

APPENDIX 9

VHFA PROGRAM DESCRIPTION

The Vermont Housing Finance Agency (VHFA) was established in 1974 to finance and promote affordable housing opportunities for low- and moderate- income Vermonters. VHFA's primary activities include:

1. Single Family Mortgage Financing;
2. Multifamily Housing Development and Loan Origination/Project Underwriting;
3. Multifamily Program Compliance Monitoring and Loan Servicing;
4. HUD HAP Contract Administration;
5. Housing Tax Credit and Supplemental Program Administration;
6. Neighborhood Stabilization Home Acquisition and Rehabilitation Program;
7. Special Needs Housing Initiatives;
8. Housing Policy Analysis; and
9. Capital Access

VHFA currently operates with a staff size of 36 (FTE's) and receives no general appropriation of State funds. Its loan programs are funded primarily through the issuance of tax-exempt bonds. VHFA operates on the net funds generated from fees and interest income that amounts to the difference between its cost of funds and the interest rate charged on its investment in loans. Bonds issued by VHFA are secured by the cash flows of the underlying loans made by the Agency, and are not obligations of the State of Vermont.

1. Single Family Mortgage Financing

VHFA provides homeownership financing by purchasing loans from participating lenders around the state (see VHFA.org for a listing). Participating lenders include banks, credit unions and mortgage companies. In FY 2009 VHFA began transitioning from purchasing whole loans for our single family portfolio, to a mortgage backed security structure through Fannie Mae, Freddie Mac and Ginnie Mae. Since the fall of 2008, VHFA's single family program has been sidelined by the collapse in the financial markets and federal monetary policy. Production for FY 2009 and FY 2010 are unusually low as a result. At the point when interest rates increase to the degree tax-exempt investments become meaningful to investors, VHFA's single family program should return to more normal volumes at around \$100 million per year.

Prior to May 1, 2009, VHFA held all loans in its portfolio. The loans held by VHFA secured payment of the bonds. Beginning May 1, 2009, VHFA began to work with U.S. Bank Home Mortgage MRBP Division (U.S. Bank) where U.S. Bank is VHFA's master servicer. U.S. Bank purchases loans originated by Vermont lenders under VHFA program requirements. The loans are then swapped for Fannie Mae Mortgage Backed Securities or Ginnie Mae Securities. The securities secure the bonds.

VHFA's portfolio

Since 1974, VHFA has made about 27,000 loans to Vermonters purchasing primary residences. The current portfolio of single family loans is 4,684 with a loan balance of approximately \$450 million. Attachment A includes several charts that provide a historical context for VHFA's loan portfolio and performance. VHFA's lending activity covers the entire state, as can be seen in Attachment B.

Over the past five years VHFA has assisted 2,980 households to purchase a home with \$410.4 million in mortgages. The following is breakdown by fiscal year:

7/1/2005 – 6/30/2006	778 households	\$99.9 million in mortgages
7/1/2006 – 6/30/2007	937 households	\$134.0 million in mortgages
7/1/2007 – 6/30/2008	865 households	\$124.0 million in mortgages
7/1/2008 – 6/30/2009	287 households	\$37.5 million in mortgages
7/1/2009 – 6/30/2010	113 households	\$15.0 million in mortgages

Production reports by program for Fiscal Years 2005 through 2010 are included as Attachment C.

VHFA's customers

Since home buying is only appropriate for households with adequate incomes to support a purchase, federal rules allow Mortgage Revenue Bond (MRB) funds to be used on households with up to 140% of Area Median Income. Despite this flexibility, in fiscal year 2009, 90% of loans made by VHFA were made to households at or below 100% of median income, and 63% of its borrowers were at or below 80% of median income. VHFA's typical borrower has an average household income of \$48,000, borrowed an average loan amount of \$140,000 and purchased homes with an average purchase price of almost \$153,000. Comparatively, the average purchase price of homes in Vermont, based on transfer tax returns for 2009, was \$217,500.

VHFA serves the state by providing home loans with lower interest rates than are normally available through conventional lenders. Because of these lower rates Vermonters save money every month when making their mortgage payments. VHFA has studied the actual loans made since 1980 and compared the interest rates VHFA borrowers were charged to the conventional rates available the month the loan was made. Each year, low- and moderate-income Vermonters have cumulatively saved millions of dollars in interest payments that would have been charged had VHFA's discounted rate not been available. Taking actual payoff histories into account (and not assuming these savings are realized for a full 30 years), VHFA's single family lending has saved Vermonters over \$107.8 million.

The "customers" of VHFA's single family programs extend beyond the thousands of households who currently have a VHFA loan, or were financially helped when they used a VHFA program to buy their first home. VHFA believes that educating and training Vermont's housing professionals is imperative to a healthy housing economy. Because of this, VHFA's homeownership staff regularly conducts trainings to Realtors, lenders, and other housing

professionals. Topics often include information about VHFA's own programs, but also typically include financial literacy, credit counseling, foreclosure counseling and other topics.

VHFA fills need not met by conventional lenders

VHFA sees its role as filling needs in the marketplace not met by private conventional lenders. This has meant VHFA has been a statewide leader in purchasing mobile home loans. There are approximately 870 loans on mobile homes in VHFA's portfolio, or about 18% of the Agency's portfolio. Attachment D includes the results of a recent survey of Vermont lenders who provide mobile home financing. As can be seen in the matrix, it's clear that VHFA's terms have historically been the most generous and it's not surprising why VHFA has been the leader in reaching this underserved population.

As a result of failures in the broader financial markets, VHFA has not been able to find any viable capital source for nonconforming loans like mobile homes and certain condominiums projects. VHFA has had to curtail its direct lending program activities for non-conforming loans beyond those already financed with VHFA. VHFA's staff and board are acutely aware of this impediment for Vermonters and continue to seek out every opportunity to serve this population.

