Affordable Housing Portfolio Trend

Year:
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012

Value:
- $1,000,000
- $2,000,000
- $3,000,000
- $4,000,000
- $5,000,000
- $6,000,000
- $7,000,000
- $8,000,000
- $9,000,000
Groton Housing LP
Construction Finance
Vermont housing market trends

Sarah Carpenter
Executive Director
Vermont Housing Finance Agency

June 8, 2012
Number of households is growing, especially in Northern Vermont.
Rising number of households caused by population growth and smaller households

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2010</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>588,067</td>
<td>600,412</td>
<td>2%</td>
</tr>
<tr>
<td>Households</td>
<td>240,634</td>
<td>256,442</td>
<td>7%</td>
</tr>
<tr>
<td>Average household size</td>
<td>2.44</td>
<td>2.34</td>
<td>-4%</td>
</tr>
</tbody>
</table>
Householders aged 45+ account for all of VT’s growth

![Bar chart showing population growth by age group from 2000 to 2010.}

- **2000:***
  - 15-34: 47,661
  - 35-44: 55,497
  - 45-64: 87,879
  - 65+: 49,597

- **2010:***
  - 15-34: 43,477
  - 35-44: 42,017
  - 45-64: 111,721
  - 65+: 59,227

The chart illustrates a significant increase in the 65+ age group, contributing to the overall population growth in Vermont from 2000 to 2010.
Rental vacancy rates in Vermont are consistently low

Data source: U.S. Census Bureau, Housing and Household Economic Statistics Division
Since late 1990s, vacancy rates among owned VT homes are also low

Data source: U.S. Census Bureau, Housing and Household Economic Statistics Division
Except for 2009, Vermont home prices and rents consistently rise.

Data sources: VT Dept. of Taxes and U.S. Census Bureau.
As a result, many households are cost burdened by housing expenses

- Paying more than 30% of income for housing:
  - Renters: 52%
  - Owners: 38%

- Paying more than 50% of income for housing:
  - Renters: 24%
  - Owners: 13%

*Excludes owners without mortgages.
Foreclosures rose in VT, but not as much as in other states

**Date source:** MBA National Delinquency Survey, Q1 2012.
Gaps (and opportunities) for Vermont

• Older housing stock needs updating to remain safe and energy efficient (One-third of all homes were built before 1950)

• Pace of rental stock growth not likely to meet future demand.

• Many towns lack owner homes that are affordable and small enough to suit changing demographics of the population.

• Location of affordable homes and rental options translate to long commutes for many Vermont workers.
Housing Vermont - Portfolio

- Raised more than $246 million in equity
- Created over 4,400 units of affordable housing
- 140 active properties
- Average property size consists of 27 units
- 24% of our portfolio includes commercial space
Housing Vermont Portfolio
Our residents across the state

- Typical household in HV’s portfolio: 2-person female-headed family with an annual income of $19,341
- HV’s portfolio is comprised of 28% seniors and 72% non-seniors
Current Trends

- Overall portfolio vacancy remains strong at 4.4% (purple line). We continue to see signs of improvement.

- All market regions except Central and Bennington improved in 2011 from 2010.
Employment

- 82% of Grand Isle residents have a round-trip commute greater than 20 miles
- More than 13% travel farther than 50 miles round-trip
Reduction in Resources
Vergennes Senior Housing

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity - LIHTC</td>
<td>$2,751,116</td>
</tr>
<tr>
<td>VT Housing &amp; Conservation Board</td>
<td>216,000</td>
</tr>
<tr>
<td>HOME</td>
<td>175,000</td>
</tr>
<tr>
<td>CDBG-VCDP</td>
<td>660,000</td>
</tr>
<tr>
<td>Efficiency VT</td>
<td>14,000</td>
</tr>
<tr>
<td>HUD 202 &amp; EDI, CHDO Green, TCAP</td>
<td>2,393,946</td>
</tr>
<tr>
<td><strong>TOTAL SOURCES</strong></td>
<td><strong>$6,210,062</strong></td>
</tr>
</tbody>
</table>
CHAMPLAIN HOUSING TRUST
Business Opportunities in Community Development Lending
Federal Reserve Bank of Boston

June 8, 2012

Bright Street
Target Area Renewal
$ 250 million in assets
$ 6.8 million operating budget
$ 45 million in annual development
70 Employees
Livable wage commitment
1,500 apartments
$18,000,000 in gross annual rent
500+ homes in shared equity homeownership portfolio
2 Home-ownership centers
3-County Home Rehabilitation Program
Resident communities’ services- 460 homes
Neighborhood Redevelopment

New Life in the Old North End

In 1959, the Old North End neighborhood was experiencing a period of decline, with many people leaving the area due to economic challenges and social issues. However, a group of community activists and local leaders came together to create a plan for revitalizing the neighborhood.

