



Scope of VHFA's Lending

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Causes of and Solutions to the Housing Shortage

1. Decades of slow housing construction ➔ Build more housing
2. Rising demand – especially since 2020 ➔ Build more housing
3. Very low vacancy rates ➔ Build more dense housing
4. Rapidly increasing home prices ➔ Make cheaper to build
5. Rising construction costs and labor shortages ➔ Support workforce
6. Regulatory barriers and local zoning restrictions ➔ Ease restrictions
7. Aging and inadequate housing stock ➔ Invest in housing
8. Increased homelessness and unmet affordable housing needs ➔ Build more affordable housing
9. Demand for second homes and short-term rentals ➔ Build more primary residences, discourage non-primary conversions

What's NOT mentioned? A lack of lending

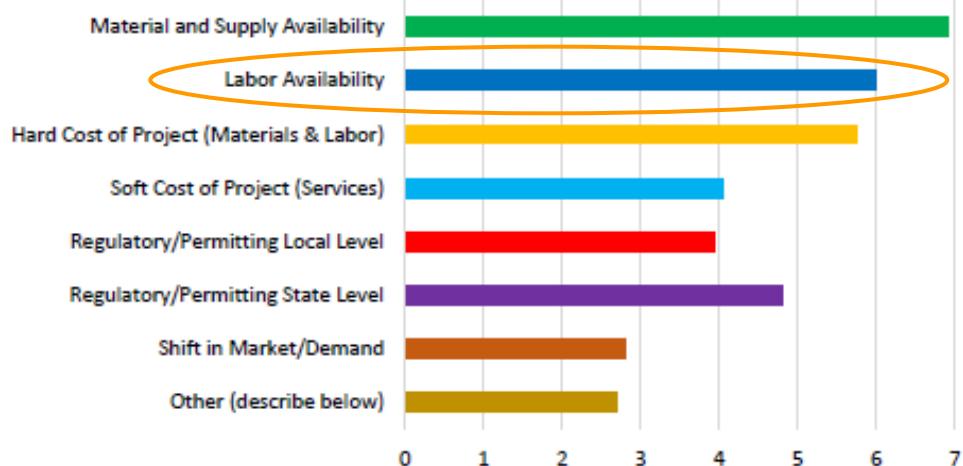
The State of Residential Development in Vermont in 2021

December 2021

L. Black- Plumeau, S. Leonard, M. Watson



Most significant reasons for project delays

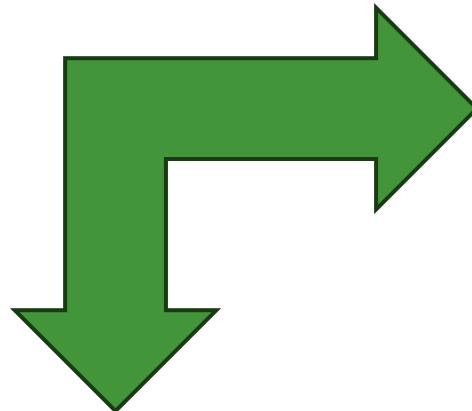


Respondents were asked to rank the reasons from most to least impactful. Displayed is the ranked choice value of the 8 options.

- In 2021, 89% of projects were delayed. 64% had abandoned their project due to costs.
- No delays caused by lack of financing.