Funding for VHFA's lending

VHFA funds its single family program exclusively through the issuance of Mortgage Revenue Bonds, and by recycling repayments from its existing loan portfolio. For more details on this access to capital see the final heading of this report. VHFA has recently established a warehouse line of credit for approximately \$20 million with KeyBank to fund its pipeline of loans and mortgage backed securities until such time as bonds can be issued that will generate rates that are competitive with conventional rates, and at acceptable returns to the Agency. VHFA relies on distributions from its various bond indentures for payment of its general operating expenses.

In December 2009, VHFA along with many other housing finance agencies around the country, entered into agreements with the Federal Treasury, Freddie Mac and Fannie Mae, wherein the Treasury has committed to purchase \$100,000 million in VHFA issued single family bonds, backed by Mortgage Backed Securities guaranteed by FNMA/FHLMC or GNMA. Referred to as the New Issue Bond Program (NIBP), VHFA has a locked in cost of funds on these bonds at 3.92%, if issued by the end of 2010, and subject to the Agency issuance of an additional \$60 million of market rate bonds. In as much as interest rates have since fallen below the rate offered via the NIBP program, VHFA has not issued any bonds so far in 2010. There is much discussion in Washington about extending the date by which VHFA will have to issue bonds under this program, along with the potential to re-price our cost with the Treasury. If interest rates increase while the NIBP program is in effect, VHFA should have a significant advantage to conventional rates. VHFA continues to work with our congressional delegation and with our national association (National Council of State Housing Agencies, NCSHA) to advocate for meaningful improvements to the NIBP program.

a. Mortgage Servicing and Loss Mitigation

VHFA coordinates the servicing of 4,517 loans that are serviced for VHFA by the originating lender or VHFA's sub-servicer, Graystone Solutions, Inc. and directly services 167 loans. U.S. Bank Home Mortgage owns the servicing on the 519 loans securitized with Fannie Mae, Freddie Mac, and Ginnie Mae.

VHFA staff monitors the performance of its servicers to ascertain that loans are serviced in accordance with VHFA's Loan Servicing Guide and that priority is being given to preserving homeownership for borrowers facing financial difficulties. VHFA staff typically becomes involved in a loan when the borrower has missed two payments, although VHFA staff is available to assist with any loan. VHFA must approve all repayment plans that exceed six months. We also review and approve or deny requests for loan modifications, short sales, release of co-borrower, and easements. When all collection efforts have failed, the servicer refers the loan to VHFA for foreclosure. VHFA staff work with the attorney assigned the case throughout the foreclosure process. When title is transferred to VHFA, the property is listed with a local real estate broker.

VHFA is proud that as of FY09, the national foreclosure rate was 4.3% while VHFA's was only 0.9%. While Vermont is a low foreclosure state (it's rate was just 2.2% at the end of FY09), VHFA's loan portfolio outperformed the state's despite VHFA's mission-driven pursuit of only working with lower-income Vermonters who have more limited options for home loans.

VHFA's delinquency reports for Fiscal Years 2006 through 2010 are included as Attachment E.

b. Funding for Homebuyer Education

There are scores of research reports showing that loan performance is greatly improved when buyers first take pre-purchase education courses. Because of this, VHFA funds a network of five NeighborWorks® Homeownership Centers that cover the entire state to provide first-time homebuyer education courses to all VHFA borrowers. VHFA was instrumental in the start up of these Centers and has provided thousands of dollars in operating funds to help pay for these classes as well as their other programs, which include:

- Credit and Budget Counseling;
- Mortgage Products;
- Home Rehab Loans;
- Delinquency Intervention; and
- Foreclosure Prevention.

c. Down Payment Assistance

VHFA created a Cash Assistance Option within its single-family loan programs in 2000. Under this option, VHFA provided borrowers with up to 3 percent of the mortgage amount requested in cash available to assist them with down payment or closing costs.

Cash Assistance Loans provided by the Agency were funded by the issuance of Premium PAC (Planned Amortization Class) bonds, which were sold at a premium. When active, this program constituted 8 percent of VHFA’s loan volume. VHFA has suspended the cash assistance loan program until such time as we are able to sell a premium PAC bond in the market. We will make cash assistance loans available as soon as that market returns, hopefully in the near future.

VHFA also provides down payment and closing cost assistance using earned Interest on Real estate Trust Accounts (IORTA). Real estate brokers are required to put most of their deposits into pooled interest-bearing trust or escrow accounts, and the financial institutions are required to remit the interest made to VHFA. For 17 years, funds from the proceeds of IORTA have been dedicated to VHFA for homeownership mortgage down payment or closing cost assistance.

During that time, more than 975 loans have been assisted with IORTA funds. Funds received in FY09 from IORTA accounts totaled \$63,500.

Commencing mid FY2009, VHFA’s down payment assistance has been limited to available IORTA funds only.

d. Construction Loans for Homeownership Development

The Homeownership Construction Loan Program was developed by VHFA to increase the supply of affordable housing in communities in Vermont where a shortage of such housing exists. Financing is available for site acquisition, infrastructure development, as well as construction of individual housing units.

Since this program began in Fiscal Year 2005, VHFA has provided nine pre-development loans (\$1.7 million) and 12 short term construction loans (\$19.8 million). These loans have helped create 396 units of homeownership housing. A list of projects is provided below. However with the slowing of the housing market VHFA has suspended this program.

