Missing Middle-Income Homeownership Development Program

Table of Contents

I. General Missing Middle-Income Homeownership Development Program Information 3

A. Program Summary 3

B. Program Fees 3

C. Program Eligible Applicants & Homes 3

1. Applicant & Builder Eligibility 3

2. Eligible Homes 4

3. Affordability Definitions 4

4. Program Set-Aside. 4

II. Construction Guarantee 4

A. Maximum Construction Guarantee Award 4

B. How the Construction Guarantee subsidy is placed into development 4

C. Subsidy Retention 5

D. Security & Repayment 5

III. Development Program 5

A. General 5

1. Maximum Award 5

2. Value Gap (referred to as Developer Subsidy in legislation) 5

3. Applicant Affordability Election 5

4. Missing Middle Affordability Gap 6

B. Subsidy Retention or Repayment 6

1. Subsidy Retention Options 6

2. Missing Middle Housing Subsidy Covenant 6

3. Shared Equity 7

4. Other Approaches 7

C. Development Program Limits & Standards 7

1. Application 7

2. Valuation and Appraisal 7

3. Eligible Development Costs and Project Basis 8

4. Qualified Homes 8

5. Modest Home: Cost, Size & Profit Limitations 8

6. Minimum Construction Standards, Design & Cost Reasonability Review 9
7. Location & Site Selection 9
8. Energy Standards & Energy Components 9
9. Marketing Plan & Requirements 9
10. Permits & Readiness to Proceed 10
D. Eligible Household Requirements 10
1. Maximum Income of Eligible Households 10
2. Other Real Estate Owned 10
3. Occupancy Requirement 10
4. Acceptance of Subsidy Retention or Repayment 11
E. Project Priorities 11
F. Timing of Program Subsidy Disbursement and Process 11
G. Required Documents 11
Appendix A: Value & Affordability Gap Example 13
Appendix B: Subsidy Retention Modeling Example 14

I. General Missing Middle-Income Homeownership Development Program Information

A. Program Summary

The Missing Middle-Income Homeownership Development Program will provide financial incentives and resources to support the construction or rehabilitation of homes for purchase by Vermont households earning 120% of the area median income (AMI) or less. The program includes two components:

1. Construction Guarantee that will provide construction loan guarantees for up to 15% of the development costs for program eligible homes.
2. Development Subsidy that provides up to 35% of development costs for program eligible homes.

The following sections will explain how each option works and can work together to support homeownership development. The program limits and standards, which are applicable to both options, follow these descriptions. Builders and developers may use the Development Subsidy without using the Construction Guarantee portion of the program.

The program was created by the Vermont Legislature in 2022, and is funded through the American Rescue Plan Act (ARPA). Program funds must be committed to projects by December 31, 2024 and expended by December 31, 2026.

B. Program Fees

The following fees shall apply to all projects:

Program Activity	Fee
Application Fee 1 – 5 homes	$100
Application Fee 5+ homes	$300
Plan Review	$350 per single home and site design. VHFA will set additional plan review fees for projects with multiple designs and/or sites in consultation with 3rd party reviewer
Construction Guarantee Fee	0.25% - 1.50% of Guarantee
Legal/Recording Fee	$50

C. Program Eligible Applicants & Homes

1. Applicant & Builder Eligibility

Eligible applicants include builders and developers responsible for the creation of the proposed housing units. The developer must be an unrelated third-party developer to the income-eligible homebuyer. The applicant may be a non-profit or private single-purpose corporation. Ineligible applicants include a potential homeowner.

Awards will be based upon the experience and capacity of the project team (development and property/asset management). The applicant must demonstrate the capacity to undertake the development as proposed, either through its own experience and qualifications or by utilizing experienced consultants. Applicants must demonstrate adequate financial capacity to complete the proposed project.

In the event the applicant has multiple projects under construction in any given year, the organization must have the professional and financial capacity to oversee all of the developments proposed. The applicant must demonstrate the development team's experience on previous projects as well as knowledge of residential development in Vermont.

Sufficient depth of experience and recent timing will be considered in order to demonstrate capacity, capability, and program knowledge.

2. Eligible Homes

Eligible homes include either new construction or acquisition and rehabilitation units which will be owner-occupied primary homes.

Eligible home types include the following:
- 1-4 unit houses
- Manufactured or modular houses
- Condominium units
- Houses or apartments owned by a cooperative housing corporation

Qualified home requirements are described in more detail later in these guidelines.