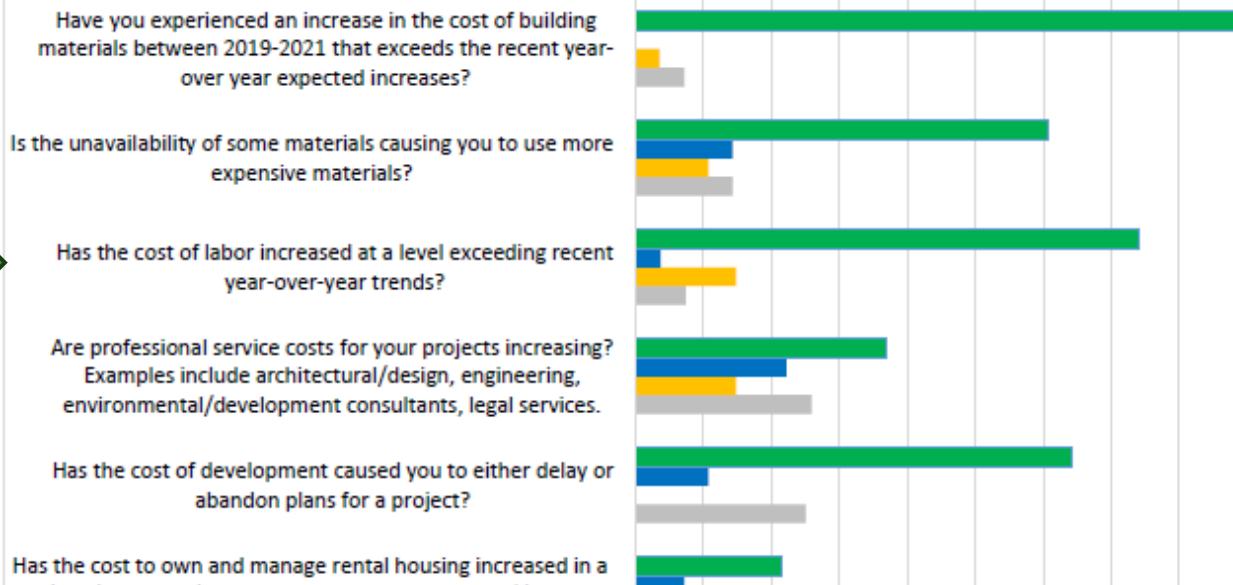
Source

More Findings

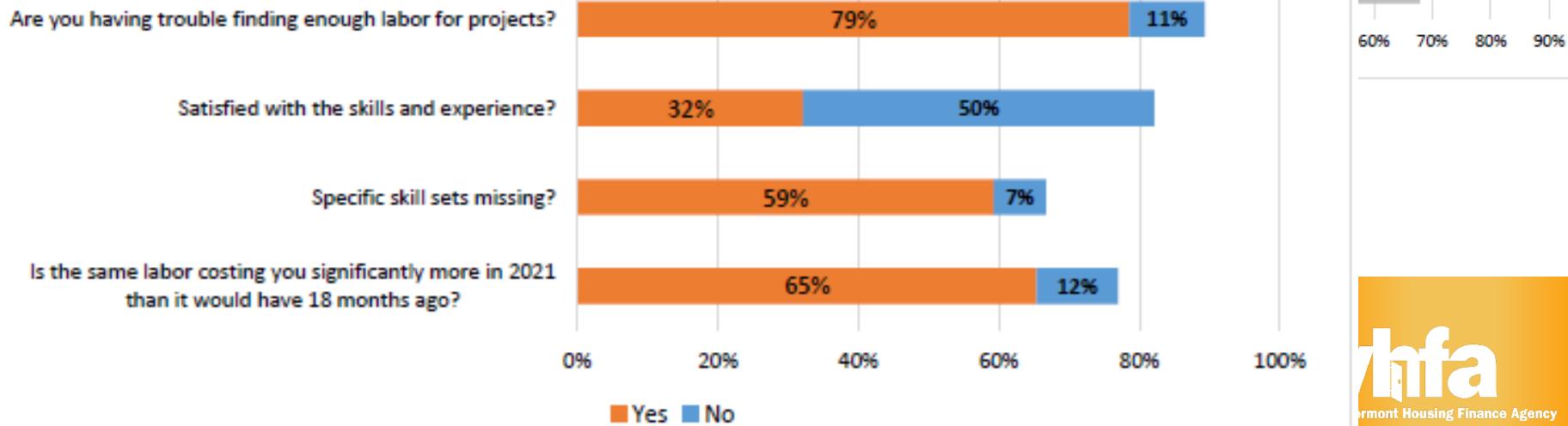


Additional timeline experiences since March 2020

■ Yes ■ No ■ Unsure ■ Not applicable to my business



Labor challenges



Surveyed Bank CEOs



Community
National Bank

Union M&T Bank

Member FDIC Equal Housing Lender

PEOPLES TRUST
Company



EastRise
CREDIT UNION



National Bank
of Middlebury



Northfield
SAVINGS BANK

 **Mascoma**
Bank



Bank

Surveyed Bank CEOs

- Does your bank have limitations on the commercial multifamily residential loans you've been able to make as a result of not having subordinate financing tools available?
- If so, are there any recent examples you could share that could give me an idea of the prevalence of how often this is a barrier for you?
- Is there a certain size or feature of the development that becomes a barrier to you? Are there other characteristics of the deals that would be good candidates for this?
- If you've experienced this, what is causing this barrier? I could imagine it might be that you could be limited in the size of your exposure to a certain partner, or you may want to mitigate risk, or maybe it's less of a barrier and more of a desire to offer lower rates by blending your rates with a lower-cost product like a quasi could offer. Or is it something else entirely?

No Bankers Indicated a Market Gap

- *"My initial reaction to your question is that financing is not really the barrier to creating multifamily housing. Certainly, rates are less attractive than they were, but they were well below historic norms, as you know. I think the bigger hurdle is the cost of construction including permitting times and unrealistic energy efficiency requirements that combine to increase the cost of projects to the point that they don't cash flow the required debt. I am not sure this gets solved by debt, subordinate or otherwise."*
- *"We are open for business and lending on both construction and permanent basis. We have not been hampered by subordinate financing tools. We don't have project size limitations. Sometimes concentration concerns might pop up, but very rarely."*
- *"It's a very competitive market for lending right now. Developers often get multiple offers from banks and we are being very competitive with what we offer and are still losing deals to other banks."*



Staff	43	41
Loan Closings in FY25	MF Construction: \$80.7M MF Permanent: \$11.8M Homeowner mortgage: \$92M Downpayment Assist.: \$2.2M First Gen Grants: Total: \$187 million	Small Business: \$9.8M Affiliate: \$11.3M Commercial: \$18M Energy: \$5.6M Development Corp: \$277,000 Total: \$45.2 million
Total assets (FY 6/30/25)	<u>\$670 million</u> • Outstanding loans: \$583 mil	<u>\$372 million</u> • Outstanding loans: \$281 mil