Project Name	Town	Units	Short Term Construction	Predevelopment Loans	Fiscal Year
Elmwood-Single Family LCHDC	St. Albans	5	\$500,000		2005
Habitat for Humanity-Volz St Burl	Burlington	2	\$171,075		2005
Middlebury South - Single Family	Middlebury	55		\$100,000	2005
River Station - SF	Montpelier	14	\$168,000		2005
Cornell Building North Avenue	Burlington	25		\$187,000	2006
Middlebury Village Cottages	Middlebury	27		\$979,580	2006
Proctorsville Homeownership	Proctorsville	4		\$23,000	2006

Project Name	Town	Units	Short Term Construction	Predevelopment Loans	Fiscal Year
Blackberry Commons	Milton	31		\$189,000	2007
Butterfield Common Condominiums	West Dover	6	\$625,000		2007
East Randolph Meadows	E. Randolph	24		\$40,000	2007
Green Woods Village	Shoreham	7	\$700,000	\$100,000	2007
Hazelnut Hill	Burlington	30	\$6,100,000		2007
Mad River Meadows Condominiums	Waitsfield	8		\$25,500	2007
Middlebury South Village Cottages	Middlebury	27	\$2,530,000		2007
Proctorsville Green Housing	Proctorsville	4	\$660,000		2007
Salisbury Square	Randolph	25		\$100,000	2007
Sylvan Woods	Stowe	8	\$1,747,000		2007
Cameron's Run	Milton	4	\$599,000		2008
Cascades	Winooski	70	\$3,000,000		2008
East Branch Farms	Manchester	20	\$3,000,000		2008
<i>Totals:</i>		396	\$19,800,075	\$1,744,080	

2. Housing Development

a. Multifamily Rental Housing Loans

Loans on multifamily housing projects are made directly by VHFA to community-based or statewide nonprofit agencies or organizations and private for-profit developers who are committed to creating and preserving housing to low- and moderate-income Vermonters. Detailed loan information is being provided under separate cover.

Acquisition, rehab, construction and construction/permanent loans made by VHFA are primarily made in conjunction with the allocation of federal housing tax credits. Most projects are funded through the issuance of taxable or tax-exempt bonds but also require public or private funding sources as well. VHFA has the responsibility of underwriting projects to be sure the projects are properly built within budgeted constraints, completed within the stated time frame and meet affordability covenants. VHFA's underwriting analysis looks beyond compliance with program rules and target marketing. An in depth review is done of the underlying project assumptions, need for the project, demand for the project, acquisition and rehab/construction costs and long term financial viability. VHFA has established underwriting standards which are intended to balance credit risk to maintain a high bond rating, while providing the flexibility needed to meet a wide diversity of projects, and yet meet the needs of bond investors to make capital investment in Vermont attractive.

In the past VHFA used its general fund dollars to operate both homeownership and rental housing pre-development programs to aid developers starting the development process. In FY09, these programs were suspended. The homeownership pre-development programs were suspended due to market conditions and VHFA will be unable to continue its multifamily predevelopment program at historical levels due to lack of access to below market capital. Multifamily predevelopment activity is now limited to and funded using borrowed funds and a low cost loan awarded to VHFA from the MacArthur Foundation as part of a nationwide competition. There is still a strong need for pre-development lending for rentals, but staff and Board have determined from a risk standpoint that the Agency should not self-fund the program at this time.

All of VHFA's development loan activity, including home ownership and pre-development financing, will be included in the "Schedule of publicly financed rental projects over the past three years, including name and location of project, number of affordable housing units provided, total cost of each project, date of completion of each project, and source(s) of funding for each project" sent by VHCB.

b. Federal and State Housing Tax Credit Programs

Federal Housing Credits bring substantial equity investment into Vermont's housing market. In calendar year 2009, Vermont received authority to allocate approximately \$2.7 million in federal Tax Credits ("Allocated Credits"). Since the inception of the program in 1987, VHFA has awarded approximately \$36.5 million in federal allocated tax credits to developers of over 5,139 units of affordable rental housing that have been built or acquired and rehabilitated through private sector equity investments. The equity this generated for affordable housing developments is estimated at \$325 million dollars.

For a variety of reasons, Vermont developers had always enjoyed a relatively high yield when selling their tax credits to investors. Recently the market prices for tax credits has diminished considerably, which translates into fewer dollars for housing developers, for the same amount of credits allocated to a project. This lower level of investment in housing tax credit will probably mean fewer units being built to support the strong proven demand. In 1987, VHFA was instrumental in creating Housing Vermont – the nation's oldest state equity fund. HVT has consistently served Vermonters and helped VHFA effectively run our tax credit program, both by undertaking smaller and riskier deals than the national markets would normally be interested in, and by negotiating returns that translate to higher-than-market syndication yields.

VHFA also administers Federal Bond Credits which are similar to the Allocated Credits noted above, but which provide a lower level of credits and therefore lower equity investment to the project. The Bond Credits are automatically provided to eligible projects in conjunction with Private Activity Tax-Exempt Bond Financing. VHFA has awarded \$6.9 million in Bond credits, generating approximately \$60 million in equity; although like the Allocated Credits VHFA expects a significant drop in equity pricing.

Additionally, the State of Vermont made available \$400,000 in State Housing Tax Credits for rental housing from FY2009 authority. This has remained a very popular resource. The allocation of both federal and state credits is highly competitive and continues to be oversubscribed in each allocation round. The combined effect of the State and Federal tax credit programs was private equity investment of nearly \$25 million dollars in FY09 alone that has been used to acquire, rehabilitate and/construct affordable housing units. Attachment F shows the total amounts of State Housing Tax Credits awarded since 2000.

VHFA's responsibilities for administering the Tax Credit program include:

- Ongoing review of tax credit rules and regulations for incorporation and maintenance of the State Qualified Allocation Plan (QAP);
- Review and coordination of the State QAP in conjunction with updates to the State Consolidated Plan to ensure consistency with the affordable housing priorities of the State;
- Coordination, review and underwriting of Tax Credit applications for presentation to the Tax Credit Allocation Committee and the VHFA Board of Commissioners; and
- Administration of the initial reservation, and ongoing compliance monitoring of projects with IRS requirements.