The Old North End Community Land Trust was formed, with the goal of preserving and improving the neighborhood. They worked with local businesses and residents to create a more vibrant and sustainable community.

The Trust focused on developing affordable housing, improving public spaces, and creating opportunities for economic growth. They also worked to improve the physical infrastructure of the neighborhood, such as streets and sidewalks.

Over time, the Old North End became a model for urban renewal, with a growing number of people choosing to stay in the area and contribute to its success. Today, the neighborhood is a thriving community, with a variety of businesses and social programs, and a strong sense of pride among its residents.

See North End, page 4.
Redevelopment Area

Bright Street
Redevelopment Area
Archibald Street
Bright Street Potentials
Bright St. Redevelopment

- Currently own .8 acre site with two homes on Bright St. (financed by VCLF) and .5 acre site on Archibald with 9 apartments

- Additional adjacent 2 acre site for sale now- It is a brownfield

- Chittenden County Regional Planning Commission is providing Phase II Environmental Assessment

- Meeting with neighborhood leaders in June to begin design process

- Expect 30-60 rental units and possibly some homeownership

- At $250,000 per unit total development cost is $7,500,000 – $15,000,000

- Sources would include: LIHTC, Homeownership Tax Credits, VHCB, HOME, FHLB
### Project Costs vs. Project Funding

<table>
<thead>
<tr>
<th>Project Costs</th>
<th>Project Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>26.35% Purchase of Machinery and Equipment, Parts and Tooling</td>
<td>37.53% CNB, 21.47% of loan at fixed rate for 6.5 years, thereafter adjusted quarterly to FHLB+3.0%. Interest only 18 months, thereafter 10 year term and amortization. 80% USDA-RD guarantee</td>
</tr>
<tr>
<td>55.32% Fit-Up Expenses; 17.40% as Equipment, and 37.92% of fit-up affixed to leased facility</td>
<td>16.06% VEDA Participation in CNB’s Loan, resulting in 64.9% guarantee. VEDA, EROP WSJ Pr-3%, floor of 2.0% for 3 years, thereafter VEDA Tax-Exempt rate. Interest only up to 18 months, 10 year terms and amortization.</td>
</tr>
<tr>
<td>3.85% Construction carry costs, professional fees, lease deposit</td>
<td>10.44% CDBG Grant, 1%, interest only for 2 years, 10 year term</td>
</tr>
<tr>
<td>4.95% Moving costs, lease carry costs</td>
<td>12.04% VSJF Subordinated Debt, Fixed rate, 8 year term, interest only 18 months, negotiated royalty based on % of gross sales</td>
</tr>
<tr>
<td>3.51% Lease payoff</td>
<td>20.07% Landlord Fit-Up Contribution</td>
</tr>
<tr>
<td>3.01% Project Contingency</td>
<td>19.92% Owner Equity</td>
</tr>
<tr>
<td>3.01% Working Capital</td>
<td></td>
</tr>
<tr>
<td>100% Total Project Costs</td>
<td>100% Total Project Funding</td>
</tr>
</tbody>
</table>
Capital Continuum

**Lower risk, lower reward**
- **Banks**
  - Risk averse, collateral based

**Lower risk, lower reward**
- **VSJF Flexible Capital Fund**
  - Sub debt, royalty financing, risk tolerant, no ownership dilution

**Higher risk, higher reward**
- **Community-based Lenders / Revolving Loan Funds**
  - Collateral and / or cash flow based, mission driven
  - EXAMPLES: VT Community Loan Fund, Community Capital of Vermont

**Higher risk, higher reward**
- **State and Federal Government**
  - Collateral driven, looks at past performance
  - EXAMPLES: VEDA

**Higher risk, higher reward**
- **Angel Investors and Venture Capital**
  - High risk tolerance, ownership position, requires exit strategy
  - EXAMPLES: North Country Angels, Fresh Tracks Capital

**Higher risk, higher reward**
- **Friends, Family, Fools**
  - Higher risk, may never see a return

**Higher risk, higher reward**
- **Grants**
  - Potentially risky to funder, but no repayment required by grantee
  - EXAMPLES: VSJF, REAP, USDA Rural Development

**Higher risk, higher reward**
- **Program-Related Investments**
  - Very mission driven, equity or debt, usually lower returns required
  - EXAMPLE: Castanea Foundation

Questions? Comments? Contact flexcap@vsjf.org
Definitions:

- **Debt**: Amount of money borrowed by one party from another. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.