Total lending over 50+ years	Over \$4 billion	<u>Over \$2.8 billion</u>
Ratings	A1 issuer rating Aa1 bond indenture rating	A1 issuer rating
<u>Moral Obligation</u> (credit enhancement) authority	\$155 million (\$49M used)	\$181 million (\$155 used)
Sources of funding	Fixed-rate bonds; tax credits	Short-term commercial paper, variable and fixed rate notes

Why do VHFA and VEDA exist?

- To fill market gaps.
- To administer some limited public programs & funding.

...In service of our unique missions.

VHFA's mission is to finance and promote affordable, safe, and decent housing opportunities to low- and moderate-income Vermonters.

10 V.S.A. § 602 states: The statutory purpose of the exemption for the Vermont Housing Finance Agency in subsection 641(a) of this title is to **provide and promote affordable housing.**

VEDA's mission is to contribute to Vermont's economic vitality by providing a broad array of financing programs to eligible businesses that create jobs and help advance Vermont's public policy goals.

10 V.S.A. § 210 states: The statutory purpose of the exemption for local development corporations in section 236 of this title is **to promote economic development.**

How does VHFA fund its mission?



Quasi-Public Agencies Working with VHFA



Vermont
Bond Bank



vhfa



Vermont
Housing &
Conservation
Board

Private Activity Bond Cap Users

Higher education



Vermont
Bond Bank

Economic development,
agriculture, energy,
manufacturing,
travel/tourism



Municipal needs, schools, public facilities,
water, health care, energy, more

Housing

Affordable Housing Funders



What is Causing Vermont's Housing Shortage

1. Decades of slow housing construction
2. Rising demand – especially since 2020
3. Very low vacancy rates
4. Rapidly increasing home prices
5. Rising construction costs and labor shortages
6. Regulatory barriers and local zoning restrictions
7. Aging and inadequate housing stock
8. Increased homelessness and unmet affordable housing needs
9. Demand for second homes and short-term rentals

Analysis of Vermont Affordable Rental Housing Development Cost Factors



December 2019

Prepared by:

LSA
Neighborhood Fundamentals, LLC

Prepared for:

Vermont Housing Finance Agency
Vermont Housing & Conservation Board
Vermont Department of Housing and Community Development

More Sources = More Cost

- “Higher-cost projects may need to access multiple funding sources, given the funding limits of each individual funding source...”
- “However, there are marginal direct and indirect costs associated with each additional funding source, such as application fees, staff time associated with submitting applications and assembling the financing package, and holding costs associated with incremental increases in the development timeline when funding cycles are not aligned.”