As with debt financed projects, those financed with Tax Credit Equity require an extensive level of underwriting analysis.

c. American Recovery and Reinvestment Act (“ARRA”) programs

1602 Exchange

Under the ARRA programs, VHFA can elect to return Housing Credits to the Treasury in exchange for cash. The purpose of this program is to assist projects that have found difficulty in obtaining equity investment, due to a national decline in equity markets. VHFA can return any 2008 credits that were unused (or returned to VHFA) in 2009, and up to 40% of the 2009 “per-capita” and national pool credits. The cash received can be given to projects that do not receive any Housing Credits, but the awards must be made in the same manner and with the same restrictions as the Housing Credit projects, and a good faith effort to obtain housing credit equity must first have been demonstrated by the applicant. Projects can also partially “monetize” their credits, meaning that if some equity investment can be found, they can proceed with both equity investors and with 1602 Exchange proceeds, in the same development. At this time VHFA has given or plans to give Exchange proceeds to eight developments totaling 243 units, as can be seen in the table below. In total VHFA awarded \$14.1 million through this program. Asset management similar to the Housing Credit compliance monitoring must be followed, and there are recapture provisions as well. Currently in Congress there is some move to extend this program to the 2010 credit ceiling as well. Quarterly activity reports to the Treasury are required as part of our administration of the 1602 Program.

Project Name	Location	# Units	Awarded	Status
Blake Commons	Swanton	16	1,398,561	Construction Complete
Brookside	Colchester	42	4,680,000	Construction Complete
NAMCO Allocated	Windsor	43	2,843,930	Construction Complete
NorthBranch Apts	Montpelier	45	2,361,000	Under Construction
Anne Wilder Richards	Brattleboro	21	170,000	Construction Complete
Missisquoi Manor	Richford	24	169,652	Under Construction
Grand Way Commons II	South Burlington	28	78,223	Under Construction
Upper Story	Brattleboro	24	2,460,750	Construction to Start 7/2010

Tax Credit Assistance Program (“TCAP”)

ARRA allocated \$2.25 billion to the TCAP program to be distributed to states proportionate to the 2008 HOME funding distribution. (Vermont received approximately \$5.4 million). The Act specifies that the funds will go to the allocating agency, who will distribute the funds to project owners. VHFA is one of 15 allocating agencies nationally that do not also administer HOME funds already, so staff are coordinating with staff from VHCB and other sister agencies in order to meet some of the program’s administrative requirements. Some HOME provisions are retained, while others have been modified to mirror those of the tax credit program. These funds can only go to tax credit projects (both bond and allocated credits) that have received or will receive credits from 2007, 2008, or 2009. Staff have allocated all of the TCAP funds at this time to six developments with 187 units for a total of \$5.4 million dollars. Within one year of the enactment of this Act VHFA needs to have expended 75% of these funds, and within three years to have expended 100%. The Act specifies that the allocating agencies are to give priority to projects expected to be completed within three years of its enactment. Activity reports via HUD IDIS system are required quarterly.

Project Name	Location	# Units	Awarded	Status
Grand Way II	South Burlington	28	2,260,000	Under Construction
Pine Manor	Alburg	16	270,000	Under Construction
Pleasant Street	Enosburg	24	200,000	Under Construction
Salmon Run	Burlington	79	1,500,000	Under Construction
Upper Story	Brattleboro	24	495,000	Construction to Start 7/2010
Morrisville Community	Morrisville	16	691,546	Construction to Start 8/2010

3. Multifamily Program Monitoring

VHFA's monitoring relationship with its multifamily borrowers is proactive. We are interested in the ongoing financial and physical well-being of each of the properties in our portfolio as well as the health and safety of residents and are available to offer advice and ideas on topics such as energy efficiency, supportive services, tax assessments and insurance costs, capital needs, tax credit compliance issues, and the future of rental subsidy programs that may be depended on by

properties. A master list of all of the projects we have a relationship with is included in Attachment G. We also can provide much detailed information about each component of monitoring upon request.

a. Asset Management and Loan Servicing

There are currently 134 projects representing 4,585 units/households in our loan portfolio. This work is part of the Agency's ongoing obligations under its bond issuances in order to meet its responsibility to protect long-term financial project viability, property maintenance, program compliance, preservation of market value and long-term – if not perpetual – affordability.

We use the following tools to keep informed about the status of each property: annual operating budget approval, quarterly financial reports, yearly audited financial statements and annual property inspections, and periodic capital needs assessments.

In addition to the above, we require that all project bank accounts be established as separate and identifiable for each property and that they be insured by the F.D.I.C. or other approved entity. VHFA also requires joint signatory authority on disbursements from the Replacement Reserve account and approval for the use of all restricted account transactions. All management agreements must be approved in writing by VHFA and contain a provision that it is subject to termination, with cause, upon the written request of the Agency.

Liability and hazard insurance on the property must be maintained, including business interruption coverage as outlined in VHFA's Insurance Handbook. Funding for asset management and loan servicing work comes from the spread earned on bond issues used to finance portfolio loans and transferred to the general fund.