- **Subordinated Debt**: A loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings. In the case of default, creditors with subordinated debt wouldn’t get paid out until after the senior debt holders were paid in full. Therefore, subordinated debt is more risky than unsubordinated debt.

- **Royalty financing**: Is not readily available in Vermont. It is based on a company selling a piece of gross revenue instead of selling ownership – hence it’s often called “near equity.” In exchange for a loan, the company gives the investor a percentage of sales until the investor has received back principal plus additional interest negotiated with the investor.

- **Convertible Debt**: Instruments that are essentially asset-backed loans that can require the business owner to give up some future equity (ownership) in the business if the lender wishes to convert the debt to an equity position in the company.

- **Equity financing**: The act of raising money for company activities by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation.

- **Grants**: Contribution, gift, or subsidy (in cash or kind) bestowed by a government or other organization for specified purposes to an eligible recipient. Grants are usually conditional upon certain qualifications as to the use, maintenance of specified standards, or a proportional contribution by the grantee or other grantor(s).

- **Program Related Investments (PRIs)**: Investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs include financing methods such as loans, loan guarantees, and even equity investments in charitable organizations or in commercial ventures for charitable purposes.

Business Opportunities in Community Development Lending

Responding to Vermont’s Changing Housing Environment

June 8, 2012
Kenneth A. Willis
First Vice President
Federal Home Loan Bank of Boston
Today’s Topics

- Introduction of FHLB Boston
- Community Investment Programs
- Our Response, Current Changes, and Potential Solutions to Vermont’s Housing Environment
FHLB Boston

- A cooperatively-owned, wholesale bank
- Served shareholders since 1932; 463 members
- Over $50 billion in assets (12/31/2011)
- Enhance the availability of credit by providing liquidity products and services that facilitate housing and economic growth
- Administer Housing and Community Investment Programs
- Over 20 years of working with members and housing developers
Membership Profile

463 Members: 212 thrifts, 154 credit unions, 70 commercial banks, 27 insurance companies

**Massachusetts**
- 239 members
- Advances: $9.4B
- Capital Stock: $1.1B

**Connecticut**
- 78 members
- Advances: $4.0B
- Capital Stock: $493M

**Maine**
- 61 members
- Advances: $2.1B
- Capital Stock: $183M

**New Hampshire**
- 34 members
- Advances: $1.1B
- Capital Stock: $104M

**Vermont**
- 29 members
- Advances: $0.4 billion
- Capital Stock: $58M

**Rhode Island**
- 22 members
- Advances: $6.9B
- Capital Stock: $1.7B

As of 12/31/11
## Affordable Housing Programs

<table>
<thead>
<tr>
<th></th>
<th>CT</th>
<th>MA</th>
<th>ME</th>
<th>NH</th>
<th>RI</th>
<th>VT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Development Advances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ Disbursed</td>
<td>$1,853.3</td>
<td>$6,903.7</td>
<td>$1,013.5</td>
<td>$684.8</td>
<td>$351.3</td>
<td>$617.4</td>
<td>$11,424.0</td>
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<tr>
<td>Small Business Funding</td>
<td>$473.0</td>
<td>$1,316.5</td>
<td>$561.8</td>
<td>$192.1</td>
<td>$78.3</td>
<td>$287.0</td>
<td>$2,908.7</td>
</tr>
<tr>
<td>Total CDA Housing Units</td>
<td>10,511</td>
<td>51,158</td>
<td>7,555</td>
<td>7,831</td>
<td>2,764</td>
<td>4,576</td>
<td>84,395</td>
</tr>
<tr>
<td>Affordable Housing Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Subsidy/Grant</td>
<td>$22.4</td>
<td>$77.4</td>
<td>$24.9</td>
<td>$13.1</td>
<td>$9.3</td>
<td>$10.9</td>
<td>$158.0</td>
</tr>
<tr>
<td>Subsidized Advances</td>
<td>$25.8</td>
<td>$88.9</td>
<td>$10.5</td>
<td>$13.3</td>
<td>$19.1</td>
<td>$20.8</td>
<td>$178.4</td>
</tr>
<tr>
<td>Total AHP Subsidy</td>
<td>$28.6</td>
<td>$93.6</td>
<td>$27.8</td>
<td>$16.2</td>
<td>$13.8</td>
<td>$15.6</td>
<td>$195.6</td>
</tr>
<tr>
<td>Total AHP Units</td>
<td>3,147</td>
<td>13,250</td>
<td>2,576</td>
<td>1,435</td>
<td>1,154</td>
<td>1,584</td>
<td>23,146</td>
</tr>
<tr>
<td>Equity Builder Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ Disbursed</td>
<td>$1.6</td>
<td>$7.0</td>
<td>$2.1</td>
<td>$1.2</td>
<td>$0.9</td>
<td>$2.9</td>
<td>$15.7</td>
</tr>
<tr>
<td>Total EBP Units</td>
<td>159</td>
<td>737</td>
<td>203</td>
<td>91</td>
<td>72</td>
<td>258</td>
<td>1,520</td>
</tr>
<tr>
<td>Total Housing Units</td>
<td>13,817</td>
<td>65,145</td>
<td>10,334</td>
<td>9,357</td>
<td>3,990</td>
<td>6,418</td>
<td>109,061</td>
</tr>
</tbody>
</table>