3. Affordability Definitions

Program eligible homes are required to be initially affordable to households at 120% Area Median Income (AMI) or below. Ongoing affordability requirements can be found in the Subsidy Retention or Repayment section of this guidance. Maximum sales prices for eligible AMI levels shall be published by VHFA annually via the agency's Affordability Matrix: https://www.housingdata.org/documents/purchase-price-and-rent-affordability.pdf

4. Program Set-Aside

A minimum of 33% of the funds available for the Missing Middle-Income Homeownership Program shall be used to fund homes that utilize a traditional Shared Equity Model. Shared Equity Homes must meet the housing covenant requirements from 27 V.S.A. § 610, and should reflect the description in the "Subsidy Retention or Repayment" section of these guidelines.

II. Construction Guarantee

A. Maximum Construction Guarantee Award

The Construction Guarantee can provide a guarantee or credit enhancement for builders utilizing a construction loan to complete a project. The award will provide a maximum guarantee equal to 15% of the construction costs for homes proposed to be sold to qualified buyers. This amount may be increased, at Agency discretion, for projects which include at least 50% of the units as affordable.

B. How the Construction Guarantee subsidy is placed into development

The incentive will may offered in three different methods. Applicants should engage VHFA and their construction loan provider to determine final form of guarantee:
- A Certificate of Guarantee: Issued to the financial institution providing construction financing
- Deposit Access: Funds deposited in a financial institution to provide a capital guarantee.
- Draft Access: Funds provided to financial institution to be used as source of construction draws.

C. Subsidy Retention

Upon repayment of the construction loan, the Construction Guarantee lien will be released, or the incentive investment deposited amount will be returned to VHFA. Funds or guarantee capacity will be revolved and used for the next eligible project.

D. Security & Repayment

The Construction Guarantee will be secured by the best obtainable lien; however, the primary construction lender will retain priority.

In each case, whether invested as a guarantee or a direct investment into the project, the Construction Guarantee incentive will remain in place until the construction loan is paid off, but not longer than the maximum term (determined by proposed construction timeline). In most cases, this will mean the incentive benefit will continue supporting the homes until they are sold.

III. Development Program

A. General

1. Maximum Award

Up to 35% of eligible development costs. The combined total of the Value Gap and Affordability Gap cannot exceed the Maximum Award (see terms and case examples below and in Appendix A). Awards shall be determined by the eligible basis of a project, as determined by the development budget in the program limits and standards.

2. Value Gap (referred to as Developer Subsidy in legislation)

The Value Gap is the difference between the cost to build the home, or the cost to acquire and rehabilitate the home, and the Market Value of the home as supported by an appraisal. This subsidy is paid directly to the builder/developer of the home upon proof of sale to an income-eligible homebuyer. An initial Value Gap dictates the amount of the award to the builder/developer.

Value Gap = Total Development Cost - Market Value

An adjusted Value Gap can be determined post-construction closing if construction costs change due to material or labor cost increase/decrease due to market changes. This must be demonstrated by updated cost estimates on existing plans and specifications or adjusted plans and specifications. An updated as complete appraisal needs to be included to demonstrate the final anticipated Market Value. An updated as complete appraisal may also be required if there are substantial design changes that may have impacted the appraised or market value.

3. Applicant Affordability Election

Applicants will elect an “affordable to” income level. The Missing Middle program is focused on serving households between 80-120% of Area Median Income (AMI). Eligible sales prices shall be determined by consulting VHFA’s published affordability matrix: https://www.housingdata.org/documents/purchase-price-and-rent-affordability.pdf

Requests to target AMIs below 80%, either through the program or by combining the program with other resources, will be reviewed by staff and permitted at the discretion of VHFA. The election of “affordable to” affordability levels will determine the amount of subsidy provided in the affordability gap.

4. Missing Middle Affordability Gap

The Missing Middle Affordability Gap dictates the amount of subsidy needed to reach affordability levels for income-eligible households. The subsidy is transferred to reduce the sales price of the home for the next homebuyer.

Missing Middle Affordability Gap = Appraised Value – Affordable Sales Price for Target AMI

Appendix A provides an example of both gap calculations and how the combined sources will refund the construction cost.

B. Subsidy Retention

1. Subsidy Retention Options

The program is intended to provide a long-term source of greater affordability for owner-occupied homes. There are two primary models for meeting program subsidy retention requirements 1.) executing a Missing Middle Housing Subsidy Covenant; or 2.) using a traditional “Shared Equity” model that includes a housing subsidy covenant consistent with 27 V.S.A. § 610. Other models that meet, at minimum, the requirements of the Missing Middle Housing Subsidy Covenant requirements as defined by the enabling legislation may be considered at the Agency’s discretion.