The loan portfolio balance for multifamily is approximately \$144.3 million (including current construction loans).

b. Housing Preservation

Since 1989, VHFA has also played an active role in negotiating Preservation Agreements with 73 property owners (2,356 units) to preserve and/or extend affordability or transfer these properties into long-term perpetually affordable ownership structures. This has been accomplished by making new loans available, restructuring existing debt, housing credits and by the reinvestment of VHFA earnings in long term deferred loans which are used to improve cash flows, rehabilitate projects, and/or to facilitate transfers of projects to assure permanent affordability. Early in 2009, VHFA in partnership with VHCB was awarded \$2.6 million from the MacArthur Foundation to expand and build upon our efforts to preserve Vermont's assisted affordable housing inventory. The focus of these preservation efforts has been the thousands of units that have expiring use provisions in the next several years. Activities have included additional loan products, technical assistance, a comprehensive expiring use database for prioritizing the commitment of

financial resources, establishing a Preservation Council of statewide funders and partners to set protocols, training and workshops to educate nonprofits about existing and new capital sources.

Technical assistance has included the creation of appraisal guidelines for affordable housing properties, energy efficiency, capital needs assessments, and advice to existing owners on tax matters and renewal options for continuing in the assisted housing programs. Deep energy retrofit improvements are a major focus in these preservation projects to help improve the long-term operating sustainability. Grant funds are also being used to expand the supportive housing model that uses Medicaid and Medicare dollars to enable senior properties to meet the needs of frail elders. New loan products offered by VHFA include an equity bridge loan program that will increase the value of tax credit investor equity contributions, low cost energy loans for preservation projects and a pre-development loan fund for soft costs in determining project feasibility.

c. Helping the state meet its statutory requirements

In 2005 and 2006, respectively, the Legislature asked VHFA to work with the Vermont Department of Taxes to help administer Act 68 and Act 75 requirements that changed how the state treats subsidized housing in the state. Now VHFA processes and mails annual applications and certifications for participation in the Act 68 tax assessment program, confirms annual benchmarks for the Act 75 valuation program and maintains a complete database of all projects under both programs. Both of these programs are administered without reimbursement by the state.

VHFA also assists the State by providing research and recommendations for establishing the statewide capitalization rates used by municipalities to determine assessed tax values for subsidized multifamily housing projects. VHFA provides this information to the Vermont Department of Taxes between January and March each year.

4. HUD HAP Contract Administration

VHFA provides HUD Section 8 Contract Administration services under three separate programs for 74 projects representing 2,114 households/units. VHFA's monitoring responsibilities include direct HUD HAP Contract administration for \$3 million of annual Section 8 rental subsidy payments for 399 of these units and shared HAP Contract administration with the VSHA for an additional 1,715 units (with \$10.3 million in subsidy payments). VHFA takes the lead role in projects where VHFA is the primary lender or responsible for tax credit compliance monitoring. VHFA monitors 203 projects (4,449 units) for tax credit compliance of which 68 have VHFA loans.

These responsibilities typically include:

- project TRACS processing of housing assistance payments (HAP);
- conducting HUD management and occupancy reviews;
- annual financial statement reviews;
- restricted account monitoring and control/approval;

- on-site tenant file reviews;
- Fair Housing/Civil Rights compliance;
- property physical inspections including resident health/life safety issues;
- processing utility allowance increases;
- process rent increases and owner opt-out and HAP Contract renewals;
- review owner refinancing proposals; and
- advice on rent comparability studies, rent increase issues, contract renewal options and refinancing strategies.

Funding for the above Contract Administration work comes in either administrative fees paid by HUD or through the spread (earnings) on bonds issued to finance these projects.

5. Housing Tax Credit and Supplemental Program Administration

Owners of all LIHTC properties must comply with monitoring procedures, as well as complete and submit required reports as required under Section 42. VHFA is responsible for reviewing status reports, owner’s certifications, tenant certifications, backup documentation as well as performing physical inspections. The VHFA Project Status Reports, Owner’s Certificate of Continuing Program Compliance, Fair Housing Questionnaire and the LIHTC Questionnaire are reviewed prior to scheduling a site visit and review of files. The federal regulations require VHFA to perform physical inspections and tenant file reviews on all buildings in a LIHTC development. These inspections and reviews must be performed on at least 20% of a development’s tax credit units. The initial physical inspection and file review must take place by the end of the second calendar year following the year the last building in the development is placed in service. After the initial inspection and file review, physical inspections and file reviews are completed every three years at a minimum.

If files are found to be incomplete or reports are not submitted, a warning letter is issued by VHFA to the owner. Failure to respond within a period specified (not more than 90 days), known as the correction period, will result in LIHTC non-compliance. In this instance, VHFA is required to submit IRS Form 8823 to the IRS within 45 days after the end of the correction period. The Owner’s Certificate of Continuing Program Compliance and Project Status Report must be submitted annually to VHFA along with the Fair Housing Questionnaire and the LIHTC Questionnaire. VHFA must review these for compliance with the requirements of the Code and respond in writing with a formal letter after a desk audit is completed.

a. 1602 Exchange, TCAP and State Tax Credit Compliance Administration

Compliance monitoring procedures for 1602 Exchange, TCAP and VT State Tax Credits are very similar to the Housing Credit Program. Owners submit project status reports and owner certifications annually. VHFA reviews these and performs physical inspections and file reviews. After all reviews are complete, an annual compliance report is sent for each property. VHFA has an additional reporting requirement for the TCAP program which is submitting quarterly reports to HUD. The 1602 Exchange program requires submitting quarterly financials.

Annual monitoring fees are paid by all projects receiving the benefit of the above programs and these fees provide the funds for all related compliance monitoring activities.

6. Neighborhood Stabilization Home Acquisition and Rehabilitation Program

VHFA was asked to administer \$7.0 million of the \$19.6 million Neighborhood Stabilization Program (NSP) funds awarded to the State of Vermont by HUD in 2009. VHFA was intimately involved with the development and implementation of the Vermont NSP Plan as approved by HUD. VHFA is responsible for seeking out and acquiring single family homes that have been foreclosed upon in targeted communities around the State, rehabilitating them to safe, decent and highly energy efficient standards, then reselling these to income eligible homeowners. All homes are sold with long-term or perpetually affordable housing covenants. Under NSP I, each state is required to spend or be obligated to spend its entire allocation by September 30th, 2010. Vermont is one of the few states in the country that has committed nearly all its funds while other states are struggling.