Data as of 12/31/11
Affordable Housing Program

- Funded through 10% of the Bank’s annual net earnings
- Provides flexible grants and subsidized loans for affordable housing production and preservation
- Use for acquisition, hard and soft construction, developer fee, interest rate buy-down, home-ownership counseling costs, and down payment/closing cost assistance
- Supports all rental and homeownership housing models
- Members underwrite and submit applications with developers
- Competitive funding round, over $13.7 million subsidy in 2012
Equity Builder Program

- A separate set-aside of the Bank’s Affordable Housing Program -- $2.4 million available in 2012
- Grants up to $10,000 for the purchase of a home
- Assists home buyers that qualify for a mortgage, but lack funds for down payment and/or closing costs
- Covers rehabilitation cost in connection with purchase
- Leverages members’ existing residential mortgage products, helps to expand residential lending
- Can be used in conjunction with other subsidy and down-payment assistance programs
Community Development Advance

- Discounted advance that supports affordable housing, economic development, and mixed-use initiatives

- Eligible housing includes single-family and multi-family owner-occupied and rental housing, cooperatives and manufactured housing parks

- Eligible economic development includes commercial, industrial, manufacturing, social service, public facility, and public or private infrastructure

- Eligibility based on geographic and targeted beneficiaries of the funds
Response to Changing Environment

- Annually develop a Community Lending Plan that identifies the housing and credit needs (rural and urban)

- Conduct community development consultations, outreach, and forums with financial institutions and community stakeholders

- Leverage ideas and recommendations of 14 member Advisory Council comprised of housing and economic development nonprofit organizations and HFAs

- Translate recommendations into Affordable Housing Implementation Plan and programmatic changes
Examples of Responses: Revolving Loan Funds/CDFIs

- Revolving Loan Funds can now access the AHP and relend principal and interest repayments for subsequent lending to eligible projects.

- Certified, non-depository CDFIs can now become members of the FHLB Boston:
  - Access to long-term, fixed rate capital at low interest rates in a variety of terms and maturities.
  - Access to community investment programs.
  - Meet the lending needs of their communities.
  - Evolve business model from short-term to longer-term lenders.
Example of Responses: VT Disaster Recovery Roundtable

- Held a roundtable with key leaders to discuss ways in which we could augment our programs to assist in the recovery efforts of households and businesses impacted by Hurricane Irene

  - Research income limit metrics to possibly expand the number of eligible households (MRB vs. HUD)
  
  - Create a separate set-aside program that would allow rehabilitation funds for existing home owners (AHP)

  - Research mechanism to allow subsidy to write down interest rate on mortgage financing

  - Work with group of mobile home financing product – CDA Extra could be used as the underlying funding source (lower costs of funding, long-term match funding, mitigate interest rate risk)
Bottom line

- FHLB Boston partnership model with its members brings private capital and subsidy to meet changing housing and economic development needs.

- Current community investment programs are having a significant impact on housing and community economic development.

- Community Investment Programs can be adapted to deal with the new funding, lending, regulatory, and housing environment.