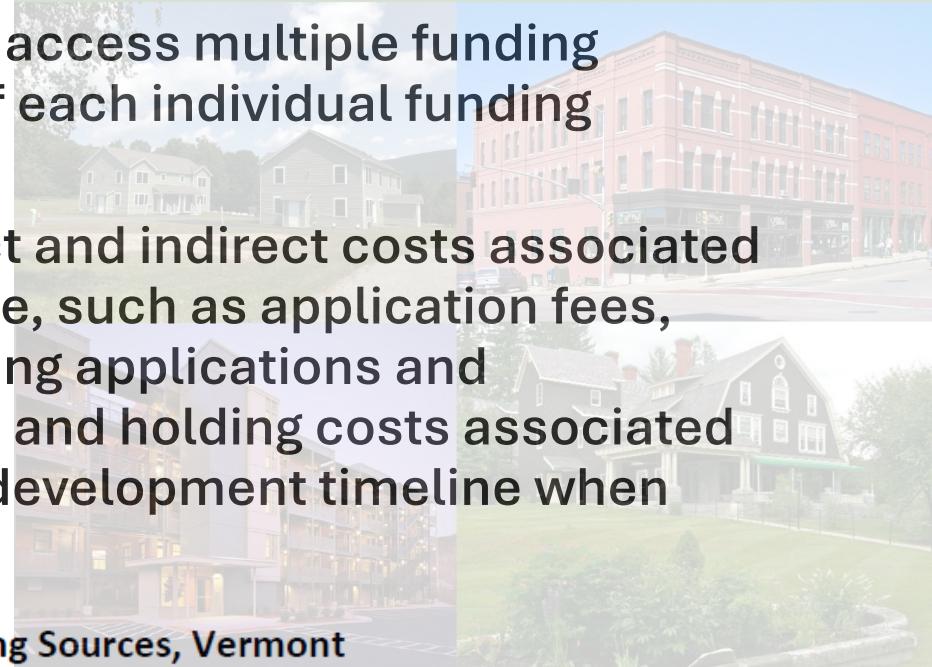


Figure 10. Per-Unit TDC by Number of Funding Sources, Vermont

Number of Funding Sources	Number of Projects	Number of Units	Median Per-Unit TDC
1 to 3	16	790	\$171,746
4 or 5	39	1,178	\$191,456
6 or more	50	1,478	\$253,510
All Projects	105	3,446	\$227,719

Prepared by
Vermont Housing Finance Agency
Vermont Housing & Conservation Board
Vermont Department of Housing and Community Development

(2016 dollars)

Who Does VHFA Help When We Have Subsidy?

