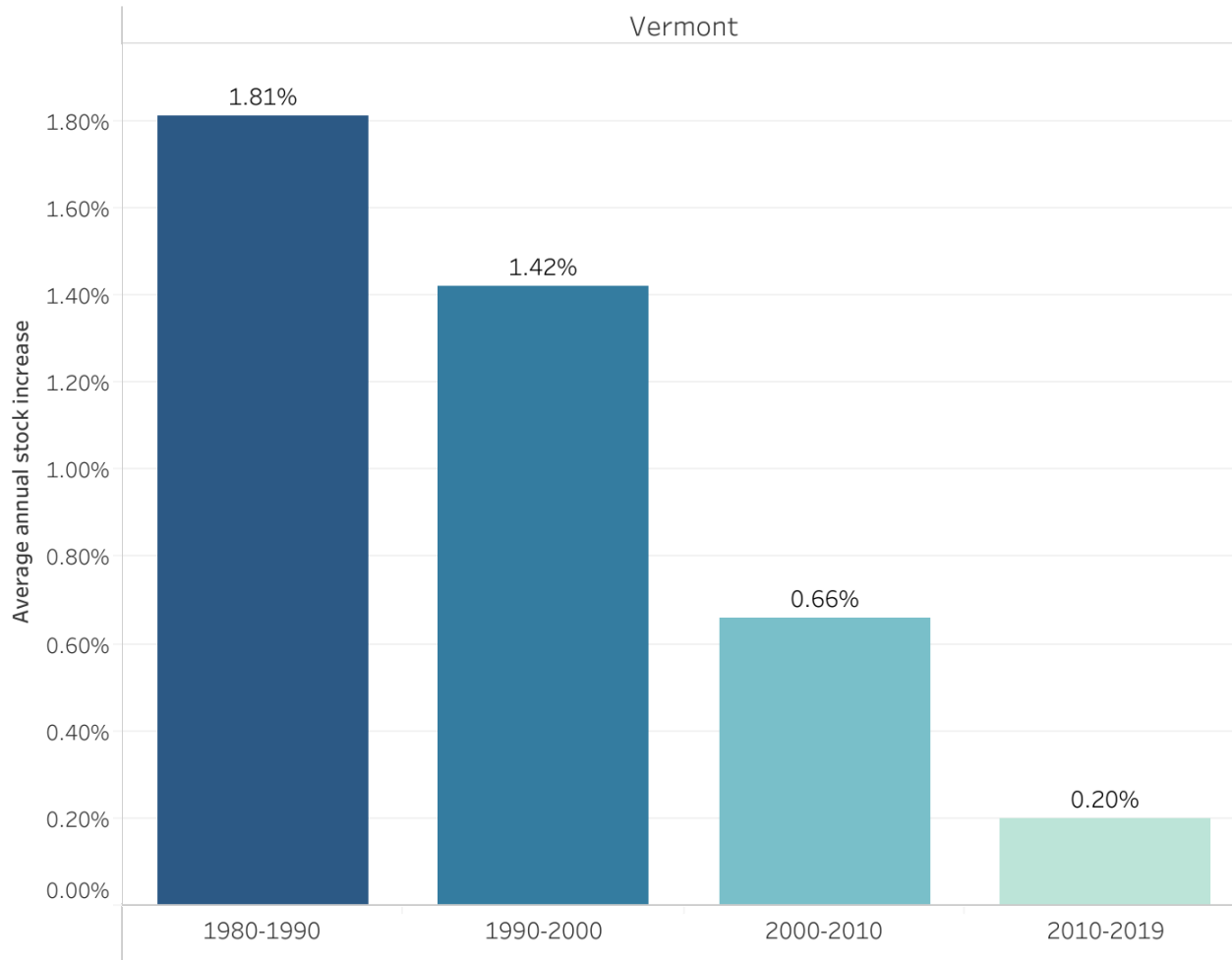
Testimony to House Housing, General & Military Affairs, January 5, 2022

VT shares top ranking for home price increases with 10 other states



Source: Corelogic, U.S. Home Price Insights, 11/2/2021

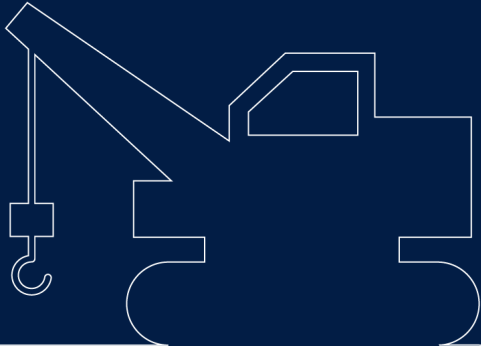
Rate of change in housing supply



Declining construction of starter homes is driving the shortage

40% of all homes built
were starter homes in the 1980's

7% of homes built
were starter homes in 2019



Increased demand has pushed the shortage even further

72 million millennials
are entering the market

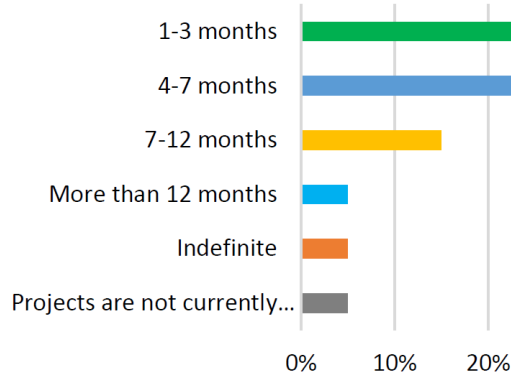
But from 2018-2020, the pandemic and other factors caused a