As of June 30, 2010, VHFA has committed all \$7 million allocated to the HARP Program, and is now leveraging program income as completed homes are sold. VHFA has acquired 36 homes, of which four have been completed and re-sold. We anticipated leveraging the \$7 million in HARP upwards to \$10.5 million within the next 12 to 18 months. There is some anticipation that HUD will also announce additional NSP funding, and VHFA would anticipate administering a portion of those funds under the HARP program. That should extend our responsibilities beyond the current program end date of 2013. To date VHFA has put to work approximately 180 contractors to rehab the current 36 homes already purchased. Most contractors hired are small, Vermont contractors that were in need of work throughout the winter and spring months. Of the total amount directly invested in the properties, about 65% typically is spent to acquire the property and 35% is rehabilitation costs to meet the above goal of making each home safe, decent and highly energy efficient. It is VHFA's ultimate goal to purchase and rehab a total of 45 to 50 homes using proceeds from the sales of homes sold. The NSP HARP program targets homebuyers that are at or below 120% of AMI.

Monthly activity/cash flow reports are provided by VHFA to the Vt. Department of Housing and Community Affairs as part of the State's reporting responsibilities to HUD. Attachments H and I are the most recent completed progress reports with details of those served in the program.

7. Supportive Housing and Other Initiatives

a. Housing for the homeless

Homelessness in Vermont continues to grow. On one day in January 2010, the state's network of shelters and service providers counted almost 2,800 people who were homeless, over a quarter of whom were children. This is a 22% increase since 2008. In response to this, VHFA has become a leader in assisting the state in homeless policies and program planning. VHFA's Executive Director Sarah Carpenter sits on the Governor's Interagency Council on Homelessness and helped draft the group's original 10-year plan to end homelessness. Policy and Planning Manager Maura Collins has served on dozens of workgroups called together by

the Agency of Human Services (AHS) including: state Emergency Assistance and General Assistance (EA/GA) reform, creating pilot programs under the GA program, Housing Preservation and Rapid Re-Housing planning and awards and Homeless Management Information Systems initiatives.

Ms. Collins serves on the steering committee of the state's balance of state continuum of care, and is co-chair of the state's only other continuum, serving Chittenden County. This involvement with homeless planning efforts is imperative to the affordable housing financing work of VHFA because there are millions of HUD dollars at stake through these groups, and these funds flow directly to these entities. Therefore, they need some amount of state-level monitoring to ensure their actions don't jeopardize the state's network of shelters and service providers.

In addition, VHFA has been a leader in working collaboratively with other organizations on specific policy proposals to increase permanent supportive housing. VHFA proposed and shepherded through a memorandum of understanding with all four housing agencies plus AHS to target 10% of all future Housing Credit awards to permanently supportive housing for people with disabilities and/or who are homeless. To ensure coordination, the four state housing agencies meet with AHS quarterly to discuss program housing projects, housing policy priorities, and other timely information.

b. Resident service coordination

VHFA was instrumental in developing models of resident service coordination in Vermont when in 1990 the Agency was one of 10 state agencies that received a grant from the Robert Wood Johnson Foundation and Administration of Aging to fund the creation of resident service programs. These grant funded activities resided at VHFA for three years and then were gradually transitioned out to become the very successful resident service coordination (RSC) programs that exist today throughout Vermont's affordable housing landscape. VHFA has since continued to support the RSC concept and encourages this activity as a desirable line item operating expense that allows for greater resident safety and satisfaction. VHFA has also been a sponsor and partner with both the Vermont Resident Service Coordinators (VRSC) and the regional New England Resident Service Coordinators (NERSC) since their inception in 1999. VHFA staff host and manage the VRSC website www.vrsc.org and serve on the NERSC Board.

c. Biennial housing conference

Since 2000, VHFA has coordinated a biennial statewide housing conference, which will be held again November 2010. Managing a conference with attendance of over 450 people is a major undertaking, and is supported by VHFA's own sponsorship drive, and not state funds. The conferences are the only opportunity for a range of housing professionals, including Realtors, bankers, advocates, builders, municipal planners, homeless shelter operators, architects, residents and legislators to all gather for a full day of workshops to learn about the latest best practices from within and outside of Vermont. There are 20 workshops planned for

this year's event with topics including: the future of housing, homeownership lending changes, housing sustainability, planning in Vermont, fair housing and other special topics.

d. Vermont Housing Awareness Campaign

VHFA provided staff coordination for the Vermont Housing Awareness Campaign, a coalition of public and private interests and organizations working to address Vermont's housing shortage by promoting development of housing for all Vermonters. The Campaign has used a combination of advertising, media outreach and public education efforts to build support, particularly among community leaders—business owners, faith community leaders, elected officials, and community activists in particular—for housing development. This multi-year effort was staffed solely by VHFA staffers through 2009, without any state resources, although it has been relegated to only maintaining a website (www.housingawareness.org) due to budget constraints.

8. Housing Policy Analysis

VHFA staff provides information and analysis to many partners on topics touching statewide housing policy. This includes the State Legislature, the Agency of Human Services working on changes to the housing benefits under Emergency and General Assistance programs and new homeless stimulus funding; the Governor's Food & Fuel Partnership meetings; the Department of Disabilities Aging and Independent Living working towards its goals of promoting community based housing options for frail elders and people with disabilities; and dozens of municipalities, developers, advocates, and researchers annually.

