



VERMONT COMMUNITY LOAN FUND

Invest in Vermont



Affordable Housing



Small Business



Community Facilities

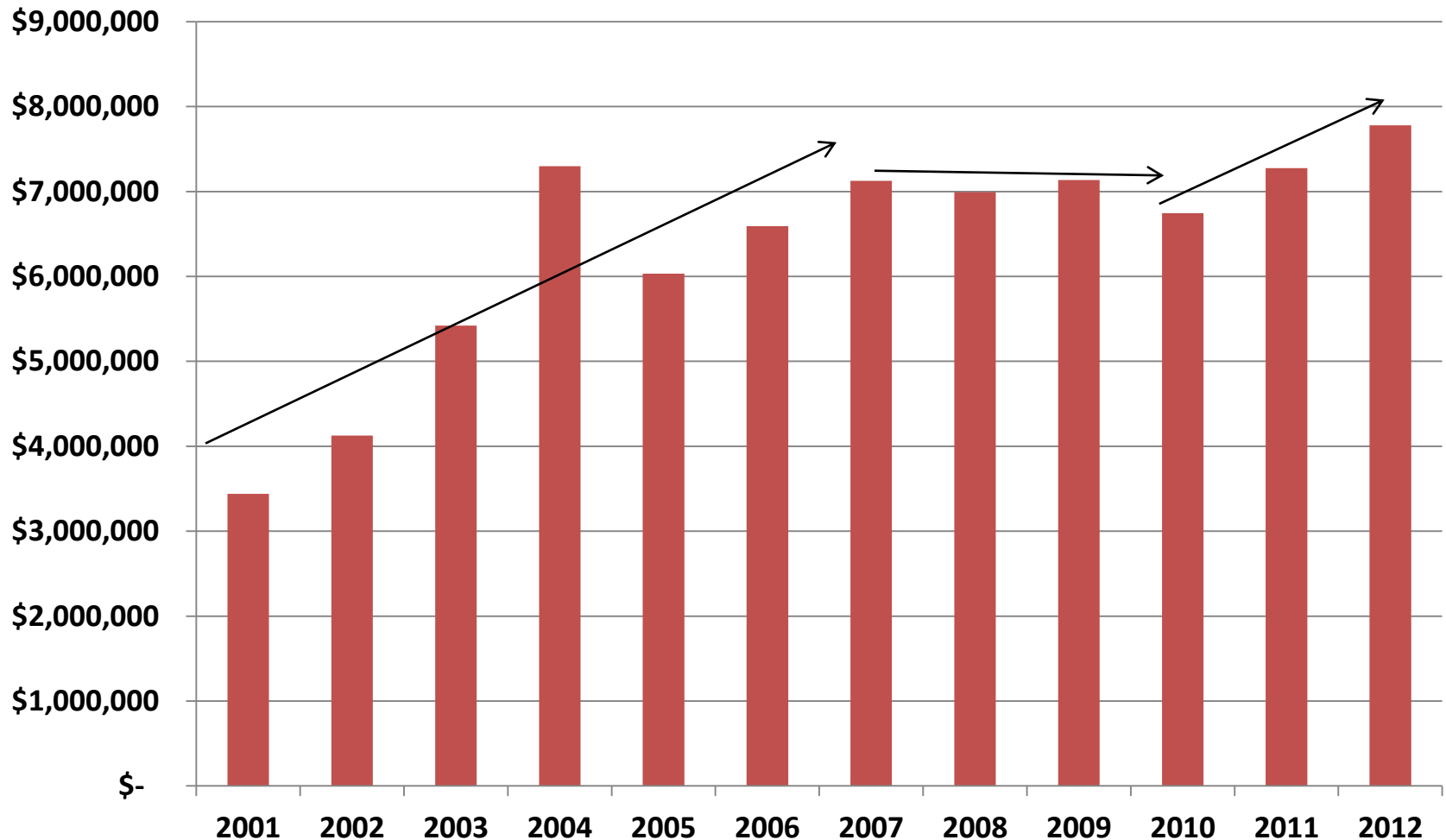


Child Care





Affordable Housing Portfolio Trend