2. Missing Middle Housing Subsidy Covenant

Missing Middle Income Homeownership Development Program subsidy retention requirements shall be applied to all homes that are not participating in more restrictive subsidy retention programs. The default subsidy retention mechanism used by the Agency will be the Missing Middle Housing Subsidy Covenant. The Eligible Household will execute a Missing Middle Housing Subsidy Covenant upon purchasing the home. The Housing Subsidy Covenant will require that the Missing Middle Affordability Gap subsidy is retained:

- Subsidy Remains in Home: An appraisal shall be required prior to setting a price for any future sales of the home. The appraisal will determine the market value of the home, the seller will complete a subsidy recapture worksheet to ensure the future sale of the home is subsidized at an amount not less than the original Missing Middle Affordability Gap subsidy (See case example in Appendix B.); and
- Home is sold to Eligible Household at a price determined by the Subsidy Recapture Worksheet that meets the affordability requirements of the program at the time of sale: Upon resale of the home, the Missing Middle Affordability Gap subsidy will be transferred to a new Eligible Household to reduce the sales price; and
- Right of First Refusal: VHFA will retain a Right of First Refusal through the Missing Middle-Income Subsidy Covenant. VHFA’s Right of First Refusal may be transferred to other affordable housing providers at the Agency’s discretion.

In cases where other subsidy retention program requirements are also required, the most restrictive requirements apply.

3. Shared Equity

Homes in a Shared Equity program will be required to follow the guidelines of an existing and established program, including resale calculations and restrictions. Traditional Shared Equity models limit homeowners to 25% of the home market appreciation equity. The Agency will review the experience and capacity of the applicant to operate the proposed Shared Equity model, including long-term stewardship of the affordability restrictions.

4. Other Approaches

Subsidy retention program that are proposing to use models other than the Missing Middle Housing Subsidy Covenant or traditional Shared Equity may be permitted at the discretion of the agency. Applicants must submit a proposal outlining the model, proposed retention guidelines, and draft subsidy retention documentation/covenants. At minimum, all proposals must meet the duration and affordability goals in the Missing Middle-Income subsidy retention requirements.

C. Development Program Limits & Standards:

1. Application

All developers must submit a full application. Applications must be complete in order to receive consideration for funding. Components of the application may include but are not limited to the following:

a. Project Narrative
b. Demonstration of applicant’s financial and project capacity
c. Development Budget and information about other sources
d. Designs/Drawings
e. Site Map
f. Area Map showing proximity to services, transportation, and employment opportunities
g. Builder Identity of Interest & Statement of Profit Limitation
h. Permits/Approvals
i. Energy Components Narrative/RBES Certificate Draft
j. Exceptions to occupancy requirements

The Agency will publish an application on its website.

2. Valuation and Appraisal

To establish the value of a home for purposes of calculating eligible subsidy amounts. Appraisals shall either list VHFA as an intended user or the appraiser shall provide a letter of reliance.
VHFA requires an appraisal in the following situations:

- To establish initial Market Value for a new affordable home. This appraisal may be shared with the third-party lending institution.
- To establish Market Value for the resale of an existing affordable home.

Appraisals shall be reviewed to ensure they correctly reflect the details of the home and ownership model, including resale restrictions required by all proposed funding sources.

3. Eligible Development Costs and Project Basis

A development budget for each home is required that provides the expected costs of constructing the home. The Agency will review the projected expenses for reasonability.

Include land or property acquisition, hard construction costs, soft construction costs at the discretion of the Agency, and on-site infrastructure.

Maximum awards will be determined on a project basis as determined by eligible expenses for new construction and acquisition/rehabilitation projects.

Eligible expenses include reasonable land acquisition costs, hard construction costs, soft costs including construction loan interest, and on-site infrastructure. On-site infrastructure costs may include installation of roads/sidewalks, storm drainage, retaining walls, retention ponds, multi-modal transportation options, landscaping, and utilities such as water, electrical, and sewer.

The program shall encourage making homes as energy efficient as possible, with a preference for homes that either add or rough-in energy efficiency systems.

4. Qualified Homes

Residential family home with 1-4 units: new construction homes shall be limited to 2 units and must meet the definitions of modest homes in these guidelines. Rehabilitation homes may contain up to 4 dwelling units and will be analyzed by staff for compliance with the modest housing guidelines.

Manufactured or Modular Houses: Manufactured homes may be single or double wide homes. Manufactured homes must be on foundations that meet the requirements of FHA's 4000.1 and HUD 4930.3G handbook. If the home is located in a Manufactured Home Community, the lease for the lot/pad site must be for a term of at least 30 years.