VHFA is member of the Governing Board for the Vermont Fuel Efficiency Partnership (VFEP) a partnership of energy service providers and funders in a joint effort to provide incentives for deep energy retrofits in affordable multifamily properties whose tenants are income eligible for federal and state resources. VFEP combines Department of Energy and state Weatherization funding, Regional Greenhouse Gas Initiative, Efficiency Vermont, ARRA, Energy Efficiency Community Block Grants, Vermont Energy Investment Corporation, VHFA and VHCB loan funds in an attempt to improve the process of accessing these funds in the most efficient and collaborative way possible.

VHFA currently serves as a member of the Residential Building Energy Advisory Council which is responsible for updating the State's Residential Building Standards to bring them in compliance with the 2009 RBES, and to increase compliance with energy efficiency improvement commitments made by the State.

The state Legislature recognizes the unique leadership and skill set VHFA staff have, and routinely requires VHFA participate in state "summer study" committees and serve on committees to understand legislative impacts on Vermont's housing market. In the past few years alone VHFA staff has voluntarily worked on a variety committees including review of provisions in state law that impact the financing of mobile homes; changes to land use law to promote more streamlined compact development and chairing a legislative committee to establish a statewide rental housing safety and habitability program.

Finally, the state is well served by VHFA monitoring all federal funding, as well as national legislative and regulatory changes that will impact the housing market in Vermont. VHFA's time and energy commenting on the impact of proposed changes to a small rural state like Vermont is considerable. Having an organization continually monitoring these federal changes is imperative to ensure Vermont's population is well served.

The Executive Director of VHFA serves on the Board of the National Council of State Housing Agencies and serves on NCSHA's Working Group on the GSE's, Working Group on Improvements to the Housing Bond and Credit Programs, Rural Housing Task Force, and has co-chaired the Legislative and Regulatory Priority-Setting Committee.

This work is done at no expense to the state.

a. Housing Market Research

VHFA serves as an important resource for the collection, maintenance and analysis of housing related data. VHFA launched and maintains the Vermont Housing Data website (www.housingdata.org) in partnership with the UVM's Center for Rural Studies. It is a searchable database of every town, village, county and the state for over thousands of pieces of housing data and it is also home to the statewide Directory of Affordable Rental Housing (DoARH), which is also searchable by any area and also by bedroom size, tenant population, unit restrictions, vacancies and funding source. One-third the properties listed in the DoARH are not VHFA-financed properties but recognizing the need for one location for all subsidized units VHFA expanded the directory to include all assisted units. Both of these resources are imperative for the efficient operation of the state's housing programs. The Housing Data website has won national awards and was the least expensive model of a site like this in the nation.

In addition, VHFA has published the following resources to benefit the understanding of local housing markets, and guide state housing policy development decisions:

- *Vermont Housing Needs Assessment*. Eight separate fact sheets reporting on current levels of housing and projecting the state's housing needs for 2009-2014;
- *Between a Rock and a Hard Place: Housing and Wages in Vermont*. A report on the state's housing market, including new homes, rental units, and homeownership price changes (annually 2002 through 2010);
- *Analysis of Impediments to Fair Housing*. An in-depth review of the City of Burlington's housing policies and demographics to recommend strategies to overcome existing impediments to fair housing;
- *Sub-prime lending in Vermont*. VHFA analyzed all sub-prime loans in the state and the prevalence of originations and if they disproportionately represented any protected classes under fair housing;
- *Family Homelessness in Vermont*. VHFA collected data on homelessness as well as conducted interviews with several people who are homeless, and shelter and service providers to comment on the changing face of homelessness in our state;

- *The Costs and Benefits of Assisting Vermont's Chronically Homeless.* A literature review of existing research on the costs of homelessness to the state compared to the cost of providing permanent supportive housing;
- *Housing and the Needs of Vermont's Aging Population.* A report quantifying the changing demographics in Vermont and the housing needs of an aging population;
- *Housing and Vermont's School Enrollment.* VHFA staff conducted detailed analysis of household demographics as well as housing development trends to report on how housing development impacts local school aged children; and
- *Housing and the Vermont Economy.* Staff conducted a survey of 100 businesses in Vermont and asked for how housing impacted their ability to attract and retain employees. In addition, VHFA calculated the economic impacts of building 25 modest single family homes on jobs, wages, and incomes for Vermont businesses.

9. Capital Access

The key to all of VHFA’s activities described above is to raise capital to fund the loan programs we have described and create a margin to operate some of the other non revenue producing programs we have mentioned.

VHFA raises capital through the following means:

- The sale of:
 - Single Family Housing Bonds (to fund whole loans)
 - Multifamily Housing Bonds (whole loans)
 - Single Family Housing Bonds (mortgage backed securities)
 - Private Placement of bonds and/or notes
- Borrowing on:
 - Lines of Credit – local banks – Construction loans

Our capital raising process and activities have changed significantly over the past 2-3 years. The last public sale of single family housing bonds was in September 2008. At the time, the sale was one of the most successful in the Agency’s history and one of the most successful in the country, as the entire issue was sold to retail investors in Vermont for the first time. This was the last bond sale used to purchase whole loans. The Agency was in the middle of a transition to mortgage-backed securities when the global credit crisis occurred.

