To: House Commerce Committee
From: Maura Collins, Executive Director
Date: February 27, 2025
Re: Financing needs for housing Vermont's workforce

Vermont needs approximately 30,000 homes in the coming four years to meet expected demand.

This is an all-hands-on-deck situation. We need more skilled trades people, more developers, more funding for affordable housing, more communities willing to embrace density, more infrastructure to support smart growth, and higher wages so people can afford housing. Everyone has a role to play.

The Vermont Housing Finance Agency's (VHFA) mission is to finance and promote affordable, safe, and decent housing opportunities for low- and moderate-income Vermonters. VHFA was created 50 years ago by the legislature, and VHFA's statue has grown over those years to respond to the changing market realities.

VHFA was created to fill market gaps and fill a role that Vermont's strong and responsive community lenders were not able to fill without state support. Knowing that such needs and gaps fluctuate over time, VHFA's statutory definition of whom we are designed to serve is intentionally broad. For example, VHFA's statute leaves the definition of whom VHFA can serve as one that can adjust to market conditions:

> *(11) "Persons and families of low and moderate income" means persons and families irrespective of race, creed, national origin, sex, sexual orientation, or gender identity deemed by the Agency to require such assistance as is made available by this chapter on account of insufficient personal or family income, taking into consideration, without limitation, such factors as:*
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> *(A) the amount of the total income of such persons and families available for housing needs;*
> *(B) the size of the family;*
> *(C) the cost and condition of residential housing available;*
> *(D) the cost and availability of mortgage loans on residential housing in the State;*
> *(E) the eligibility of such persons and families for federal housing assistance of any type predicated upon a low-income basis or upon the basis of the age of such persons;*
> *(F) the ability of such persons and families to compete successfully in the normal housing market and to pay the amounts at which private enterprise is providing decent, safe, and sanitary housing, and deemed by the Agency therefore to be eligible to occupy residential housing constructed and financed, wholly or in part, with insured or guaranteed construction loans or insured or guaranteed mortgages, or with other public or private assistance other than as provided by this chapter.*

There are dozens of programs VHFA has administered over the past 50 years. The largest programs are the federal housing tax credits, and loans funded by Agency bonds. But since 2022, VHFA has also created three middle-income programs to address weatherization of homes; modest for-sale construction; and rental housing for those earning higher incomes than are eligible for affordable programs.

VHFA is in continual communication with housing developers, and a July 2024 survey made clear the unmet need was **subsidy** to create more homes. The availability of debt is not the limiting factor to housing development. Developers need subsidized (lower-rate) debt (as VHFA has offered through a state appropriation) but there is no unmet market need for unsubsidized debt. The rates both Vermont Economic Development Authority (VEDA) and VHFA could offer without subsidy are not low enough to fill the gap needed.

The median renter household in Vermont earns just over $45,000 whereas the middle-income rental program VHFA created can serve households earning up to $122,850 (or 273% of that median) for a 2-person household. As stated in the statute language above, VHFA does not have that limitation for its general lending, only for that one program where the legislature imposed an income limit due to providing a state subsidy.

Over the past 50 years, VHFA has grown to a staff of 45, all focused on housing finance. Through VHFA Vermont:

- Loaned $82 million in purchase mortgages last year, and $13 million in down payment assistance since 2015;
- Financed $75 million of rental housing loans and awarded $86 million in housing tax credits last year;
- Performed annual compliance monitoring, inspections, and review of 10,000 apartments;
- Assessed the state's housing needs including setting regional targets;
- Shaped housing policy via participation in the Vermont Council on Housing and Homelessness;
- Identified emerging market opportunities (such as off-site manufactured housing);
- Engaged employers and provided resources such as an Employer Assisted Housing Guide;
- Created a fund and raised over $20 million from federal, philanthropic, and below-market investments to fund more flexible financing for affordable housing; and
- Studied development cost factors and reported on the state of residential development.

With such great needs, VHFA in no way wants to stand in the way of housing development transactions that are in need of financing. On the contrary, as intended at our creation, we look to fill gaps where the commercial lending market cannot provide the financing that is needed. We welcome any and all housing developments that would like a loan from VHFA to apply to us for financing. If the Commerce Committee is interested in VHFA lending on housing developments with no affordability provisions, we are able to do that. VHFA has issued these types of loans for decades, and VHFA publishes our rates and terms on our website. Currently, VHFA's rate on a 30-year loan with no affordability restrictions would be 8.35%.

Advantages to borrowing through VHFA compared to VEDA expanding its statute for this purpose include:

- Housing finance often requires 30-year amortizations and terms, to lower the annual debt servicing cost of the loan. That is VHFA's standard product, whereas VEDA only offers 20-year loans.
- VHFA's standard practice is to lend up to 95% of the appraised value to for-profit developers, whereas VEDA can only lend up to 40% by statute.
- VHFA and VEDA have similar access to capital, but VHFA's loan rates are typically lower than VEDA's.
- VHFA has experienced staff who have been underwriting housing loans for decades, whereas VEDA would need to contract or hire staff with this experience.
- VHFA regularly works with residential developers, where VEDA would need to establish new relationships.
- VHFA will lend to housing developers and employers with the same loan product, as done through the Rental Revolving Loan Fund, whereas VEDA would have to stand up a new program only for employers, which housing developers could not access.

There are risks to opening up housing finance to VEDA:

- VHFA knows the state's housing policies, state and federal fair housing laws, as well as landlord/tenant laws. Without this deep knowledge there is a risk that an organization whose mission is economic development might make decisions that run counter to the state's interests in housing.
- It sounds as if VEDA may need to apply to the State for additional Moral Obligation (MO) authority to do additional lending, whereas VHFA has approximately $100 million of unused MO if it chose to use that for this purpose. Adding more MO weakens the state's financial picture.
- VEDA's statute expansion would create a further fragmentation of the housing finance landscape. Vermont already has four agencies that fund housing (VHFA; VT Department of Housing & Community Development; VT Housing & Conservation Board; and VT State Housing Authority). Coordinating between these four agencies is complex and time-consuming. Adding a fifth housing funder is counter to longstanding discussions to consider consolidating housing funders.

- Even the “right of first refusal” harms VHFA’s ability to negotiate with applicants because any push back on a loan could constitute a “refusal” by VHFA and allow the applicant to move to VEDA, thereby eliminating VHFA’s ability to apply its expertise in housing transaction structure and pricing and, specifically, get the most value for the quasi-state support.

Finally, VHFA is not aware of a current unmet market need or a set of examples of housing developments needing funding that we cannot provide that would be enabled by this legislation. For all these reasons, VHFA opposes the section of the VEDA statute change that would allow VEDA to expand its housing lending program.