Condominium Units: The program may be used for a portion, or the entirety of a condominium development. Condominiums that include a mix of program-eligible units and market rate units must be comparable in size, of similar quality, and evenly disbursed throughout the development. Applicants must include draft or current condominium association documentation for review by the agency as part of the application package. For new condominium association prefunding a capital reserve in development budget may be allowed.

Homes or apartments owned by a cooperative housing corporation: may be eligible, and will be analyzed similar to the condominium unit, including a review of draft or current cooperative agreements and any resale limitations associated with the cooperative.

5. Modest Home: Cost, Size & Profit Limitations

Eligible homes may not exceed the program modest home maximums published and updated by VHFA and available on the Agency's website.

Square footage calculations shall be based on interior dimensions and must include all living areas, "bonus rooms" and living space. Garages and sheds shall not be included in the square foot calculations but will be reviewed to ensure they are of appropriate scale for the home.

No more than 15% of the home shall be designed to support at-home commercial or business purposes.

Homes lot sizes should be consistent with surrounding properties and local zoning guidelines. New construction projects should generally include less than 2 acres per home. Existing homes should be less than 10 acres and generally not be sub-dividable.

6. Minimum Construction Standards, Design & Cost Reasonability Review

Builders must submit construction plans and specifications, including site plans, elevations, floor plans, and systems. VHFA staff, or a third party at the discretion of the agency, will review plans to ensure program guidelines, and to the extent applicable any local or state codes. Applicants must demonstrate both state and local guidelines are being met and shall provide proof of compliance with local code and zoning regulations. Design review will include landscaping, grading, and other site work.

As part of the design package, builders must submit cost estimates as part of the development budgets. These estimates will be reviewed for reasonableness of costs as well as for practicality for modest construction (See Value Gap language above).

The following also applies for construction and design review:

- Home design should be completed by a qualified professional. At the discretion of VHFA, projects may require review by a qualified engineer or architect professional.
- Home and site designs will also be reviewed to determine if any improvements or components that are not necessary for residential use are contributing to excessive cost increases (large decks, pools, and other non-residential amenities).

7. Location & Site Selection

Proposed sites will be analyzed by staff to ensure they are contributing to existing development and settlement patterns. Applicants must demonstrate that the proposed site and location are complimentary to the community development patterns and plans for the area. Project applications should demonstrate building sites that locate homes in proximity to employment, transportation, services, and other amenities.

8. Energy Standards & Energy Components

Each home must meet Vermont Residential Building Energy Standards. Applicants are requested to include a summary of unique and notable energy efficiency measures, or carbon reduction design or material selections.

9. Marketing Plan & Requirements

A marketing plan, specifically describing how the affordable homeownership units will be marketed. Applicants must demonstrate a marketing plan that reaches underserved populations. A HUD Affirmative Fair Housing Marketing Plan is required for developments of five or more homes in the same sub-division. https://www.hud.gov/sites/documents/935-2B.PDF

All applicants will be required to submit market data which establishes the need for the proposed housing within the market area in which the project is planned. The market data must at minimum demonstrate the current supply of similar housing, the past sales history of similar housing, and the growth of the market area population as it relates to the planned housing development.

10. Permits & Readiness to Proceed

Projects must identify the necessary permits to complete the project as proposed in their application. VHFA staff will review the project's readiness to proceed, in part, by reviewing the proposed timing of permits, progress of the applicants in obtaining applications, and applicant's experience in obtaining similar permits in past projects.

D. Eligible Household Requirements

Applicants are responsible for ensuring homebuyers meet the requirements of the program, and will be required to execute a certification that they have reviewed and documented the following requirements are met:

1. Maximum Income of Eligible Households

The maximum income of the initial Eligible Household will in no case exceed 120% AMI.

Maximum income levels are determined by reviewing the gross income of each owner, and any non-borrowing spouse or legal domestic partner. Gross income is the sum of all earnings (wages, salaries, profits, interest payments, rents, etc.), before any deductions or taxes.

Income qualification may be certified by one of three methods:

- signed by mortgage lender who has reviewed income documentation and is qualified in complying with affordable and government mortgage programs; or
- a qualified third part licensed Homeownership Center; or
- complete the VHFA Federal Act Income Worksheet, providing supplemental information to verify worksheet submission.

2. Other Real Estate Owned

At the time of the loan closing date, no purchaser or non-borrowing spouse can hold an ownership interest in any real estate other than the residence securing the first mortgage loan, with the exception of the following:

- Vacant land.
- Any property unsuitable for year-round occupancy and that has never been occupied as a primary residence.
- Commercial/industrial property that has no residential rental unit(s).
- Being on the deed of a living parent's home, provided the parent(s) are residing in the property and neither the borrower nor non-borrowing spouse has lived in the property as his/her principal residence and/or claimed any tax benefit for the property.

