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Vermont Housing Finance Agency

VHFA Board of Commissioners Meeting Minutes
Vermont Housing Finance Agency
164 St. Paul Street
Burlington, Vermont
Monday, January 7, 2008
9:30 a.m.
Conference Call

VHFA Board Members Present via Conference Call:

Lisa Mitiguy Randall – Chair, Rob Alberts, Paul Beaulieu, Tom Candon, Dagyne Canney, Kevin Dorn, Bart Frisbie, Beth Pearce (designee for Jeb Spaulding), Gus Seelig

Staff:

Dave Adams, Scott Baker, Sarah Carpenter, Tom Connors, Pat Crady, Clarence Davis, Joe Erdelyi, Sam Falzone, Lori Gilding, Pat Loller, Elizabeth Mulliken Drake, Cindy Reid

Guests:

Bob Marcellino, Homestead Design, Inc.

Chair Randall called the meeting to order at 9:35 a.m. A quorum of the Board was present.

BOARD MINUTES

It was noted that a correction was made to the December 3, 2007 minutes regarding the authorization of the Issuance and Sale of a Maximum of $100 Million Bonds and Notes in One or More Series to Finance Single Family Mortgages. Ms. Randall did not second the motion to approve the resolution. Mr. Beaulieu seconded the motion to approve the resolution.

Mr. Frisbie made a motion to approve the December 3, 2007 Board of Commissioners meeting minutes as amended. Mr. Candon seconded the motion which was unanimously approved. Mr. Alberts abstained from the vote.

CONSENT AGENDA

Mr. Beaulieu made a motion to approve the item on the Consent Agenda (restated here):

~ Resolution Re: Increase in Proposed Allocation of Allocated Housing Credits for Meadowlane Apartments, Milton.

Ms. Pearce seconded the motion which was unanimously approved.

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HOMEOWNERSHIP

MBS Implementation Plan Update

Mr. Adams reviewed the memo regarding the MBS Implementation Plan enclosed in the Board packet. He reviewed the key items that are expected to require Board action at the February 2008 Board meeting. He asked if there were other issues not presented in the memo that the Board may want addressed.

Ms. Randall requested that staff outline potential program variations between what VHFA does now, and what the Agency would offer under either Freddie Mac or Fannie Mae's programs. Ms. Crady and Mr. Adams explained that because of the proprietary nature of the GSE's automated underwriting systems, detailed comparisons of what loans will or won't be approved by each would be difficult. Staff will provide a comparison between Fannie Mae's "My Community Program" and Freddie Mac's "Home Possible" program parameters.

Mr. Adams provided the names of the companies that will most likely be considered for master servicers.

Changes to Single Family Programs Resulting From Changes by MGIC

Mr. Adams reviewed the memo regarding changes to single family programs as a result of recent changes made by MGIC. He made a verbal correction to the memo in that 15 loans (not one as stated) of the 4,600 loans have been purchased by the Agency in the last five years was approved with a credit score below 575. In spite of the correction the number remains a small percent of loans.

Mr. Adams informed the Board that staff has been working diligently to make changes to the mobile home program. It is the hope that with the changes MGIC will continue to insure the loans. More information on the changes to the mobile home program will be presented at the February meeting.

Ms. Carpenter stated there have been increased restrictions with all mortgage insurance companies. Mr. Seelig asked what level of risk MGIC has experienced with the Agency's portfolio. Mr. Adams stated that the risk level for MGIC is part of the ongoing analysis and that loan losses in the mobile home portfolio from 2000-2007 totaled roughly $959,000 before MI claims. Of this, MGIC paid claims totaling $424,000. Ms. Carpenter indicted that in relative terms, the mobile home portfolio does experience a higher loss ratio than the remainder of the portfolio.

