Vermont Housing Investment Fund Policy, Goals & Priorities

Housing Investment Fund Goals

The Vermont Housing Investment Fund (VHIF) has three goals related to community development capital in Vermont: 1.) provide critical "missing capital" that fills gaps not being met through traditional affordable housing resources; 2.) activate and leverage new capital that expands Vermont's financial resources for affordable housing development; and 3.) provide a platform for non-traditional and traditional affordable housing resources to work together.

The fund will be a resource that seeks to simultaneously be responsive to emerging challenges in Vermont's housing development ecosystem and seek to support innovation in housing development. VHFA will recalibrate the goals, as well as program guidelines and priorities from time to time to best meet Vermont's community development needs.

Compliance with general Agency Guidelines & Standards

While VHIF loans will have unique considerations, all projects are required to demonstrate compliance with VHFA's loan underwriting guidelines and standards that apply to multi-family rental housing development of homeownership development, as applicable. Project applicants should refer to VHFA's general underwriting standards for key definitions, general project requirements and standards.

Projects that are funded using certain sources, for example Capital Magnet Funds, may be subject to other external guidelines and standards.

Housing Investment Fund Project Priorities

The following are current priorities of the fund:

1. Projects that assist the funding in meeting Target Investment Area thresholds will receive priority (projects locations may meet the definition of more than one of these areas):
    a. **55% in Areas of Economic Distress** as defined by the CDFI Fund.[1]
    b. **55% in Rural Areas** as defined by the CDFI Fund.[1]
    c. **35% in High Opportunity areas** as defined by the CDFI Fund.[1]
2. New Construction, or addition of net new affordable housing units: while rehabilitation projects may be considered on a case-by-case basis, VHIF is focused on production of new units of housing.
3. High impact community development projects in community development designated areas, town, or village centers. With additional priority for those that include historic rehabilitation or mixed use (commercial, community, or office space): To meet this priority projects should be located within areas identified through Vermont's State Designation Program and preserve a historically significant building and/or create a mixed-use building.
4. Projects that demonstrate development cost efficiencies: Projects that can show measurable reduction in cost and resource use.

[1] See Definitions section at the end of this document for further information.

5. Projects that support innovation in design, development team approaches, or construction methods that may serve as a model for increasing housing statewide.
6. Project that are not using other types of “gap” or subordinate financing: Projects that are not already leveraging Community Development Block Grant, HOME, National Housing Trust Fund, and other traditional sources of state/federal gap funding.
7. Projects that have gaps that cannot be filled by other sources due to timing constraints, or that have maximized other available sources: Projects experiencing funding gap that jeopardize the viability of the project or could incur timing delays that increase costs will meet this priority.
8. Projects in areas that have experienced historic underinvestment, and/or rural communities where project scale is a determent to all housing development: VHFA staff will continuously monitor VHIF investments and seek to achieve statewide balance in meeting housing needs. While the agency will generally seek to promote development at scale to achieve cost efficiency, the agency will also seek to support projects with lower scale that meet rural community needs.
9. Projects that are using VHFA as the permanent and construction debt source.

Project Guidelines and Requirements

Application Process:

Projects seeking VHIF Funding that are also applying for Low-Income Housing Tax Credits (LIHTC) or VHFA construction/permanent financing may request VHIF by including the program funding as part of the proposed funding sources.

Projects that are not seeking other funding resources from VHFA should reach out to the agency to determine what materials will be required for a formal application.

Eligible Multi-Family Activities and Capital Stages:

Applicants may submit requests for a range of proposed multi-family development activities. Investment of VHIF funding will be considered at each capital stage of development, as defined by the following four stages:

- Predevelopment
- Acquisition
- Equity Bridge
- Subordinate Permanent Financing, which may include including funds as a Construction source

The agency will consider requests from sponsors to have funds stay in a transaction for multiple capital stages. For example, a Pre-Development Loan may stay in the deal through Construction and convert to Subordinate Permanent Financing

Single-Family Homeownership Development:

Applicants seeking funding for the State Homeownership Credit or Missing Middle-Income Homeownership Development Program may also be eligible for VHIF Funding for eligible project costs under each program’s requirements. Homeownership requests will be considered on a case-by-case basis.

Maximum Award Amount

VHIF award maximums will be subject to the lower of the following:

- $400,000 per-project limit at any single capital stage applying prior to 7/1/2023. Project applying after this date may request up to $500,000 for an individual project.
- 25:1 Leverage Radio Requirement: VHIF funding must be matched by other resources at a rate of $25 of other private/public sources for each $1 of VHIF funds.
    - Applicants may calculate this ratio by taking all funding sources used to develop housing units with maximum rents at or below 120% AMI and dividing by 25.

Interest Rate:

The Housing Investment Fund has an initial underwriting rate of 3.5%. Projects should use that rate as an initial assumption in the proforma. Based on project financials, staff may recommend the project be eligible for a subsidized rate.

A project's location and other characteristics may restrict the amount of interest rate subsidy the agency is able to provide. For example, projects located in an area that can only be served by a VHIF investment that requires a certain interest rate may not be eligible to receive a rate below the initial underwriting rate. Sponsors should consult with VHFA about the agency's ability to provide a subsidized rate before assuming a lower rate than the initial underwriting rate.

