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Rural Housing Initiatives at Work

by Richard White, *Chairman, President and CEO, Community National Bank, Derby, VT*



Community National Bank made an equity investment in the Seminary Housing Limited Partnership that involved the renovation of a historic structure in Waterbury, VT using state and local historic and low-income housing tax credits.

Community National Bank (CNB) has served Vermont's Northeast Kingdom for over 150 years. "The Kingdom," as everyone calls it, is a tri-county rural area, covering about 2,000 square miles and populated by about 65,000 people. It's an area blessed with much natural beauty, an independent spirit, and a strong sense of community and place.

It also has its share of problems, many of them typical of rural America.

The Kingdom remains the least developed part of Vermont. Its economy combines traditional land uses like logging and farming with scattered manufacturing sites, tourism, service industries, and modest retail centers. Challenges include high unemployment, low per-capita income, few jobs for young people, high transportation and utility costs, and isolation.

At CNB we know that our opportunities for growth and profitability are firmly linked to the health of our community. So we work hard to promote both homeownership and rental housing opportunities for lower-income residents. For example:

- CNB is the leading originator of Vermont Housing Finance Agency (VHFA) loans in our marketplace. These are fixed-rate, low-interest loans for low- to moderate-income borrowers. Within the past five years the bank has originated more than \$10 million in VHFA loans, thereby helping 154 families to become homeowners, often for the first time.
- CNB works with a regional nonprofit HomeOwnership Center, one of five in Vermont that provide counseling and assistance to prospective homebuyers. Supported in part by VHFA and the Neighborhood Reinvestment Corporation's Rural NeighborWorks Campaign, the center helps its clients get "mortgage-ready" and counsels them if post-closing problems arise. The center does a good job: last year it successfully placed 44 "graduates" into mortgages with CNB and other local lending institutions.

Developing affordable multifamily housing in our area is exceptionally challenging. There are few opportunities to take advantage of economies of scale. Dotted with small towns and villages poorly suited to large-scale projects, the Kingdom has no significant population centers. Then, too, Vermont generally prefers "downtown" redevelopment over new construction, so most multi-family housing initiatives have involved complex — and relatively costly — renovations of generally old

buildings rather than more economical new construction. So projects typically require some creative financing.

Lakeview Housing: partnerships in action

Much of the recent work in affordable housing in our area has been developed by a regional non-profit organization, Gilman Housing Trust (which also runs the Home Ownership Center). GHT is one of several regional housing organizations in Vermont. It earns development fees on the projects it develops and is supported in part by other partners, including the Vermont Housing and Conservation Board (VHCB), Neighborhood Reinvestment and its Rural NeighborWorks® Campaign, and local banks, corporations, and individuals.

GHT's projects typically involve limited partnerships in which banks and others may invest to provide much-needed equity capital. Typically these partnerships have involved Housing Vermont, a statewide organization that brings specialized financial expertise to the table. Housing Vermont generally serves as the tax and financial matters partner with Gilman as the other co-general partner. Other investors then become the limited partners.

CNB has invested in several of these partnerships because they stabilize the community and because they also offer a reasonable financial as well as social return on our investment. The financial return comes in part from qualifying for Low Income Housing Tax Credits (LIHTC) and, in some cases, Historic Tax Credits. Sometimes both credits are used in the same project, as in the case of Lakeview Housing.

Lakeview Housing consists of 16 units (13 for very-low-income and three for low-income households) in three buildings in downtown Newport, Vermont. Two of the buildings qualified for inclusion in the National Register of Historic Places. One was an early example of a tenement house, rare in rural areas at the time, and the second was chosen for its architectural integrity. Thus historic tax credits were available for these two properties in conjunction with the LIHTC for the project as a whole. Thanks to these credits, Vermont investors typically earn about 12 percent on their investments (see the Project Financing Profile, below).

Multiple funding sources

Still, it usually takes more than tax credits to make these projects work. CNB has often worked with a developer to access grant money through the Affordable Housing Program (AHP) of the Federal Home Loan Bank of Boston. AHP is a competitive program for which there are usually more applicants than funds available, but we've won three awards thus far. When that happens, the parties enter into a three-way agreement governing how the money will be injected into the project and how the parties will meet their ongoing responsibilities. The developer agrees to run the project in a manner consistent with the application, which usually means restricting the number of market-rate units.

CNB has found that the AHP program is an excellent way to get grant money into these kinds of projects. On many occasions the availability of these funds has made the difference in making the project financially viable.