Ms. Crady stated MGIC will continue their favorable pricing on the majority of the loans through the Agency. The impact will be when credit scores are below 659 and 95% of financing is required. Mr. Adams informed the Board that when the new pricing structure was announced by MGIC in December, staff performed an analysis of other mortgage insurance companies and determined that MGIC continues to be competitive and in some cases better than others. Mr. Candon asked how many fewer loans could the Agency write based on the new parameters set by MGIC. Ms. Crady explained that there will be a lot of other factors affecting the volume of loans for the upcoming year and she does not expect the changes implemented by MGIC to be the sole reason for volume decrease. Ms. Carpenter stated VHFA continues to be a better option to some borrowers therefore the loan volume may not decrease.

Mr. Adams informed the Board that the Agency is giving serious thought to purchasing loans if they are approved for mortgage insurance coverage. Ms. Randall cautioned that the loans granted should be contingent upon a combination of DU, LP approval and the ability to purchase mortgage insurance. Mr. Adams confirmed that was also staff's intent. Ms. Crady stated the intent of the program is to have underwriting criteria that consistently mirrors the conventional market, so that every time the mortgage insurance companies change their plans the Agency does not have to adjust its criteria. More information will follow at a later meeting.

FINANCE

Elimination of Statutory Debit Limitation

Ms. Carpenter reviewed the material enclosed in the Board packet regarding Debt Limitations. Ms. Pearce stated that she supported the debt limit change prior to leaving the meeting at 10:00 a.m. for a half hour.

Mr. Seelig made a motion to recommend Elimination of Statutory Debt Limitation. Mr. Beaulieu seconded the motion which was unanimously approved.

OTHER

2008 Board Schedule

Ms. Carpenter explained her conflicts with the scheduled Board meetings on June 26 and September 25, 2008. She asked if anyone objected to rescheduling those meetings. There were no objections. Ms. Gilding will coordinate.

DEVELOPMENT

Brookside, St. Albans

Mr. Davis reviewed his email to the Board requesting a waiver of the mixed income requirement of the consolidated plan. After discussion, the Board said that they would entertain a request for a waiver from the mixed income requirement should the project move forward.

ADMINISTRATION

Healthcare

Ms. Carpenter informed the Board that the Agency's healthcare premiums have increased approximately 18% for the upcoming year. The decision has been made to continue with the current healthcare plan for 2008 and to raise staff's contribution to 4% of salary from 3% of salary. She informed the Board the Agency will be looking again at a Health Savings Account program by the end of 2008. A HR Committee of the Board meeting will be scheduled to discuss the topic and an update will be presented to the Board.

Mr. Seelig made a motion to adjourn the meeting. Ms. Canney seconded the motion and the meeting was adjourned at 10:25 a.m.

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Vermont Housing Finance Agency

TO: VHFA Board of Commissioners

FROM: Clarence E. Davis, Development Underwriter

DATE: December 20, 2007

RE: Request for increase in Allocated Housing Credits: Meadowlane Apartments, Milton

Recommendation: That the VHFA Board of Commissioners approves the staff recommendation as outlined below and approve the attached resolution.

Summary of Request: The Allocation Plan allows for the staff to increase credit amounts up to 5% more than the amount awarded, due to fluctuations in the budget between Board action and the finalization of project costs. Housing Foundation Inc. (HFI), the sponsor of Meadowlane Apartments in Milton, is seeking a credit increase of more than 5% and so requires Board approval. The impact of this change on the remaining credit ceiling is as follows:

2007-2008 credits currently available:	$400,567
- Additional for Meadowlane	($31,000)
Revised credits available	$369,567

Project Background: Meadowlane Apartments currently consists of 20 independent senior apartments with Section 8 rental assistance on all units. The parcel has appropriate zoning and is large enough for 16 additional units to be built. HFI has obtained commitments of USDA Rural Development (RD) financing through their 515 program, rental assistance for 15 units, and a 538 program loan guarantee and interest rate subsidy for a VHFA permanent loan (VHFA approved financing and a tax credit commitment at the September Board meeting). The project was approved originally for $295,000 in Housing Credits , the credit increase requested is approximately 9% or $31,000. The total amount then allocated to the project would be $326,000.