Analysis of Maximum Subsidy and Investment Structure:

To determine the structure of VHFA's VHIF investment, each multi-family project shall be run through a step of scenarios to determine the terms of the investment. Projects receiving VHIF may not have a Debt Service Coverage Ratio in excess of 1.45.

VHFA staff, in collaboration with sponsors, will perform a form of subsidy and cash flow analysis to determine the terms and structure of the VHIF investment:

- Calculate an amortizing loan at agency minimum starting interest rate (see Interest Rate section for more information) for the term of the primary loan or earliest expiring affordability restrictions
- Calculate an interest only payment, with a balloon due at year 17, 30, or 40 depending on the term of the primary loan.
- Calculate a principle only payment amortized over a term not to exceed 30 years
- For projects that meet a high number of program priorities, and limited financial capacity, the agency may consider a no-interest and non-amortizing structure.

In each case the VHIF loan will be payable upon expiration of the term, project refinance, or change of ownership. Projects will not be subject to prepayment penalties; however, prepayment does not release the recipient from meeting the other requirements of the program (affordability restrictions, etc.). Project sponsors should not assume that VHIF funds will be automatically extended or refinanced into subsequent resyndications or project financial repositioning.

Minimum Affordability Requirements:

Projects must meet VHFA's general affordability guidelines. In addition to the general agency requirement the following applies:

- At least 20% of the units in each multi-family development funded by VHIF must be affordable to households at or below 80% AMI.
- At least 20% of the Affordable Units supported by the program must serve households at or below 50% Area Median Income.

Projects receiving VHIF funds should consult with VHFA before designating any units to exceed 120% AMI or be completely unrestricted.

Term of Affordability

Each project is required to execute a VHIF Agreement that preserves the affordability requirements of the affordable units for a minimum of 10 years. Additional affordability requirements by the agency (or other funders) may exceed the VHIF affordability period and shall supersede the VHIF requirement.

Eligible Investments & Terms:

VHFA will seek investments that align with the goals of the fund, and its existing programs. However, the goal of the fund is to remain flexible and responsive to financing the creation of affordable multi-family and single-family housing.

Investments will be accepted by institutional investors, philanthropic organizations, businesses, and individuals:

- Grants to the agency
- Short-term investments (1-3 years)
- Long-term investments (3+ years)

In most cases, VHFA will seek investments that are targeted at serving the entire state. However, the agency may also set up geographically targeted funds to serve specific areas.

Revolving Fund:

The Vermont Housing Investment fund shall be a revolving fund. Repayments of loans shall be used for future projects that meet VHIF goals, requirements, and priorities.

Reporting to Investors:

No less than annually, but more often depending on the investment agreements, investors in the Housing Investment fund shall receive an annual report outlining investments in the projects. Recipients of funding from VHIF shall support information requests, inclusion of VHIF investors in public events like ribbon-cuttings, and provide project pictures to help with investor reporting.

Documents & Agreements

Loan Note

Capital Magnet Fund Regulatory Agreement

Definitions:

Areas of Economic Distress - as defined by the Community Development Financial Institutions (CDFI) Fund of the U.S. Treasury, in 2021 or 2022. Areas of Economic Distress are tracts that meet at least one of the following criteria:

- (i) At least 20% of Very-Low Income households (50% of AMI or below) spend more than half of their income on housing; or
- (ii) Unemployment rate is greater than 1.5 times the national average; or
- (iii) The tract is a Low-Income Housing Tax Credit qualified census tract; or
- (iv) Greater than 20 percent of households have incomes below the poverty rate with a rental vacancy rate of at least 10 percent; or
- (v) Greater than 20 percent of households have incomes below the poverty rate with a homeownership vacancy rate of at least 10 percent; or
- (vi) Tract is an underserved rural area.

Economic Distress status is among the selection criteria for the CDFI Fund's Capital Magnet Fund application.

Rural Areas - as defined by the CDFI Fund, in 2021. Rural Areas are tracts that meet the following criteria:

- (i) A census tract outside of a metropolitan statistical area, as designated by the Office of Management and Budget; or
- (ii) A census tract in a metropolitan statistical area, as designated by the Office of Management and Budget, that is outside of the metropolitan statistical area's Urbanized Areas as designated by the U.S. Department of Agriculture's Rural-Urban Commuting Area Code #1, and outside of tracts with a housing density of over 64 housing units per square mile for USDA's RUCA Code #2.

This classification can be used in the CDFI Fund's Capital Magnet Fund application to determine whether a census tract is Rural or Non-Rural.

High Opportunity Areas - as defined by the CDFI Fund, in 2021. High Opportunity Areas are

- (i) tracts designated by the Department of Housing and Urban Development (HUD) as a "Difficult Development Area" (DDA) during any year covered by an Enterprise's Underserved Markets Plan or in the year before a Plan's effective date, whose poverty rate falls below 10 % (for metropolitan areas) or 15 % (for non-metropolitan areas). Or
- (ii) an area designated by a state or local Qualified Allocation Plan (QAP) as a high opportunity area whose poverty falls below 10% (for metropolitan areas) or 15% (for non-metropolitan areas).

High opportunity areas are used to determine eligibility for extra credit under Duty to Serve.