



Entry Form 2017 Annual Awards for Program Excellence

Entry Deadline: Thursday, June 15, 2017, Midnight ET

Each entry must include a completed entry form. Please complete a form for each entry your HFA is submitting. The completed entry form will become the first page of your entry.

This form is a fillable PDF. Type your information into the entry form and save it as a PDF. Please do not write on or scan the entry form. **Questions: Call 202-624-7710 or email awards@ncsha.org.**

Entry Title: Enter your entry's title exactly as you wish it to be published on the NCSHA website and in the awards program.

Category:

Subcategory:

Entry Summary: A 15-word (max) summary of the program, project, or practice you are entering.

HFA:

HFA Staff Contact:

Phone:

Email:

Visual Aids:

Are you mailing to NCSHA 10 copies of any visual aids that cannot be included in your entry PDF? Yes No

Payment:

My HFA is mailing a check to NCSHA.
My HFA is emailing the credit card authorization form to awards@ncsha.org.

Vermont Housing Finance Agency

Using State Housing Tax Credits to Fund Down Payment Assistance

Category: Homeownership | Subcategory: Empowering New Buyers

Using State Housing Tax Credits to Fund Down Payment Assistance

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 Vermont Affordable Housing Tax Credit was originally created in 2000 to fund the creation and preservation of affordable multifamily rental housing and homeownership units. With the additional funding and 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 home buying in a state that previously had no DPA program. One year later, the Legislature was so pleased with the roll out and high demand for the program it extended the additional funding of the housing credit for state fiscal years 2019 to 2022. With this extension, repaid DPA loans from the program's first year could theoretically begin to fund new loans in 2023, making this a revolving loan program to serve Vermont's first time home buyers for decades to come.

Replicability

According to Novogradac, 15 states, including Vermont, have a State Housing Tax Credit program. With the right political environment and broad based advocacy like Vermont's partnership with the Chamber of Commerce, any of these states could work to increase their state housing tax credit program in a similar vein as Vermont to address unmet state housing needs.

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, 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 program would be funded for seven years. This made the program self-sustaining because repaid loans will fund new loans into the future after the housing credit funding ends.

Important State Housing Need

The stability of owning a home has proven benefits for individuals, their neighborhoods, 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.

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A typical Vermont home buyer putting down 5% would likely need to save \$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 1.4% annually (from \$30,215 to \$33,810) between 2007 and 2015, but the median rent has increased by 2.5% each year (from \$756/month in 2007 to \$923/month in 2015). This leads to a growing gap, making it nearly impossible for many renters to 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 makes down payment and closing cost assistance loans available to qualified first-time homebuyers, in amounts up to \$5,000, not to exceed actual cash required to close. The loans are 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 then, VHFA has closed 215 Down Payment Assistance loans:

- Average age of the homebuyer is 31 years
- Average purchase price is \$167,000, or 73% of the average home price in Vermont (\$229,000)
- Average income of buyers is \$65,000, or 92% of HUD's median income for a family of four
- Average assistance amount is \$4,700
- Average credit score is 717
- Used by home buyers in every Vermont county

Benefits that outweigh the costs

The need for access to affordable housing goes beyond housing to being an economic necessity for our state. In 2011, VHFA, 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.

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Just one year after initially enacting the DPA program, the state legislature demonstrated its agreement that the program's benefits outweighed the costs when it added another four years of tax credit funding to the three years originally approved. The bill to extend the program passed the House by a vote of 139 to 3 and made it a self-sustaining revolving loan program.

Effective use of resources

The tax credit is a five-year credit, allowing the investor to offset \$125,000 in state tax liability for each of five years. These tax credits are sold upfront to capitalize a pool of funds each year for down payment assistance loans to first time homebuyers who also use first mortgage loans from VHFA. VHFA lends up to \$5,000 for down payment assistance and closing costs 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 devoted extensive effort to building support for 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.

After the program's enactment by the legislature, 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 second state fiscal year with the program all of the proceeds from FY17 have been extended and we are forward committing FY18 expected funds for loans in the pipeline. VHFA anticipates far greater demand than funding available, proving the need for and success of this program.