

Turning VHFA's Down Payment Assistance into a Legacy Program

The need for a Down Payment Assistance Program

- 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. Without them, Vermont loses.
- The recession reduced homeownership rates by 15% among young people (aged 35-44)—far more than among older age groups.
- Only 6 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. So far this year the median home price is 6% higher than it was at the same point last year.
- Providing assistance will support the housing market's recovery which has already begun: the number of sales are up 8% from last year.

How the Program Works

- Vermont Housing Finance Agency (VHFA) was authorized to issue Vermont State Housing Credits in the amount of \$125,000 for each of State fiscal years 2015, 2016 and 2017.
- The tax credits to be issued by VHFA were to be sold by VHFA to fund a down payment assistance program for first-time homebuyers who have a VHFA loan.
- VHFA can lend up to \$5,000 per household in the form of a 0% second mortgage, and no payments are made during the life of the loan. The loan is ultimately repaid to VHFA when the first mortgage is refinanced or the home is sold.

- VHFA estimates it can serve at least 115 first time home buyers if they all received the maximum loan amount available.
- The tax credit is a five-year credit, so the investor (Union Bank) is able to forego \$125,000 in state tax liability for five years.

Program's Early Success

- VHFA was able to sell the tax credits at a very favorable rate (\$0.95 cents on the dollar), well above what is typical in the market for state credits sold recently.
- There is a strong market for the credits, as there were several interested investors, and Union Bank agreed to purchase all three years of available credits at the same high rate.
- VHFA has been marketing the program and demand has been strong in the four weeks VHFA has been taking reservations. In that time frame, about 30% of VHFA's loans have requested down payment assistance, which is a higher penetration rate than previous down payment assistance programs VHFA has offered.

Creating a Legacy Program

- The investment market for this credit would be even stronger if there was a continued commitment by the state to continue this program into the future. More competition could increase the amount of equity raised as lenders compete against each other.
- By creating a sustainable source of funding, VHFA will be able to help additional home buyers each year, and then as homes sell or refinance even after the tax credit expires, those proceeds can be loaned back out to new first time buyers, recycling the public dollars at no additional cost to the state.
- Vermont could **more than double** the number of households receiving assistance and keep it sustained well into the future with an additional two years of funding.
- As the program stands today, about 345 first time buyers will be provided assistance through the program during the three years it is funded. With an additional two years' of funding, that total grows to 834 within the first 10 years of the program, and will increase by about 86 buyers every year thereafter.
- Having funding for approximately 86 buyers per year is large enough to warrant marketing and training to consumers and lenders to keep the program running. Much less than that and it would not be sustainable to offer a down payment assistance program to lenders and consumers if only a handful of buyers are eligible, statewide, annually.

Program as it was passed:

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Total
Annual cost to Vermont								
FY16's Credits	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000			
FY17's Credits		\$125,000	\$125,000	\$125,000	\$125,000	\$125,000		
FY18's Credits			\$125,000	\$125,000	\$125,000	\$125,000	\$125,000	
Total cost to VT	\$125,000	\$250,000	\$375,000	\$375,000	\$375,000	\$250,000	\$125,000	\$1,875,000
Households Receiving Assistance								
# of new loans	115	115	115	0	0	0	17	345
# loans paying back	0	0	0	0	0	17	17	Approx. 15% of loans will repay annually after the 1 st 5 years
# of outstanding loans	115	230	345	345	345	328	311	Portfolio will decline annually

The program will begin to wind down as loans pay off and no new loans are generated.

Program with two years additional funding would make it sustainable:

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Total
Annual cost to Vermont											
FY16's Credits	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000						
FY17's Credits		\$125,000	\$125,000	\$125,000	\$125,000	\$125,000					
FY18's Credits			\$125,000	\$125,000	\$125,000	\$125,000	\$125,000				
FY19's Credits				\$125,000	\$125,000	\$125,000	\$125,000	\$125,000			
FY20's Credits					\$125,000	\$125,000	\$125,000	\$125,000	\$125,000		
Total cost to VT	\$125,000	\$250,000	\$375,000	\$500,000	\$625,000	\$500,000	\$375,000	\$250,000	\$125,000	\$0	\$3,125,000
Households Receiving Assistance											
# outstanding loans at beginning of year	0	115	230	345	460	575	575	575	575	575	
# loans paying back	0	0	0	0	0	17	35	52	69	86	834
# of new loans being made	115	115	115	115	115	17	35	52	69	86	
# of outstanding loans at end of year	115	230	345	460	575	575	575	575	575	575	

While the portfolio would remain around 575 loans, VHFA would have enough loans repay each year to re-lend the money to new buyers, thereby helping approximately 86 additional households annually.

Data since 8/24/15

VHFA's New Down Payment Assistance Program

- Average assistance: \$4,500
 - Average income: \$61,000
 - Average age: 31
 - Average purchase price: \$156,840
 - 86% single family, 14% condos
 - High demand for program: Since program launched 40% of our reservations requested DPA
- | Closed Loans: | |
|---------------|----|
| Addison: | 3 |
| Caledonia: | 6 |
| Chittenden: | 18 |
| Franklin: | 6 |
| Lamoille: | 2 |
| Orleans: | 3 |
| Rutland: | 8 |
| Washington: | 4 |
| Windham: | 7 |
| Windsor: | 3 |