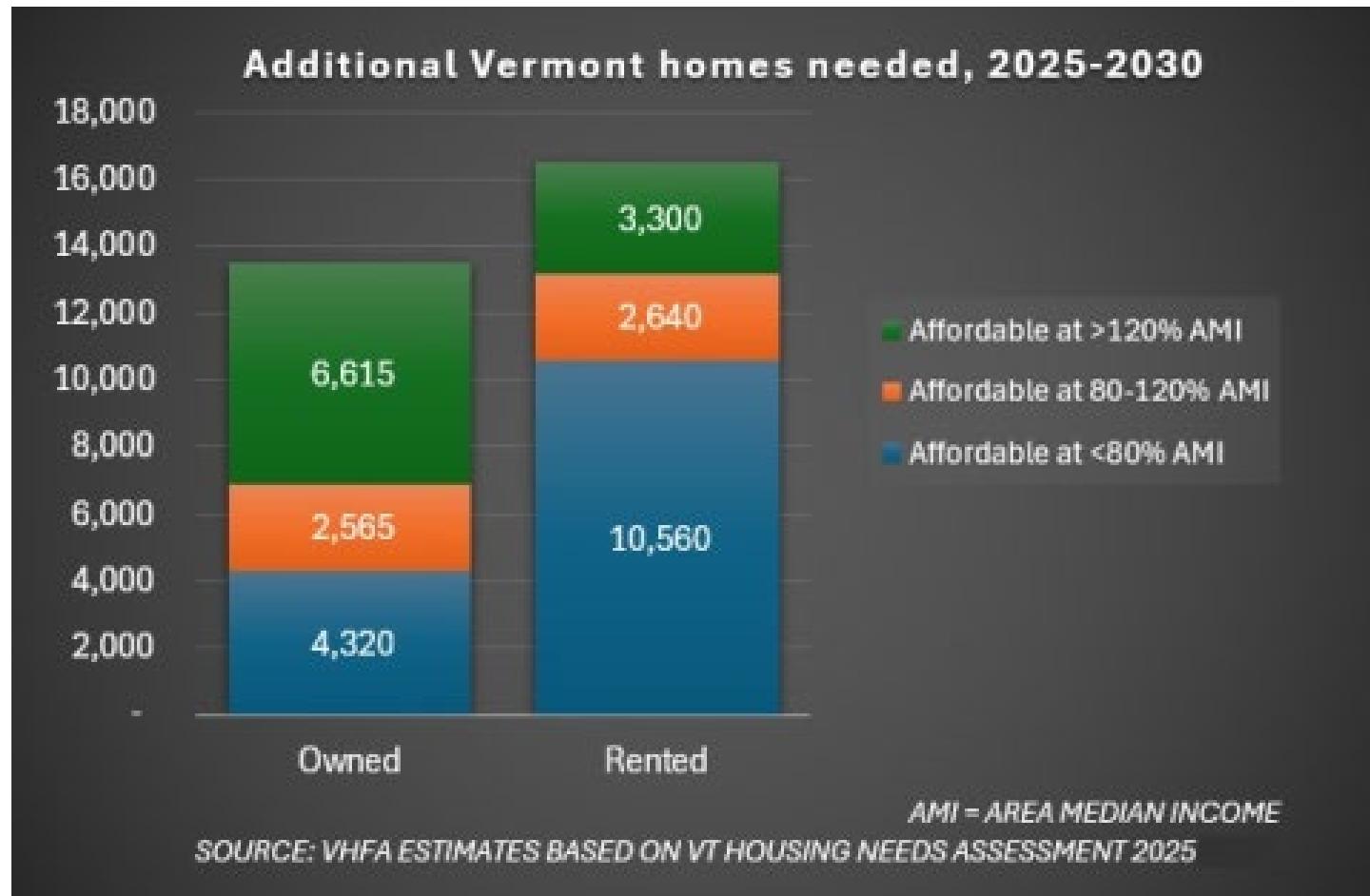
Program	3-Person Income	3 Bedroom Unit
<u>Affordable Rental Programs</u> <ul style="list-style-type: none"> • Chitt, Frank, GI • Washington • Windham 	<u>Affordable Rental Programs</u> <ul style="list-style-type: none"> • \$83,600 • \$79,520 • \$74,640 	<u>Affordable Rental Programs</u> <ul style="list-style-type: none"> • \$2,700 • \$2,297 • \$2,282
<u>Rental Middle Income</u> <ul style="list-style-type: none"> • Chitt, Frank, GI • Addison • All other 	<u>Rental Middle Income</u> <ul style="list-style-type: none"> • \$140,280 • \$125,400 • \$121,248 <div style="background-color: #ffd700; padding: 2px 10px; display: inline-block;">90+% of renters</div>	<u>Rental Middle Income</u> <ul style="list-style-type: none"> • \$4,050 • \$3,622 • \$3,484 <div style="background-color: #ffd700; padding: 2px 10px; display: inline-block;">Luxury prices, few/no listings</div>
<u>Homeownership Middle Income</u> <ul style="list-style-type: none"> • Chitt, Frank, GI • Addison • All other 	<u>Homeownership Middle Income</u> <ul style="list-style-type: none"> • \$195,600 • \$174,150 • \$144,900 <div style="background-color: #ffd700; padding: 2px 10px; display: inline-block;">95% of owners</div>	<u>Homeownership Middle Income</u> <ul style="list-style-type: none"> • \$614,000 • \$549,500 • \$528,500 <div style="background-color: #ffd700; padding: 2px 10px; display: inline-block;">80% of homes sold</div>

Who Can VHFA Help When There's No Subsidy?