Friends of Algiers Village, Guilford

Land Acquisition and Predevelopment



Groton Housing LP

Construction Finance



McAuley Square HLP, Burlington

Permanent Finance

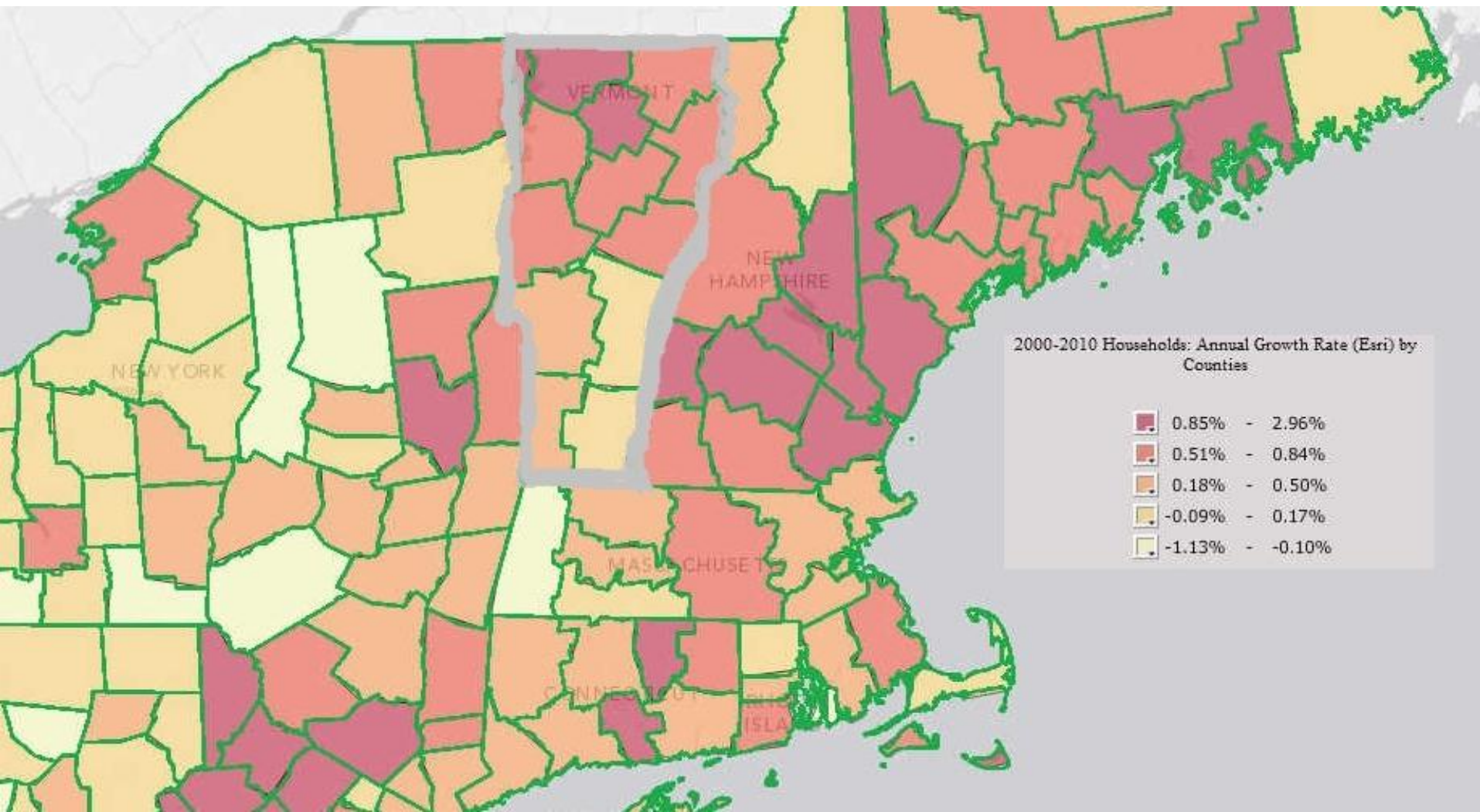