52% supply decrease

Survey of Vermont's construction industry

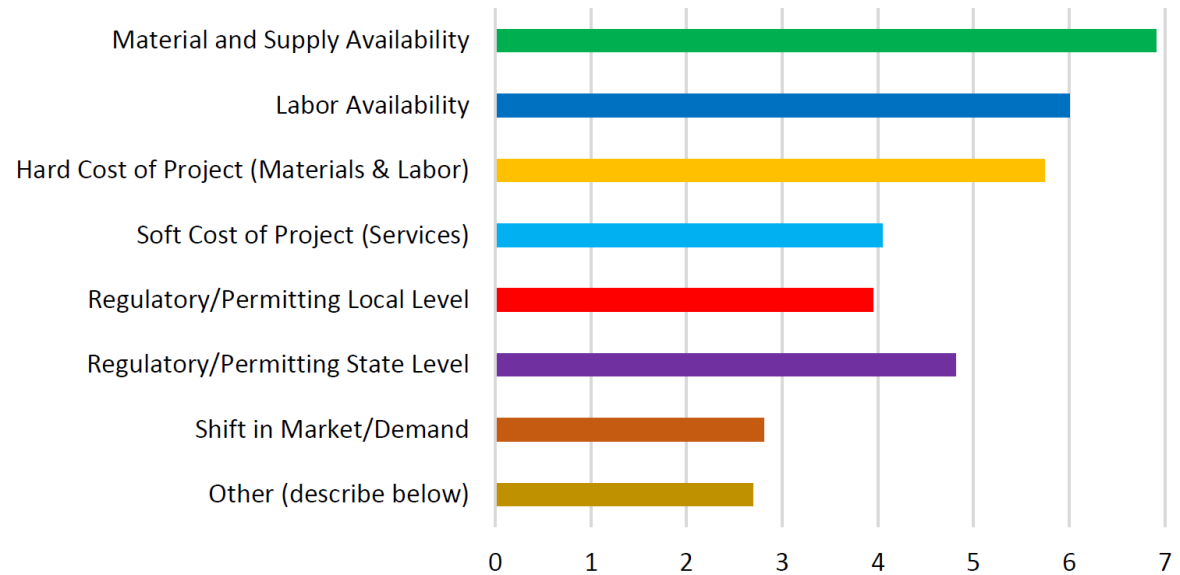


Average range of delays experienced across work portfolio



More than 64% reported they had abandoned or substantially delayed starting a project due to cost pressures.

Most significant reasons for project delays



Respondents were asked to rank the reasons from most to least impactful. Displayed is the ranked choice value of the 8 options.

Creating Access to Homeownership for Middle-Income Vermonters



Construction Capital Access program provides guarantees and capital investments to local banks/credit unions aimed at making construction financing more available and less expensive.

Development Affordability Access subsidy directly lowers the cost of the price of a home by bridging the gap between the high costs of construction and a moderate sales price to an income qualified buyer.

Enhance existing homebuyer and down payment resources to further transfer wealth directly to certain households.

Construction Capital Access Goal: Reduce cost of construction loans

Guarantee or provide direct investment up to 15% of eligible project costs.

Options:

1. **Certificate of Guarantee:** Issued to the financial institution by VHFA and can reduce the cost (and amount) of the construction loan to the developer
2. **Deposit Access:** Funds deposited in financial institution to provide capital directly into deal through lender to reduce the cost (and amount) of the construction loan to the developer
3. **Construction Loan Participation:** VHFA will provide a 2nd position construction loan to reduce the amount and cost of the primary construction loan

Development Affordability Access

Goal: Lower cost of new homes for buyers

- Provide a maximum subsidy of 35% of Total Development Cost of the home
- Target households between 80% and 140% AMI.
 - 80% AMI: \$60,000 to \$70,000
 - 140% AMI: \$105,000 to \$120,000
- Subsidy will be limited to amount needed to close gap between cost of development and purchase prices affordable to middle-income buyers.

