

# NCSHA 2016 Annual Awards Entry Form

(Complete one form for each entry)

**Deadline: Wednesday, June 15, 2016**

Visit [ncsha.org/awards](http://ncsha.org/awards) to view the Annual Awards Call for Entries.

**Instructions:** Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact [awards@ncsha.org](mailto:awards@ncsha.org) or 202-624-7710.

Fill out the entry name *exactly* as you want it listed in the program.

**Entry Name:** \_\_\_\_\_

**HFA:** \_\_\_\_\_

**Submission Contact:** (Must be HFA Staff Member) \_\_\_\_\_ **Email:** \_\_\_\_\_

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

\_\_\_\_\_

Use this header on the upper right corner of each page:

**HFA:** \_\_\_\_\_

**Entry Name:** \_\_\_\_\_

\_\_\_\_\_

**Select the appropriate subcategory of your entry and indicate if you are providing visual aids.**

<b>Communications</b>	<b>Homeownership</b>	<b>Legislative Advocacy</b>	<b>Management Innovation</b>
Annual Report	Empowering New Buyers	Federal Advocacy	Financial
Creative Media	Encouraging New Production	State Advocacy	Human Resources
Promotional Materials and Newsletters	Home Improvement and Rehabilitation		Operations
			Technology
<b>Rental Housing</b>	<b>Special Needs Housing</b>	<b>Special Achievement</b>	Are you providing visual aids?
Encouraging New Production	Combating Homelessness	Special Achievement	Yes
Multifamily Management	Housing for Persons with Special Needs		No
Preservation and Rehabilitation			

# Using State Housing Tax Credits to Fund Down Payment Assistance

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## Innovative Funding Model

In 2015 the Vermont State Legislature's Economic Development bill authorized the Vermont Housing Finance Agency (VHFA) to issue an additional \$125,000 in Vermont Affordable Housing Tax Credits for State fiscal years 2016 to 2018. The State Housing Tax Credit was created in 2000 and had previously been used to fund the creation or preservation of multifamily rental housing or affordable homeownership units. With the additional funding and the authorizing legislation to pool the sale of credits by VHFA to a singular investor for the use of small down payment assistance (DPA) 0% loans, VHFA found a new funding tool to promote first time homebuyers in a state that previously had no DPA program. One year later the Legislature was so pleased with the roll out of the program and demand for this type of assistance that it added an additional four years of funding for state fiscal years 2019 to 2022, so that the funds of repaid loans from year one could theoretically make this a revolving loan program to serve Vermont's first time home buyers for decades to come.

## Replicability

According to Novogradac, 16 states, including Vermont, have a State Housing Tax Credit program. In the right political environment and with broadbased advocacy like Vermont solicited by partnering with the Chamber of Commerce, any of those could work to increase their State Housing Tax Credit program in a similar vein as Vermont.

Vermont found a strong market for the credits, and there were a number of interested Vermont investors. The Legislature was so excited by the program that not only did they create the authority for VHFA to pool and sell and use the credits in this way and provide three years of funding during the 2015 legislative session but just one year later they added four additional years of authority and funding so that the full program would be funded for seven years. That made the program self-sustaining so that repaid loans could fund future loans into the future.

## Important State Housing Need

The stability of owning a home has proven benefits for individuals, the neighborhoods they live in, employers and the state's economy. Young people are the largest group of home buyers and without them, Vermont loses.

The recession reduced homeownership rates by 15% among young people (aged 35-44)—far more than among older age groups. Additionally we know that according to Bankrate.com, only six states have higher closing costs than Vermont.

A buyer putting down 5% would need to save of \$19,000 for closing costs, down payment and secondary market loan fees—as much as a minimum wage worker earns in a year.

Median renter income has increased only 0.9% annually (from \$30,215 to \$32,284) between 2007 to 2014, but the median rent has increased by 2.6% each year (from \$789/month in 2007 to \$934/month in 2014). This leads to a growing gap so renters can't save for a down payment.

Home prices are escalating as the market recovers, and we only expect this to increase, which means higher down payments will be needed in the future. In 2015 the median home price was \$5,000, or 3%, higher than it was at the same point last year.