The project is slated to close in late January or early February 2008 with construction to begin in the spring of the same year. The last remaining variable is the Vermont Community Development Program (VCDP) funding award. At the last VCDP funding round, there were many more funding requests than funding available. In order to make their VCDP application more competitive, the sponsors would like to maximize the amount of allocated Housing Credits requested from VHFA. This in turn allows them to reduce their request to VCDP from $525,000 to $297,000 thereby increasing the likelihood of a VCDP award. A VCDP Board decision will not be rendered until after the January VHFA Board meeting. However, the lower request to VCDP makes the project more likely to be funded in the near future, and would allow the project to move forward according to the current schedule.

Staff Recommendation: Staff recommends approval of $31,000 in additional allocated tax credits for HFI for Meadowlane Apartments.

VERMONT HOUSING FINANCE AGENCY

RESOLUTION RE: INCREASE IN PROPOSED ALLOCATION OF ALLOCATED HOUSING CREDITS FOR MEADOWLANE APARTMENTS, MILTON

WHEREAS, the Vermont Housing Finance Agency (the "Agency") is authorized by the Vermont Housing Finance Agency Act to issue bonds and borrow monies and to make loans to finance projects for persons and families of low and moderate income; and

WHEREAS, an application has been submitted to the Agency by Housing Foundation, Inc. (the "Sponsor") on behalf of a to be formed limited partnership in which the Sponsor or its subsidiary will be the general partner (the "Owner") involving the acquisition, rehabilitation and construction of a total of thirty-six (36) units of senior rental housing in the Town of Milton (the "Development"); and

WHEREAS, the Agency administers the allocation and use of the federal Low Income Housing Tax Credits (both Allocated Housing Credits and Bond Housing Credits) and the State Housing Credits under the State's Qualified Allocation Plan; and

WHEREAS, the Governor of the State of Vermont has approved the 2005-2006 Qualified Allocation Plan; and

WHEREAS, the Board of Commissioners has been presented with a memorandum from Clarence Davis dated December 20, 2007, containing information and recommendations about the Development (the "Memorandum") that will amend a certain resolution of the Board of Commissioners dated October 1, 2007;

WHEREFORE, it is hereby RESOLVED:

1. The recommendations for the increased allocation of Allocated Housing Credits contained in the Memorandum which is attached and incorporated by this reference are hereby approved;

2. The Executive Director and the appropriate staff are hereby authorized to take such actions as are described in the 2005-2006 Qualified Allocation Plan regarding the proposed allocation of federal Allocated Housing Credits in an increased total amount of $326,000.00 for Meadowlane Apartments in the Town of Milton, Vermont.

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Vermont Housing Finance Agency

MEMORANDUM

TO: VHFA Board of Commissioners

FR: Dave Adams, Chief of Program Operations &
Pat Crady, Director of Home Ownership Programs

DT: December 27, 2007

RE: Status Update – MBS Implementation Plan

At its meeting in October, the Board authorized staff to continue to move forward with the development of an implementation plan for transitioning from a Whole Loan Structure to a structure based on Mortgage Backed Securities. This memo is written to provide the Board with an update on what staff is working on with a goal to provide an implementation plan for Board review and approval at its February meeting. Key elements that will ultimately require Board approval as part of the implementation plan are the following.

- **Approval from board to enter into negotiations for a Master Contract with either Freddie Mac or Fannie Mae.** Decision to be based primarily on pricing and program parameters offered by each. We will also need to take into account current access and seller/servicer approval status of our major lending partners. Staff has conducted a lender survey to aid in that determination.

- **Approval of an RFP and a short list of Master Servicers to send the RFP to.** Staff has scheduled a number of conference calls with other state HFA's who have or are in the process if implementing an MBS structure to get their input. Staff is scheduling calls to a short list of Master Servicers to determine the services offered by each and general pricing practices.

- **Approval of proposed restructuring of Lender Fees and time frame for implementation.** Staff is reviewing the financial implications provided to us by Piper Jaffray in October and will make a recommendation to the Board in February.