Limits to Ensure Homes Developed Meet State's Goals

- **Eligible homes:** Up to 4-unit homes, manufactured/modular, condos, and coops
- **Eligible uses:** Land acquisition, hard construction costs, some soft construction costs, and on-site infrastructure
- **Maximum construction costs:** based on trends in hard costs per square foot
- **Maximum square footage:** based on number of bedrooms
- **Profit or developer fee maximums:** use National Association of Home Builders survey data on homebuilding profit-margins

Subsidy Level



- Program will focus on filling “value gap” – the difference between cost of development and affordability for middle-income households.
- Amount of benefit will be scaled based on affordability levels:
 - Homes with sales prices affordable to the lowest income buyers will have access to the greatest amount of subsidy: 35% of development costs
 - Benefits will reduce for higher income households

Subsidy Retention

\$450,000 original sales price
(\$400,000 eligible TDC)

\$TBD reduced construction
loan costs, which will reduce
home price

\$140,000 in
eligible subsidy
(35% of TDC)

\$310,000 max
sales price to
income
eligible buyer

Potentially the
buyer could use
other subsidy
programs to
further reduce
the cost of the
home

**The subsidy will be handled in
two ways:**

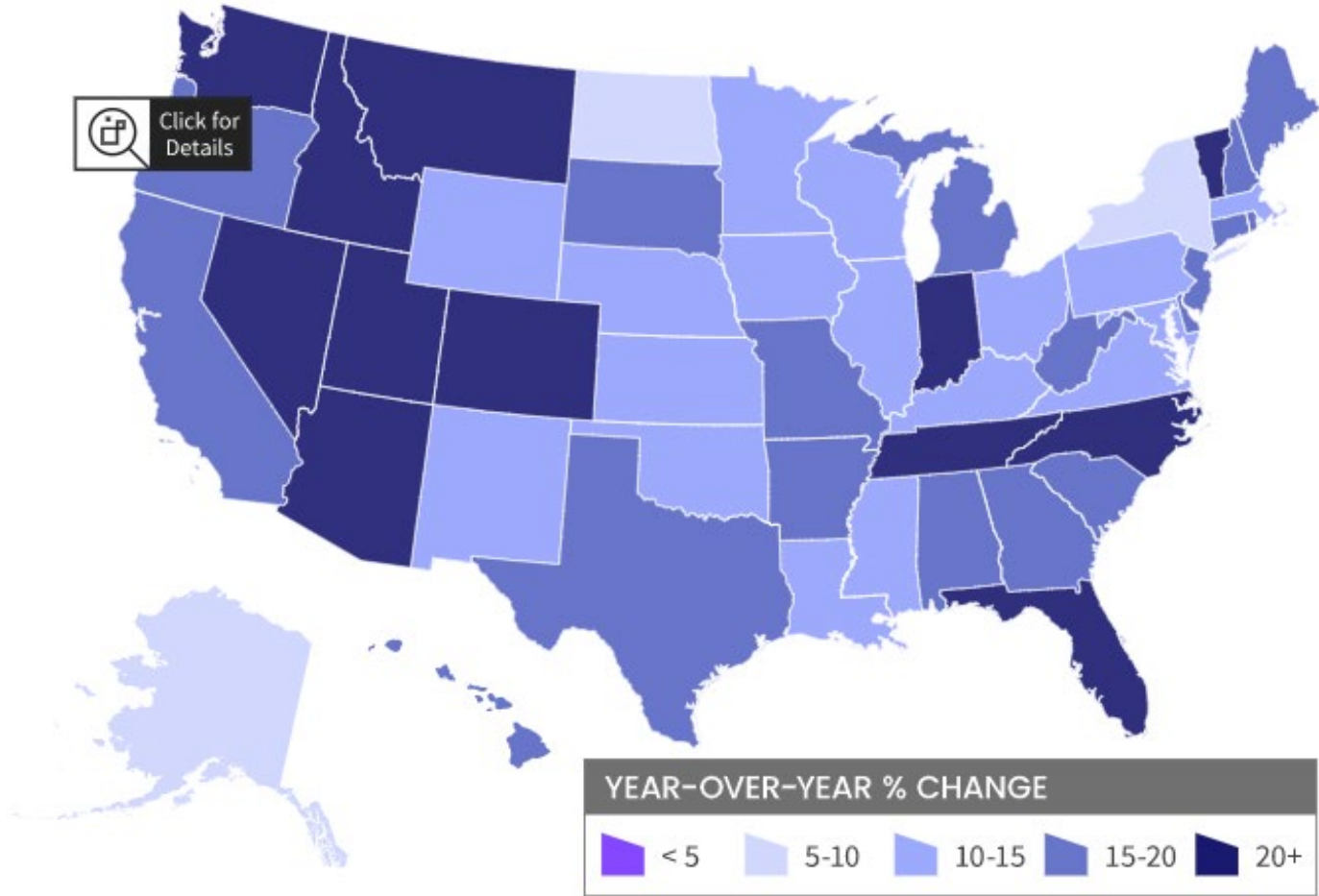
1. A portion of the equity will be subject to a subsidy covenant that will require repayment upon resale of the home.
2. A portion of the equity will be immediately forgiven.

Complements existing homebuyer resources



- Goal is this program can complement and be paired with existing affordable homeownership programs including:
 - State Down Payment Assistance program
 - Models for Shared Equity and other longer-term affordability
 - Existing state and federal funding through VHFA and VHCB
 - Habitat for Humanity and other self-help models

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