

**Testimony of David S. Adams
Chief of Program Operations
Vermont Housing Finance Agency**

**Commission on Financing and Delivery of
Affordable Housing and Conservation**

Commission meeting: August 20, 2010

I: Key legal requirements and Agency Mission:

VHFA was created in 1974 and is governed by its organizing statute, 10 VSA Chapter 25, and by various state and federal tax laws, most significantly 26 USC 142 (tax-exempt multifamily housing bonds), 26 USC 143 (tax-exempt single family bonds), 32 VSA 5930u (state housing tax credits), 26 USC 42 (federal housing tax credits) and 26 VSA 2214(c) (IORTA funds), and their related regulations.

Our mission is:

“TO FINANCE AND PROMOTE AFFORDABLE, SAFE, AND DECENT HOUSING OPPORTUNITIES FOR LOW- AND MODERATE-INCOME VERMONTERS”.

VHFA carries out its mission under the following major program activities:

1. Single Family Mortgage Purchase Program
2. Multifamily Housing Development Loan Programs and Project Underwriting including: Predevelopment, Construction and Permanent Loans
3. Multifamily Program Compliance Monitoring and Loan Servicing
4. HUD HAP Contract Administration
5. Federal and State Low Income Housing Tax Credit Program
6. Compliance monitoring and program administration of the Housing Tax Credit and Supplemental Programs.
7. Neighborhood Stabilization/Home Acquisition and Rehabilitation Program
8. Special Needs Housing Initiatives
9. VHFA is a significant resource for data collection, and analysis in support of and the implementation of statewide housing policy and housing initiatives.
10. Capital Access

VHFA funds its operations solely from income derived from interest and fee income from its lending activities. It receives no funding from the State.¹ Summaries of the above activities are provided as an exhibit to this Testimony.

The major programs of the Agency are governed by legal requirements set forth as follows:

Federal and State Housing Credit Programs are governed by 32 VSA 5930u (state housing tax credits), 26 USC 42 (federal housing tax credits)

- Restricts multifamily housing projects receiving credits to meet certain income and rent limitations:

¹ State Housing Credits of up to \$500,000 per year have been authorized by the State through FY 2011 to support multifamily and single family developments and are administered by VHFA.

- 20% of units must be rented and affordable to households with incomes not to exceed 50% of area median income **OR**
- 40% of units must be rented and affordable to households with incomes not to exceed 60% of area median income.
- Projects must remain in compliance for 15/30 years, or in perpetuity in the case of Allocated Credits.
- Return on investments by the developer is subject to review and has limitations.
- Resale of the projects is subject to Options or Right of First Refusal to the Agency or its designee to provide assurance of long-term preservation of the units in the affordable housing inventory.
- These projects are required to meet generally the same criteria as projects financed with tax-exempt bond funds.

Qualified Allocation Plan – Sets forth the process and criteria under which specific housing developments will be selected to receive Homeownership Tax Credits, State Affordable Housing Tax Credit, and Federal Low Income Housing Credits.

- Plan incorporates the requirements of Section 42 and the Federal Housing Credit Program with the housing priorities determined by the State of Vermont through the adoption of the State’s Consolidated Plan for Housing and Community Development.

Mortgage Revenue Bond Rules (26 USC 143) – Govern the Agency’s Single Family Mortgage Purchase Program:

- Imposes maximum purchase price limits
- Imposes maximum household income limits
- Requires loans to be made to first time homebuyers only, with exceptions in targeted areas of the State.
- The rules for issuing these kinds of bonds are found in the Agency’s governing statute and US Internal Revenue Code Section 143.

Multifamily Housing Bonds - the Agency issues tax-exempt private activity bonds to finance acquisition, construction and rehabilitation of multifamily rental housing projects.

- Most of these bonds are tax-exempt and must meet the requirements of US Internal Revenue Code Section 142 including the requirement that at least 20% of a project’s residents have income not more than 50% of the area median income or that at least 40% of residents have income not more than 60% of area median income.
- In addition, the Agency issues tax exempt conduit housing bonds for non-profits that develop housing as part of their charitable mission

II: BENCHMARKS SET FORTH IN E.810.4 – HOW DOES VHFA MEET STATE REQUIREMENTS?

A: Assembling multiple funding sources to address a full range of housing needs,

In Vermont and nationally, it is not unusual for multifamily housing projects to seek funding from multiple sources, frequently up to 8 to 12 sources, since no one source has the capacity to meet the demand at any given point in time. This is a reality not unique to Vermont. VHFA provides loans funded from bonds issued by the Agency or from its own funds, most frequently combined with the issuance of Federal and/or State Housing Credits. A common application is used between the Vermont funding agencies. VHFA underwrites with a focus on subsidy layering, credit risk, financial feasibility, and the physical construction of the projects, in addition to compliance with bond and tax credit rules and regulations. Underwriting findings are shared with and coordinated with other funders as we work toward funding approvals, and loan closings.

In as much as demand exceeds funding availability each year, we have always been successful in deploying all funds available for projects ready to proceed. VHFA has never returned Federal Housing Credits back to the national pool, and has frequently been successful in applying for and receiving additional credits from the pool as returned by other States. If additional funding were made available, more projects could proceed and more of the State's housing needs would be met. All projects funded meet a very high degree of State wide housing priorities as noted in the following sections.