- FHLB Boston will continue its outreach efforts and role as facilitator and convener to bring housing and economic development issues to light in an attempt to develop flexible and creative solutions.
ACCESS TO CREDIT AND COMMUNITY DEVELOPMENT

JEFF FUHRER, EVP AND SENIOR POLICY ADVISOR
FEDERAL RESERVE BANK OF BOSTON
JUNE 8, 2012
So dating is relatively easy.
How is marriage?

- Not as easy
  - The easy deals have (for the most part) already been made
  - So the next deals will be more complicated

- The complications
  - Multiple funding sources
  - Long time horizons
  - Regulations and compliance issues
  - No one entity knows how to do every piece of this
In our “Resurgent Cities” research, collaboration is identified as a vital prerequisite.

“Time and again, our examination of the resurgent cities’ histories indicated that the resurgence involved leadership on the part of key institutions or individuals, along with collaboration among the various constituencies with an interest in economic development.” (Kodrzycki and Muñoz, 2009)

Collaboration—across private financial institutions, CDFI’s, economic development agencies, government orgs, regulatory experts, etc.—is just as critical to community development deals.
At our most recent Community Development Advisory Council (CDAC) meeting, it was noted that

- Deals routinely take a long time to reach maturity—from a couple years to as long as five years or more
- This requires building enduring relationships among the many partners
  - Partners need to **seek each other out** and nurture these relationships while the pipeline is being built
- CDAC members noted the need for “patient and flexible capital”
A Picture of Collaboration: VT Smoke and Cure Financing

Contribution to Funding

- 20.1% CNB Loan (80% USDA guarantee)
- 19.9% VEDA loan participation
- 16.1% CDBG grant/loan
- 12.0% Subord. Debt (royalty on gross sales)
- 10.4% Landlord fit-up
- 10.4% Owner Equity
Some thoughts on affordable housing

First: Employment matters most

Second: Two viable models

- Manufactured housing, and

- Subprime lending!!! (yes, you heard that right)

  (But we’ll call it something different)
The manufactured housing model

- ROC-NH rocks
  - Housing is affordable ($41K average loan)
    - 57% low and very low income borrowers since inception
    - 67% low and very low income borrowers 2011
    - 56% first time homebuyers
  - Housing can be clustered and thus environmentally beneficial
- The default rates can be very low
  - For ROC: Cumulative loss rate = 1.4%
- How does that happen?
  - They work closely with borrowers who experience trouble
- That sounds expensive
  - But it’s profitable!
The subprime population is too high risk, and should not get mortgages
- Historical defaults rates for subprime about 2% in US

Subprime mortgages are “exotic”: Option-ARMs, Neg-Ams, IO, etc.—we should stay away from predatory products
- NO: In fact, VERY FEW of subprimes were this type of mortgage
- Almost all were 2/28 or 3/27 ARMS

OK, but that’s why they defaulted—the ARM resets!
- NO: Little or no evidence of any reset effect
- (In fact, many reset to lower interest rates)

Securitization was a bad idea—Subprime MBS securities all lost huge amounts, and were a dumb idea
- NO: In fact, losses on AAA “vanilla” MBS < 10%
Default rates

Subprime ARM mortgages, US
VT subprime ARMs (4-qtr. Avg.)
Conventional Prime mortgages, US (right scale)

Source: Mortgage Bankers Association, Haver Analytics
Resets—not the problem

Source: Foote and Willen (2012)
Did securitization work? A look at MBS performance

Losses less than 10% on AAA
Why: Credit protection worked

Much worse on CDOs

2007 Vintage MBSs

Private label RMBS
Foote and Willen (2012)
Market*:
- 23% have HH income below $25,000
- 1/3 have FICO scores below 680

Complications with such a program?
- Probably want some money down
- Securitization options limited today, but could (should?) improve
- **FHA is an obvious option**
- Hold in portfolio? Depends on examiner tolerance.

Still, worth thinking about a well-run LMI residential lending program
- Money down, documentation
- **Additional counseling/borrower contact appears to help**
- Houses that are affordable now and later, without appreciation of the home

*Thanks to Ana Patricia Muñoz for compiling these statistics
Source: Bureau of the Census, Equifax
And we don’t have time to talk about...

- Rental housing
The Fed is eager to help facilitate new partnerships to accomplish commercial and residential lending, especially in LMI communities.

We know these deals will be complex.

So collaboration is key.

Successful examples and models for both commercial and residential lending exist.

Improving employment will help everything.
  • That’s my other job—we’re trying!