- **Review of proposed changes to the VHFA Mobile Home Program.** Jacklyn is performing an extensive review of the mobile home portfolio. We will work with our Financial Adviser, Bond Counsel and the Rating Agencies, and MGIC to develop a recommended financing structure that reflects the portfolio's performance.

Dave, Pat and Jacklyn are meeting weekly and pulling in others as needed to review a comprehensive task list that Jacklyn has created. This task list will be the foundation underlying the implementation plan.

This information is provided to keep the Board informed and to respond to any questions you may have. No Board action is requested at this time.

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Vermont Housing Finance Agency

MEMORANDUM

TO: VHFA Board of Commissioners

FR: Dave Adams, Chief of Program Operations
Pat Crady, Director of Homeownership Programs

DT: December 27, 2007 for meeting January 7th, 2008

RE: **Changes to Single Family Programs resulting from changes by MGIC**

We have been notified by MGIC that they are making a number of changes to their underwriting requirements as well as to their insurance premium schedules. The changes from MGIC will be effective with applications taken on or after February 1st, 2007. The changes are in line with what we are seeing from competing mortgage insurers. The key changes that affect the VHFA Single Family Program are as follows:

I. **Applicants with credit scores of 574 or less are no longer eligible to be insured.** Although it might be possible to insure these loans with Rural Development, only one loan has been approved by the Agency for purchase in the last five years with a credit score below 575. Staff feel we should adopt this as a formal limit that reflects out underwriting experience.

II. **For applicants with credit scores between 575 and 619 the maximum LTV is 95% and the mortgage insurance premiums will increase and based on MGIC's Expanded Criteria "A-"pricing schedule.**
VHFA does not restrict lenders from insuring loans with other mortgage insurance companies. Lenders may choose another MI company if they find one with a lower premium structure. Rural Development will continue to be an option for VHFA loans.

III. **For applicants with credit scores between 620 and 659, loans with LTV's greater than 95% (up to a maximum of 97%) will be subject to MGIC's standard premium schedule, but no longer eligible for the more favorable MGIC/HFA rates.**
Loans with LTV's less than 95% will continue to receive the benefit of the lower MGIC/HFA insurance premium schedule.

No Board action is required. This memo is provided to keep the Board informed of the changes we are seeing as underwriting criteria in the housing market continue to tighten. Further changes are expected and staff is being proactive with MGIC in changes that may affect the Agency while also monitoring changes from other mortgage insurance companies.

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Vermont Housing Finance Agency

MEMORANDUM

TO: VHFA Board of Commissioners

FROM: Sarah Carpenter

DATE: January 2, 2008

RE: Elimination of Statutory Debt Limitation

As we have discussed this fall, with our increases in loan volume and decrease in prepayments, VHFA is dangerously close to reaching our statutory debt limit Attached you will find ~~several~~ bits of correspondence I have had with Mike Smith's office about the background and dropping VHFA's statutory debt limit. I have also had these same conversations with Jeb Spaulding and Beth Pearce who have also conferred with the State's financial advisor about this, as we have with Piper Jaffry and Kutak Rock. We all agree that droping the limit makes the most sense and is unnecessary at this time.

Attached you will find a resolution formally recommending this.

From: Sarah Carpenter [mailto:scarpenter@vhfa.org]
Sent: Monday, December 17, 2007 11:08 AM
To: Smith, Mike K
Cc: Beatty, David; Reardon, Jim; Tom Connors
Subject: VHFA Debt Limit

Mike –

As I have mentioned to you VHFA has an urgent need to eliminate or lift our current debt limit which currently stands at $900,000,000. If we do not get this fixed shortly into the legislative year our business could come to a halt. How would you recommend proceeding with this? Is there a bill that should pass early on in the session that we could attach this to? Can we discuss that after the meeting on bond cap today?

- Our balance of total debt (bonds and notes payable) at the end of September 2007 was $891 million. After the debt service on November 1, it dropped to around about $840 million. This gives us room for one more small single family bond issue in early 2008.