B: Leveraging

- Bonds issued by VHFA are sold to private investors. Since inception VHFA has issued bonds totaling \$2,956,540,043 of which \$783,853,073 is outstanding.
- Tax Credits are sold to private investors and are a major source of funding for housing development. Over the past 3 years, for every \$1 of tax credits awarded, another \$8.60 of private equity was invested into the affordable housing projects. For the period FY08-FY10 VHFA awarded \$7.95 million in Tax Credits generating in investment of private capital of \$68.27 million.
- VHFA participates with the Agency of Commerce and Community Development in the administration of Neighborhood Stabilization Funds. The State received a total of \$19.6 million of Housing and Economic Recovery Act funds. Of that, VHFA administers \$7.0 million for the Home Acquisition and Rehabilitation Program (HARP). VHFA acquires single family homes that have been foreclosed upon, rehabilitates each home with a focus on energy efficiency, and resells the homes to income eligible homebuyers. Sales proceeds will be recycled to acquire additional properties until 2013 to leverage the original \$7.0 million to a goal of \$10 million over the next three years. The NSP program requires all States receiving these funds to fully obligate those funds by no later than 9-30-2010 or return them to HUD. Vermont was one of the first states in the country to fully allocate the NSP funds it had received within the first 9 months of the program start up.

C: Serving Vermonters with lowest income and special needs

- VHFA has played and continues to have a leadership role in the Interagency Council on Homelessness and the state's two Continuums of Care. We are in

IV: Are Benchmarks being met:

VHFA believes we are achieving a very high percentage of the Statewide Housing Priorities. Some comments in support of this statement have been noted above. Further evidence is offered as follows:

Of significant note, VHFA has more than met the targeting goals in each of its programs, while maintaining well performing loan portfolios for our single family and multifamily programs, in spite of current economic conditions.

- Since 1974, VHFA has made about 27,000 loans to Vermonters purchasing primary residences. The Agency has 4,684 loans outstanding with balances totaling approximately \$450 million. 90% of our single family homes loans are made to households at or below 100% of median income, and 63% were at or below 80% of median income. VHFA typical borrower has an average household income of \$48,000, and an average loan of \$140,000, and a purchase price of \$153,000.
- Despite serving only low- and moderate-income Vermonters, at the end of FY09 the national foreclosure rate was 4.3%, almost double Vermont's rate of 2.2% according to the Mortgage Bankers Association. At the same point, VHFA's foreclosure rate was just 0.9%.
- Loan losses continue to be low (<\$400,000 in the single family portfolio for FY2010 est.) and no losses in the multifamily portfolio.
- Of the 5,068 tenants housed in projects served by VHFA, 48% have household incomes at or below \$15,000/year, and 78% have incomes at or below \$25,000 this past year.

The biggest challenges to VHFA at present is the current conditions in the municipal bond and tax credit markets.

- Single Family Mortgage Purchase Program – Current low interest rate environment has made us uncompetitive with conventional rates. VHFA, along with most other HFAs in the country are waiting on an announcement from the US Treasury and from Fannie Mae/Freddie Mac for an extension and better pricing on their New Issue Bond Program which was created in 2009 by the US Treasury in response to the general inability of state HFAs to find reasonably priced sources of bond financing. As mortgage rates have generally gone down, the NIBP pricing has remained fixed, making these funds too expensive in comparison to rates available from other lenders.
- Multifamily Loan Program – As with the single family program, VHFA is reliant on the Treasury Bond Program. Interest rates for multifamily are good, but unless the Treasury Bond Program is extended beyond the current December 16th, 2010 deadline to issue bonds, VHFA may not have any projects that can be ready and that meet the requirements of the NIBP Program.
- Tax Credit Markets - Although the national markets have begun to show some sign of recovery, the number of investors in the market is still low as is pricing.

IV: Are Benchmarks being met:

VHFA believes we are achieving a very high percentage of the Statewide Housing Priorities. Some comments in support of this statement have been noted above. Further evidence is offered as follows:

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We are fortunate to have a local Equity Fund (Green Mountain Equity Fund) established and administered by Housing Vermont, and comprised primarily of investment from Vermont banks and National Life . Total equity investment available from Equity Fund IV is \$18 million, all of which has or will be committed with the current pipeline projects.

V: Other states and how does VHFA compare

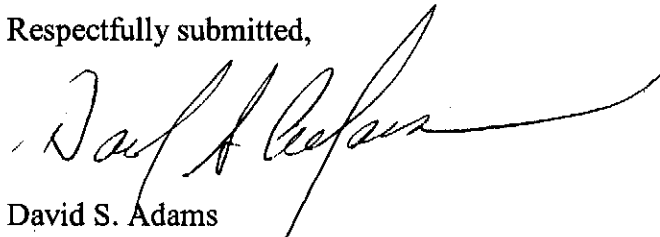
State HFAs vary widely in their characteristics, including age, size, relationship to state government, program authority, and administration. HFAs administer a range of federal affordable housing programs. They also run a variety of community and economic development programs and other programs, such as job training, weatherization, and low-income heating cost assistance. HFAs often further contribute to the supply of affordable housing by providing technical assistance, capacity building, and other program support to nonprofit housing providers.

Most HFAs play a lead role in developing their state's Consolidated Plan—a requirement for participation in HOME and other federal housing programs. Many HFAs also administer state funds provided through annual appropriations, dedicated revenues, and other sources.

VHFA does not administer all the programs assigned to other HFA's, but what does come under our jurisdiction is done very well relative in relative terms. A copy of the most recent annual survey conducted by the National Council of State Housing Agencies can be made available upon request.

VHFA is grateful for the opportunity to provide this initial testimony to the commission and will be prepared to respond to any questions the commission may have and to provide additional information as requested.

Respectfully submitted,



David S. Adams
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Vermont Housing Finance Agency