(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:

- (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.

What Prices of Homes Are Needed



Structure of a Hypothetical Loan

	VHFA	VEDA
Loan limits	Unlimited	\$5 million
Loan-to-Value maximums	95% for for-profit developers 100% for non-profit developers	40%
Term	30-year standard 40-year for certain affordable	20-year maximum
Typical “spread” over cost of funds	1.5%	2.5%
Cost of funds varies, often based on ratings	Moody's: A1 MP Indenture: Aa1 (0.15-0.30% benefit)	Moody's: A1
State support	None	Moral Obligation

A \$5 million subordinate VEDA loan would be 40% of a \$12.5 million primary loan. Assuming a project put in 20% equity (their own + investor) and that the housing cost \$400k/unit to build, this could support a 40-unit apartment project.

A 30- vs. 20-year loan + VEDA's 1% higher interest + 0.5% higher interest by using a commercial bank would add to the debt service, meaning higher rent, all while using the state's MO.

Why NOT add VEDA to the mix? What's the harm?

- Could potentially add cost (not certain, hard to judge)
- Would require VEDA to hire or train staff in a new arena, where Vermont already has trained staff who do this
- Might require additional use of the state's Moral Obligation
- Could confuse developers and lenders (Where do I go? There are too many programs.)
- Likely would impact VHFA's negotiating power with developers
 - VHFA weighs the benefit to the developer with the benefit to the public. Primary residence units are always a public good, but need to ensure not inflating the market or unduly enriching private entities.
- **Lenders want to lend.**
 - All lenders (private & quasi-) make money off loans.
 - There is no limit to VHFA's lending and no gap in the private lending market.

What VEDA Can Do that VHFA Can't

- Expand financing to small companies working to train their workforce
- Financially support larger workforce training efforts
 - Examples: The [weatherization training center](#) and the [Vermont Construction Academy](#)
- Expand financial support for starting or expanding an off-site construction facility in Vermont
- Seed feasibility and capacity-building grants for expansions of modular housing facilities.
- Optimize the small business credit initiative to support manufacturers, assemblers, or suppliers of modular housing
- Expand or launch a dedicated loan/venture capital track that supports startups in prefab housing, ADUs, or manufacturing technology
- Replicate Colorado's [Innovative Housing Incentive Program](#)

Colorado's Innovative Housing Incentive Program

- **Grant**
 - **Operating expense reimbursement:** Businesses are eligible for a grant that will reimburse up to 20% of monthly operating expenses. Businesses are eligible for up to \$350,000 in grant funding. Businesses in Tier 1 Just Transition Communities will be eligible for up to \$450,000, plus the \$50,000 bonus.
 - **Per-unit incentive:** Housing manufacturers can receive between \$1,500 and \$6,000 for every unit manufactured and installed in Colorado. Units that are affordable and energy efficient will receive a higher dollar amount per unit.
 - **Affordable housing bonus:** Businesses that commit at least 10% of their housing production to deed-restricted affordable housing may be eligible for a \$50,000 affordable housing bonus.
- **Factory development loan**
 - Businesses apply for a concessionary loan to support the development of a new factory or the expansion of an existing factory. It is a competitive application process based on: % of affordable housing units to be produced, energy efficiency of units, the number and quality of jobs created, the proposed terms of the loan, and the financial health and qualifications of the applicant.

The Market VHFA Doesn't Serve...

... housing affordable to households earning **over 150% AMI**

... **non-primary** residences

... privately built **custom** for-sale homes

... homes **in conflict** with the state's housing priorities (sprawl, not up to code)

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