- The increase in our total debt has accelerated over the past few years as follows: 6/2005 - $615mm, 6/2006 - $640mm, 6/2007 - $744mm, 9/2007 - $891mm. This is because of several factors, including;
    - the increase in the average price of homes
    - loan originations at an all-time high, doubling from 2003 ($173 mm in FY 2007 vs. $88mm in 2003
    - an increase in demand for our programs, because of several factors including the collapse of the sub-prime market
    - a slowdown in prepayments, because mortgage rates dropped and stabilized at an historically low level (collections were $136mm in 2003 vs. $78mm in 2007)

- VHFA would like to recommend that the debt limit be eliminated for the following reasons:
    - The debt of the VHFA does not have a direct impact on the debt of the State of Vermont. We have an independent issuer rating.
    - The VHFA has a long track record of managing its debt responsibly. Our bonds are rated by Wall Street rating agencies that are conservative in the way they rate our bonds and take the financial health into consideration during the rating process. They are the watchdog for the bond holders.
    - Other Vermont State issuers have no debt limits.
    - Other states have no debt limit, including Florida, Oklahoma, Wisconsin, Colorado, Pennsylvania, Mississippi, South Carolina and Ohio (approximately 1/3 of the sample).

- Our per capita debt limitation is lower than comparable small population states like New Hampshire and Montana. New Hampshire's total debt limit is $2 billion. Montana's is $1.5 billion.

Thanks.

Sarah

Sarah Carpenter
Executive Director
Vermont Housing Finance Agency
802-652-3421
scarpenter@vhfa.org

From: Beatty, David
Sent: Tuesday, January 01, 2008 8:35 PM
To: 'Sarah Carpenter'
Cc: Tom Connors
Subject: RE: VHFA Debt Limit

Sarah,

I have a couple of questions:

Thank you.

David Beatty
109 State St., 5th Fl, Montpelier, VT 05609-0401
Finance & Management Budget Analyst
802-828-6453 (desk)
802-828-2428 (fax)
802-793-9491 (cell)

Hi David –

Thanks for your questions:

1. Why does the VHFA have a debt limit when the other issuers don't?
I am not sure why we have a debt limit and the others do not. VHFA started in 1974 primarily issuing bonds for single family loans. At that time the State also had a mortgage insurance agency, Vermont Home Mortgage Guarantee Board (VHMGB), which had more direct liability to the State. When then idea of issuing mortgage revenue bonds was proposed I think originally it was to be one agency, however it was decided that VHFA should be a separate independent instrumentality. Because VHMGB was guaranteeing most of VHFA loans that might have been the reason for the limit. VHMGB was abolished in 1999 and all our loans that require mortgage insurance use private companies like MGIC or programs like Rural Development, FHA or VA. On the home ownership side loan losses over the limits would be covered by the PMI

   In 1977 VHFA began issuing bonds to fund the new federally funded Section 8 multi-family housing. Our limits were raised and VHFA was also authorized to issue "moral obligation bonds". I would guess that was in response to the market particularly around this new federal program. In 1989 our moral obligation authority was increased to $125 million. At the moment we have about $92 million out standing in moral ob bonds and have not used that authority since 2004. At that time VHFA received an independent agency General Obligation bond rating of A2 from Moody's. Our current bond resolution is rated AA by Moody's and Fitch and we usually insure up to AAA.

   I believe that VSAC's stautues explicitly prohibit moral obligation bonds which may be why they had no limit. Also their individual loans sizes were smaller, and

I think originally they were working much more closely with local lenders on their programs. I understand that VEDA has limits on certain authorized programs where the state has a liability but not on the agency as a whole. The Health and Ed authority has no limits; their bonding is driven by the needs of the institutions. I think that is also the case for the Bond Bank which has no limits; although it is unclear to me why they issue with state moral obligation.