### **Measurable benefits to VHFA's targeted customers**

Through this program VHFA is to make available down payment and closing cost assistance loans to qualified first-time homebuyers, in amounts up to \$5,000, not to exceed actual cash required to close. The loans will be made at a zero percent interest rate, with repayment of principal due at the time of sale or refinancing of the home.

This program has bolstered VHFA's production during a time when the Agency is doing very little tax exempt bonding and therefore VHFA's interest rates are comparable to what is available conventionally. Not only has this program benefited VHFA's targeted customers: younger, lower income, first time home buyers, but it also has aided VHFA's loan production programs overall.

### **Proven track record of success**

VHFA implemented the Down Payment Assistance Program on August 26, 2015. Since the program was implemented VHFA has closed 84 Down Payment Assistance loans. Of those, the:

- Average age of the homebuyer is 30 years
- Average purchase price is \$164,430, or 72% of the average home price in Vermont (\$227,200)
- Average income of buyers is \$64,800, or 92% of HUD's median income for a family of four
- Average assistance amount is \$4,720
- Average credit score is 717

To date these loans have been spread across 13 of Vermont's 14 counties (the one unserved county only has 1% of the state's households).

### **Benefits that outweigh the costs**

The need for access to affordable housing goes beyond being a housing need but is an economic necessity for our state. In 2011, VHFA, in partnership with several industry partners, surveyed employers and found that employee turnover (i.e., the cost of lost productivity, advertising, and the time and expense of interviewing and training candidates) costs on average, \$13,754 per employee. In the past three years, employers lost an average of 2.46 recruits due to housing costs, availability, or other limitations.

The cost of housing for homeownership was regarded as a serious problem by 62% of employers for owner housing.

The state legislature clearly agreed that the benefits of the program outweighed the costs when it added another four years of tax credit funding to the original three years approved, just one year after initially being inacted. The bill to extend the program to make it a self-sustaining revolving loan program passed the House by a vote of 139 to 3.

### **Effective use of resources**

The tax credit is a five-year credit, where the investor is able to offset \$125,000 in state tax liability for each of five years. Those tax credits are sold upfront to capitalize a pool of funds each year for down payment assistance loans to first time homebuyers in concert with first mortgage loans from VHFA. VHFA lends up to \$5,000 per household in the form of a 0% second mortgage, with no monthly payments during the life of the loan. The loan is repaid to VHFA when the first mortgage is refinanced or the home is sold, creating the potential for a self-sustaining revolving loan fund.

VHFA was able to sell the tax credits at a very favorable price (\$0.95 cents on the dollar), well above what is typical in the market for state credits sold recently.

### **Effectively employ partnerships**

To advocate at the State House for this program VHFA worked with the state's largest Chamber of Commerce, the Lake Champlain Regional Chamber of Commerce, who put in extensive effort to advocate in favor of creating this program. The passage of this bill and creation of this program was one of the Chamber's signature accomplishments in 2015 and 2016.

Then, once funded, VHFA reached out to participating lenders in the Agency's homeownership program to solicit interest for purchasing the credits and eventually selected Union Bank as the singular investor in the first three years of available funding.

Union Bank agreed to purchase all three years of available credits at the same high price offered for the first year.

### **Achieve strategic objectives**

According to NCSHA's 2013 Fact Book 59% of Mortgage Revenue Bond homebuyers received down payment assistance but Vermont was one of just four states that reported 0% of MRB loans received down payment assistance. Creating this program was critical to the Agency's ability to maintain necessary production during this time of historically low conventional interest rates as well as to meet the needs of Vermont's young professionals.

VHFA had two primary strategic objectives:

- First and foremost to meet the needs of Vermont's first time home buyers; and
- To stabilize and sustain VHFA's homeownership loan production program.

Both of these objectives were achieved with this program. As Vermont nears the end of its first state fiscal year with the program all of the proceeds from FY16 have been extended and we are forward committing FY17 expected funds for loans in the pipeline. VHFA anticipates far greater demand than funding available, proving the need for and success of this program.