Because of their complexity and regulations impacting tax-exempt bonds, the traditional sale of single family bonds involves several parties as outlined below:

Issuer	-VHFA	-Legal entity created by state law to issue bonds to raise capital for affordable housing loan programs. Has the legal authority to issue tax-exempt bonds. Determine the timing and amount of funds needed to be raised
Lead Underwriter (Investment)	-Currently Citi -Previously UBS	-Coordinates the origination of the bond issue. -Works with financial advisor to develop structure and terms of bond deal (i.e. taxable, tax-exempt, notes, maturities &

Banker)		<p>payments).</p> <ul style="list-style-type: none"> -Coordinates sale of bonds working with other underwriter salespeople in understanding details of bond issue.
Co-underwriter (co-manager)	<ul style="list-style-type: none"> -Currently One co-manager: Bank of America /Merrill Lynch. 	<ul style="list-style-type: none"> -Brokerage firm works with lead underwriter to establish prices and yields on new bond issues.
Financial Advisor	<ul style="list-style-type: none"> -Currently Piper Jaffray (Al Hans) -Previously Evensen Dodge (circa 1995) 	<ul style="list-style-type: none"> -Advises issuer (VHFA) on the structure and sale of bond issue. -Prepares cash flow schedules demonstrating revenues will be sufficient to pay bond debt service as scheduled. -Provides agency with special financial analysis as requested (i.e. MBS analysis, bond redemption schedules). -Serves as Agency's Swap Advisor
Bond Counsel	<ul style="list-style-type: none"> -Kutak Rock (since 1993) 	<ul style="list-style-type: none"> -Law firm with expertise in state housing finance agencies and federal tax laws. -Drafts bond and program documents (preliminary official statement, official statement, closing documents). -Makes required filings and provides legal opinions on transactions and issues specific to housing bonds.
Agency Counsel	<ul style="list-style-type: none"> -George Demas 	<ul style="list-style-type: none"> -Advises the issuer on day-to-day legal matters. -Handles various required regulatory matters (i.e. TEFRA notice and hearing, governor's approval). -Provides legal opinions on organization, authority and program document matters.
Underwriter's Counsel	<ul style="list-style-type: none"> -Currently Orrick, Herrington, Sutcliffe LLP 	<ul style="list-style-type: none"> -Advises underwriters (Citi, etc.) on federal securities law requirements. -Reviews official statement. -Prepares bond purchase agreement.
Salespeople and Traders	<ul style="list-style-type: none"> -Selling group of several firms 	<ul style="list-style-type: none"> -Involved in the sale/purchase of securities on both the primary and secondary markets. -Market for securities by buying bonds and selling them to dealers and investors during the term of the bond issue. -Provide liquidity to all investors.
Trustee	<ul style="list-style-type: none"> -Currently TD Bank (outsourced to Bank of New York) on old indenture -Wells Fargo on new multi-purpose indenture -Commercial bank which represents interest of bondholder 	<ul style="list-style-type: none"> -Acts as custodian of the bond proceeds and program revenues. -Oversees the proper transfers of funds and accounts. -Pursues available remedies if issuer defaults on bonds
	<ul style="list-style-type: none"> -On old indenture – 	<ul style="list-style-type: none"> -Engaged by issuer (VHFA) to assess creditworthiness of the

Rating Agencies	Moody's, Standard & Poors and Fitch -New MP indenture – Moody's and Fitch Ratings	bond issue. -Review program structures, cash flows and legal documents. -Issue credit rating on each bond issue based on applicable criteria. -Provide ongoing oversight of the program structure, cash flows and financial condition of issuer.
Investor	-Retail -Bond Funds -Institutions	-Individuals acting directly or through trust companies and investment advisors -Registered investment companies whose assets are invested in diversified bond portfolios. -Commercial banks, insurance companies, government sponsored enterprises (Fannie Mae; Freddie Mac), federal home loan banks
Credit Enhancer	-Third party providing creditworthiness for the bond issue upon which investors are primarily relying	-Could be insurance company insuring bond; or a mortgage insurer insuring underlying mortgages; or a bank issuing letter of credit that guarantees bond.
Liquidity Provider	-Usually a commercial bank, or recently federal home loan bank	-Third party that provides funds to bond trustee (or issuer) to honor floating rate bondholders tender demand when bond cannot be remarketed on tender date.
Investment Agreement Provider	-aka. Guaranteed Investment Contract (GIC) provider	-Provides guaranteed investment rates for investment of moneys held by trustee under trust indenture. -Often used in lieu of direct investments. -Eliminate concerns about possible liquidity losses on investments or reinvestments.
SWAP Provider (Counterparty)	-Currently Wells Fargo Bank, NA	-Financial institution – Enters into an interest rate swap (hedge) for the benefit of the issuer. -Often a specialized legal entity designed to achieve a very high credit rating.

A chart of the traditional bonding process is attached as Attachment J.

The Agency transitioned from mostly whole loan bonds to mortgage-backed securities a couple of years ago for the following reasons:

- Due to a highly successful production years in 2006 and 2007, the Agency had committed a significant amount of its capital to fund reserves to meet legal and rating agency requirements. A bond issue backed by MBS's offloads the risk of loss from the Agency and requires a significantly lower cash commitment.
- The rating downgrade of the Agency's primary mortgage insurer (MGIC) during the credit crisis was motivating the rating agencies to require significantly higher reserves in order to maintain the Agency's bond ratings. Bond issues backed by MBS do not rely on

the credit enhancement of mortgage insurance, and therefore would require lower reserves.

Due to the disconnect in the mortgage rate environment, the country's HFAs, who in normal times are able to offer interest rates below market to first time homebuyers, have been unable to compete with commercial rates. Because of this, the U.S. Treasury under the Obama Administration implemented a new bond program called New Issue Bond Program (NIBP) under the Housing and Economic Recovery Act of 2008 (HERA). The intent of this program was to temporarily give HFAs access to lower cost capital and to allow them to compete with conventional rates. Unfortunately, despite this program, the cost of capital for most HFAs is still not competitive, and the Agency has not yet been able to issue bonds under this program. A PowerPoint presentation on this program presented to the November 2009 VHFA Board Meeting is Attachment K as well as a Powerpoint presentation conducted for HFA's by Fannie Mae and Freddie Mac in October 2009 is Attachment L. VHFA has quarterly reporting requirements to the Treasury under the NIBP Program.