2. Why has the debt limit stair-stepped up since 1974? Has the proposal of an unlimited ceiling been broached before? What happened?
I have attached the schedule of our debt limit history which I sent you earlier. The big increases in the 1980's were probably due to large loans in related to the federally subsidized multi family loans. Subsequently in the 1990's we also saw huge increases in the average loan size because of increases in house prices. The last few years, with historically low rates, we have had a big increase in volume and a decrease in prepayments that affects our debt limit. We expect this trend to continue particularly though the sub-prime crisis. The VHFA loan products are the type of loan product many first time and low income borrowers should be using and because of the credit crunch will have many fewer choices. With interest rates still low and home values leveling off we also expect prepayments (and refinancing) to slow down.

3. Who wouldn't want the VHFA's debt to be unlimited?
As I said I think the limit is a function of history and is not necessary any more. Most of the states with limits have a higher per capita limit and in a number of states with limits there is a much more direct tie to state government or greater moral ob or state GO authority. In a number of states the HFA is part of state government and not an independent instrumentality. Of the states we polled, about a third had no limits at all. Since our debt limit does not affect the state I don't know who would have a problem with is having no limit. The greatest concern we have, other than serving our customers, is that if we had to discontinue lending for ant reason because we had reached our debt limit it would affect our mortgage loan originators and lenders we work with who rely on the VHFA mortgage as being available on a daily basis. The VBA, VMBA and the developers of multi-family housing will be our biggest advocates in wanting to make sure that our lending capacity is not slowed down.

4. Do we have this recommendation from the Board of Commissioners to the Governor?
The Board has discussed dropping the limit. I will ask them to formally recommend it at their January 7th meeting.

Sarah

Sarah Carpenter
Executive Director

VERMONT HOUSING FINANCE AGENCY

RESOLUTION RE: ELIMINATION OF STATUTORY DEBT LIMITATION

WHEREAS, the Vermont Housing Finance Agency (the "Agency") has been subject to a statutory debt limitation of $900,000,000 pursuant to 10 V.S.A. §631(a)(1) since 1990; and

WHEREAS, this debt limitation has increased many times since the Agency's creation; and

WHEREAS, the Agency wishes to eliminate this limitation so that it may continue its homeownership and multifamily rental programs as the market demands;

WHEREAS, the Agency wishes to authorize the Executive Director and the Agency staff to work with the Governor's Office and the Vermont Legislature to accomplish this change;

NOW, THEREFORE, IT IS HEREBY RESOLVED:

The Agency hereby authorizes the Executive Director and, as directed by the Executive Director, the Agency staff to work with the Governor's Office and the Vermont Legislature to accomplish a statutory change to eliminate the Agency's statutory debt limitation.

History of changes to VHFA Debt Limit as stated in Title 10, Chapter 25, Section 631(a)(1)
of the Vermont Housing Finance Agency Act