3. Occupancy Requirement

Homes subsidized by the program must remain owner occupied under the terms of the subsidy covenant. Purchasers must occupy the property as their principal residence on a full-time, year-round basis, within 60 days after the loan closing date. Owner shall occupy the Property for at least eight (8) months of each year. If Owner desires to lease or vacate the property for a period exceeding four (4) months in one year, Owner must seek prior written approval from VHFA and/or the administrator of a participating Shared Equity provider. Occupancy by Owner's family members or dependents shall be deemed occupancy by Owner. Depending on the circumstances, additional time may be acceptable for military personnel on active duty.

Applicants that are electing a Shared Equity model may also follow their existing Exceptions to Occupancy practices, subject to review and approval by the agency during the application process.

4. Acceptance of Subsidy Retention:

Applicants shall provide potential homebuyers drafts of the subsidy covenant prior to entering into a purchase and sales agreement.

E. Project Priorities

VHFA will consider the following Project Priorities when analyzing applications. Project applications should demonstrate how each proposal takes into account these priorities and provide documentation to support achieving the priorities. The number of priorities each proposed project meets, along with the degree to which priorities are met or exceeded, will be factored into consideration for recommendations and especially competitive award rounds:

- Project location maintains historic settlement patterns or contributes to smart growth, and is within close proximity to public transportation, employment opportunities and services.
- Projects located in areas of Vermont that have a history of underinvestment in affordable homeownership opportunities.
- Project includes the use of existing housing as part of a community revitalization plan, rehabilitation of buildings of historical significance, or new construction within an area being targeted for growth (demonstrated through a housing market and needs survey which shows a project is located in an area of high need).
- Project incorporates construction innovations to improve energy efficiency (the degree to which projects exceed the RBES standard and either meet or approach net-zero or passive house) or increase construction cost efficiencies.
- Project proposes to restore the natural landscape or mitigate a brownfield site.
- Project proposes with deeper affordability and longer duration of affordability requirements
- Project leverages other scarce resources related to housing, infrastructure, or community development.

F. Timing of Program Subsidy Disbursement and Process

Development Program subsidies will be provided as part of the closing process, upon certification of the eligibility of both the home and the homebuyer under these guidelines. If the homebuyer is using a lender, VHFA may provide funding directly to the lender to provide at closing. At the discretion of the agency, funds may also be provided to a qualified insured closing agent who is conducting the closing.

G. Required Documents:

The following documents will be required on each Missing Middle investment:

- **Homeowner Subsidy Covenant:** Details the long-term requirements of the funding, including how the subsidy will be retained in the home or repaid upon any future sales.

- **Compliance Affidavit for Missing Middle:** Signed by the developer/builder and the homebuyer, certifying that the program provisions in these guidelines have been met.

- **Subsidy Recapture Worksheet:** Used to determine the maximum sales price permissible for a program subsidized home, per the restrictions identified in the Subsidy Covenant.

Appendix A: Value & Affordability Gap Example

Value Gap Calculation	
Cost to Construct Home	$400,000
Appraised Value	$375,000
Value Gap	*$25,000*
Missing Middle-Affordability Gap	
Appraised Value	$375,000
AMI Sales Price	$319,500
Affordability Gap	*$55,500*
Final Sources	
Final Sales Price	$319,500
Total Missing Middle-Income Award	$80,500
Total Final Sources	*$400,000*

Appendix B: Subsidy Retention Modeling Example

Equity Calculation	Amount
New Appraised Value	$400,000
Original Appraised Value	$375,000
Gain (loss) in Home Value	$25,000

Subsidy Retention	Amount
Original Subsidy	$55,500
Loss in Home Value	$0
Subsidy Remaining	$55,500

Sales Price Determination	Amount
New Appraised Value	$400,000
Original Affordability Subsidy	$55,500
New Sales Price	$344,500

Should the price of the home drop between the time of purchase and the sale of the home, the seller will be held harmless up to the amount of the affordability subsidy provided.

Loss of Value	Amount
New Appraised Value	$350,000
Original Appraised Value	$375,000
Gain (loss) in Home Value	($25,000)

Subsidy Retention when there is loss of value	Amount
Original Subsidy	$55,500
Loss in Home Value	($25,000)
Subsidy Remaining	$30,500

Sales Price Determination	Amount
New Appraised Value	$350,000
Remaining Affordability Subsidy	$30,500
New Sales Price	$319,500