Another key partner in our rural affordable housing initiatives has been Rural Development's Section 515 program, which provides long-term (50-year amortization, 30-year term), 1 percent, fixed-rate financing coupled with a project-based subsidy, so that qualified occupants do not pay more than

30 percent of their income in rent. Because the Northeast Kingdom is in a recognized USDA Rural Economic Area Partnership (REAP) zone, we have access to a special set-aside from Section 515 funds.

In the case of Lakeview Housing, construction financing was provided by VHFA. Permanent financing was obtained via Section 515; a loan from the Vermont Housing and Conservation Board (VHCB) with payments deferred until the first mortgage is satisfied; an \$80,000 grant from the AHP program; a VHCB feasibility grant of \$5,700; and an \$8,000 grant from Vermont's Residential Energy Efficiency Program (REEP). Equity was provided by CNB and another bank investor through the purchase of historic and low-income housing tax credits.

Other partners frequently include the Vermont Community Loan Fund, federal HOME funds administered by the VHCB, the Preservation Trust of Vermont (for historically significant aspects of projects), and grants or loans through the Vermont Community Development Program.

Obviously it takes commitment — and patience — to develop these multi-party, multi-layered partnerships and make them work. But the results are worth it. CNB over the past decade has financed 12 affordable-housing projects creating 173 units for families and seniors in our rural service area. They're making a real contribution to a better quality of life in the Northeast Kingdom.

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About the author: Richard White is the current Treasurer of the American Bankers Association, past Chair of the Vermont Housing Finance Agency and past president of Gilman Housing Trust.

Federal Home Loan Bank Affordable Housing Program

All 12 Federal Home Loan Banks (FHLBank) operate their respective Affordable Housing Programs (AHPs) which can be used to assist in the financing of much needed lower cost housing. Every member of the FHLBank System is eligible to apply for Affordable Housing Program Funds. Each of the 12 banks contributes 10 percent of its net earnings to fund its respective program. In 2002, the 12 banks made more than \$239 million available to assist housing for low- and moderate-income households. Funding is made available each year in two semi-annual competitive application rounds. Member banks submit applications on behalf of project sponsors.

AHP funds can be used to finance owner-occupied or rental housing. Subsidies provided under the AHP can be in the form of a grant or a below-cost rate on an advance to a member bank. Specifically, AHP subsidies must be used to finance the purchase, construction or rehabilitation of:

Owner-occupied housing for very low, low- and moderate-income households (80 percent of area median income (AMI)); or, **rental housing** in which at least 20 percent of the units will be occupied by and affordable for very low-income households (50 percent of AMI). The AHP may also be used to fund additional units targeted to households with incomes up to 80 percent of AMI.

Each of the FHLBanks has the option of establishing its own homeownership set-aside program. A FHLBank may set-aside up to the greater of \$3 million or 25 percent of its AHP funds each year to assist low- and moderate-income households purchase homes. A FHLBank may establish an additional First-time Homebuyer Set-Aside up to the greater of \$1.5 million or 10 percent of its AHP funds each year to assist low- and moderate-income households that are first-time homebuyers.

Member lenders obtain the AHP set-aside funds from the FHLBank and then use them to give grants to eligible customers on a first-come, first-served basis. Set-aside funds may be used for down payments, closing costs, rehabilitation, or counseling costs in connection with the purchase. Each FHL-Bank sets its own maximum grant amount, which may not exceed \$15,000 per household. Currently, all 12 of the banks have AHP homeownership set-aside programs. For more information, please visit the FHLBanks' web sites (which may be accessed via the Federal Housing Finance Board web site http://www.fhfb.gov/FHLB/FHLBS_banks.htm)

Pro Forma for Lakeview Housing Project Newport, Vermont

Lakeview - pro forma

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Taxable income	-17101	-17184	-17352	-17563	-17820	-18124	-18316	-17316	-17782	-18309	-18900	-19558	-20289	-21095	-21981
Tax savings	5985	6014	6073	6147	6237	6343	6468	6061	6224	6408	6615	6845	7101	7383	7693
LIHTC credit	37085	37085	37085	37085	37085	37085	37085	37085	37085	37085					
Historic credit	163403														
net benefits	206473	43099	43158	43232	43322	43458	43553	43146	43309	43493	6615	6845	7101	7383	7693
annual return	43.84	9.15	9.16	9.18	9.2	9.22	9.25	9.16	9.2	9.23	1.4	1.45	1.15	1.57	1.63
average return	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01

Lakeview Housing Newport, VT

Sources

Equity - CNB	353,250
Equity - PSB	117,750
RD Sec. 515	760,000
VHCB deferred	86,405
AHP grant	80,000
VHCB grant	5,700
REEP	8,000
Gap	-206

Uses

acquisition	317,339
construction	827,700
soft costs	265,860
total	1,410,899

16 units	88,181 per unit
	98.87 per sq. ft