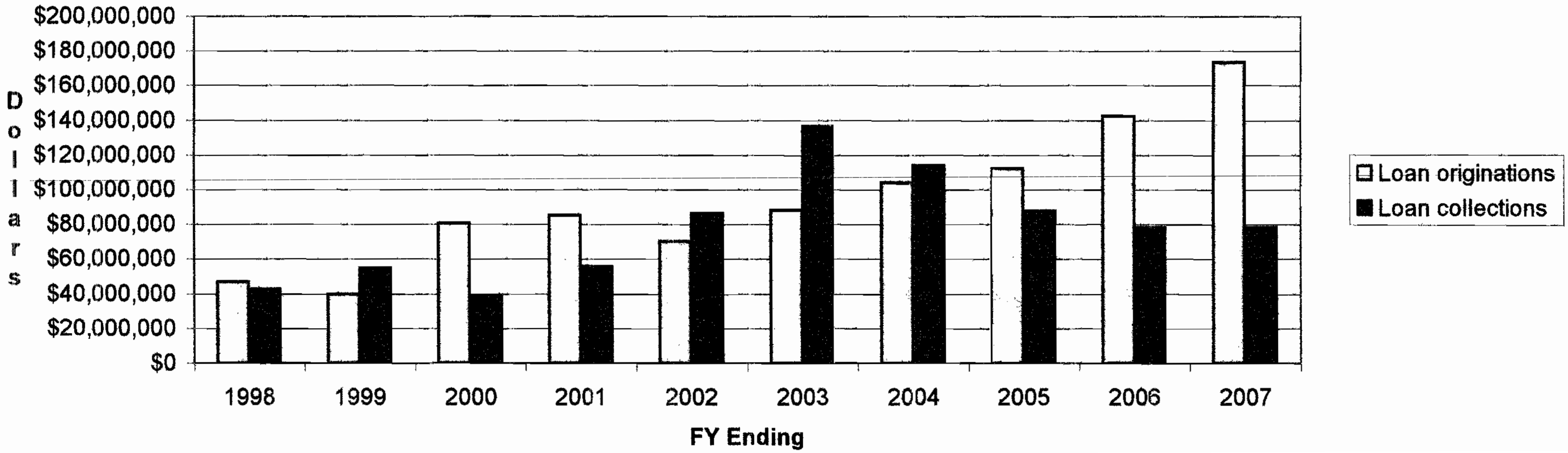
Effective	Statutory Debt Limit	Reference specific to Debt Limit
1974 April 11	$74 million	1973, No. 260 (Adj. Sess.), § 3
1976 March 26	$74 million (no more than $5 million of which for multifamily loans)	1975, No. 176 (Adj. Sess.), § 2
1977 April 20	$84 million	1977, No. 47, § 3
1978 July 1	$110 million	1977, No. 199 (Adj. Sess.), § 2
1979 April 18	$185 million (no less than $2.5 million set aside to finance development of multifamily units for families with children eligible for federally subsidized rents)	1979, No. 36, §§ 2,4
1980 March 20	$300 million (no less than $10 million reserved for new building or rehabilitation of housing for up to six (6) families, for families with children eligible for federally subsidized rent assistance)	1979, No. 97 (Adj. Sess.), §§ 1,2
1983 April 23	$400 million (no less than $10 million reserved for new building or rehabilitation of housing, for families with children eligible for federally subsidized rent assistance) [1]	1983, No. 52, §§ 4,5
1985 July 1	$500 million	1985, No. 94, § 1
1988 June 13	$600 million	1987, No. 250 (Adj. Sess.), § 3
1990 April 20	$900 million	1989, No. 145 (Adj. Sess.), § 1

[1] Technically, this set aside still exists.

VHFA - Outstanding Debt and MLR

Year ended	Notes payable	Bonds payable	**Total debt**	Loan originations	Loan collections	**Mortgage Loans Receivable**
6/30/1998	6,872,769	639,943,346	**646,816,115**	46,908,184	42,835,777	**437,230,175**
6/30/1999	53,302,535	547,093,822	**600,396,357**	39,807,225	54,935,896	**422,635,158**
6/30/2000	95,991,322	568,495,688	**664,487,010**	80,774,775	39,233,652	**464,381,051**
6/30/2001	114,372,292	600,526,102	**714,898,394**	85,338,108	55,748,550	**494,385,705**
6/30/2002	89,536,402	669,556,057	**759,092,459**	70,253,691	86,746,291	**506,762,827**
6/30/2003	46,458,881	620,850,035	**667,308,916**	88,244,138	136,474,097	**456,935,208**
6/30/2004	34,171,314	536,530,192	**570,701,506**	104,283,380	114,212,853	**445,322,983**
6/30/2005	65,820,050	549,396,074	**615,216,124**	112,439,021	88,001,075	**465,703,753**
6/30/2006	66,025,283	574,785,180	**640,810,463**	142,604,540	78,460,206	**529,001,950**
6/30/2007	81,548,855	663,233,472	**744,782,327**	173,649,434	78,305,453	**623,559,508**
9/30/2007	112,582,801	778,528,018	**891,110,819**	66,775,578	13,578,205	**676,635,380**

Loan Originations v. Loan Collections



Total Debt vs. Mortgage Loans Receivable