Vermont housing market trends

Sarah Carpenter
Executive Director
Vermont Housing Finance Agency

June 8, 2012



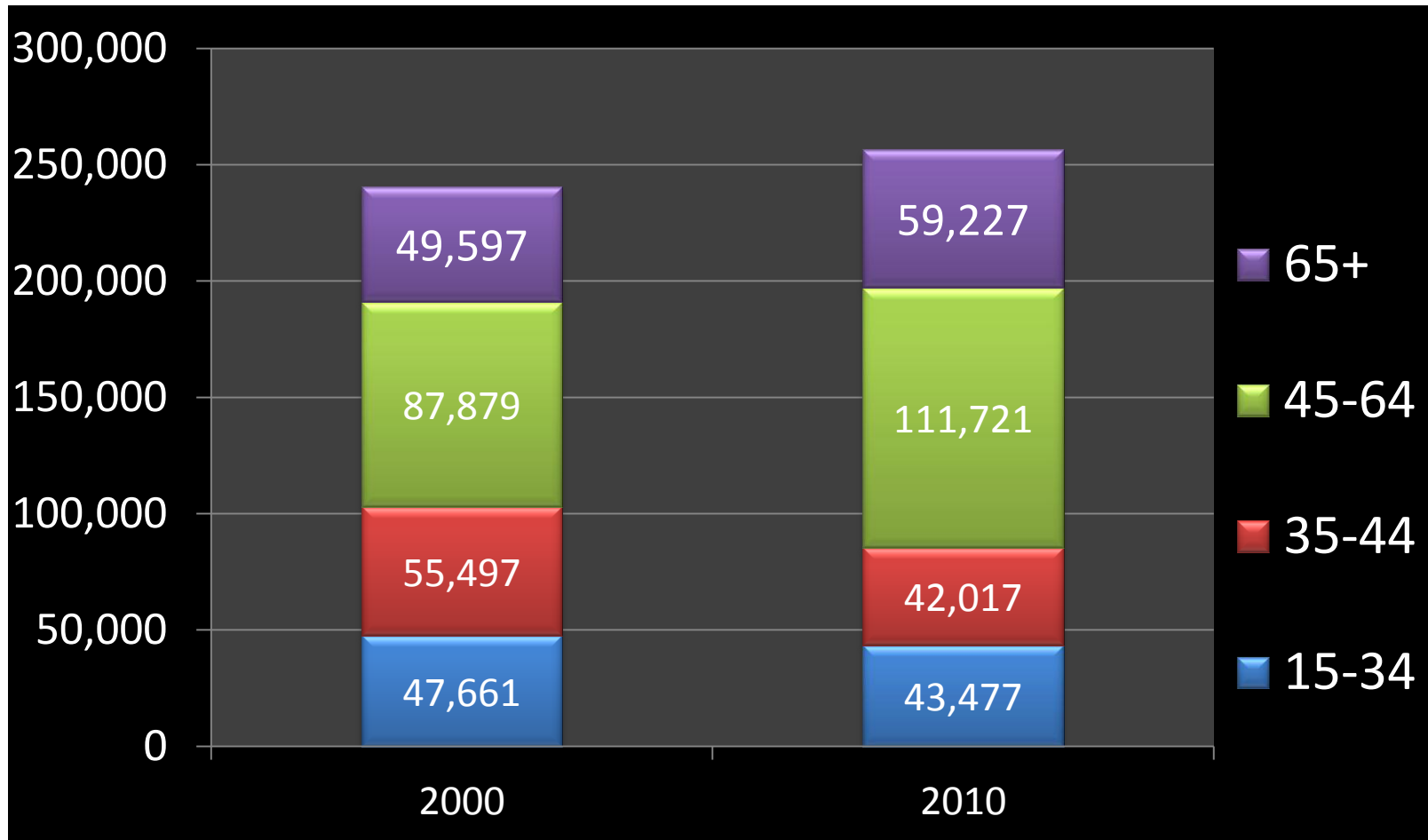
Number of households is growing, especially in Northern Vermont



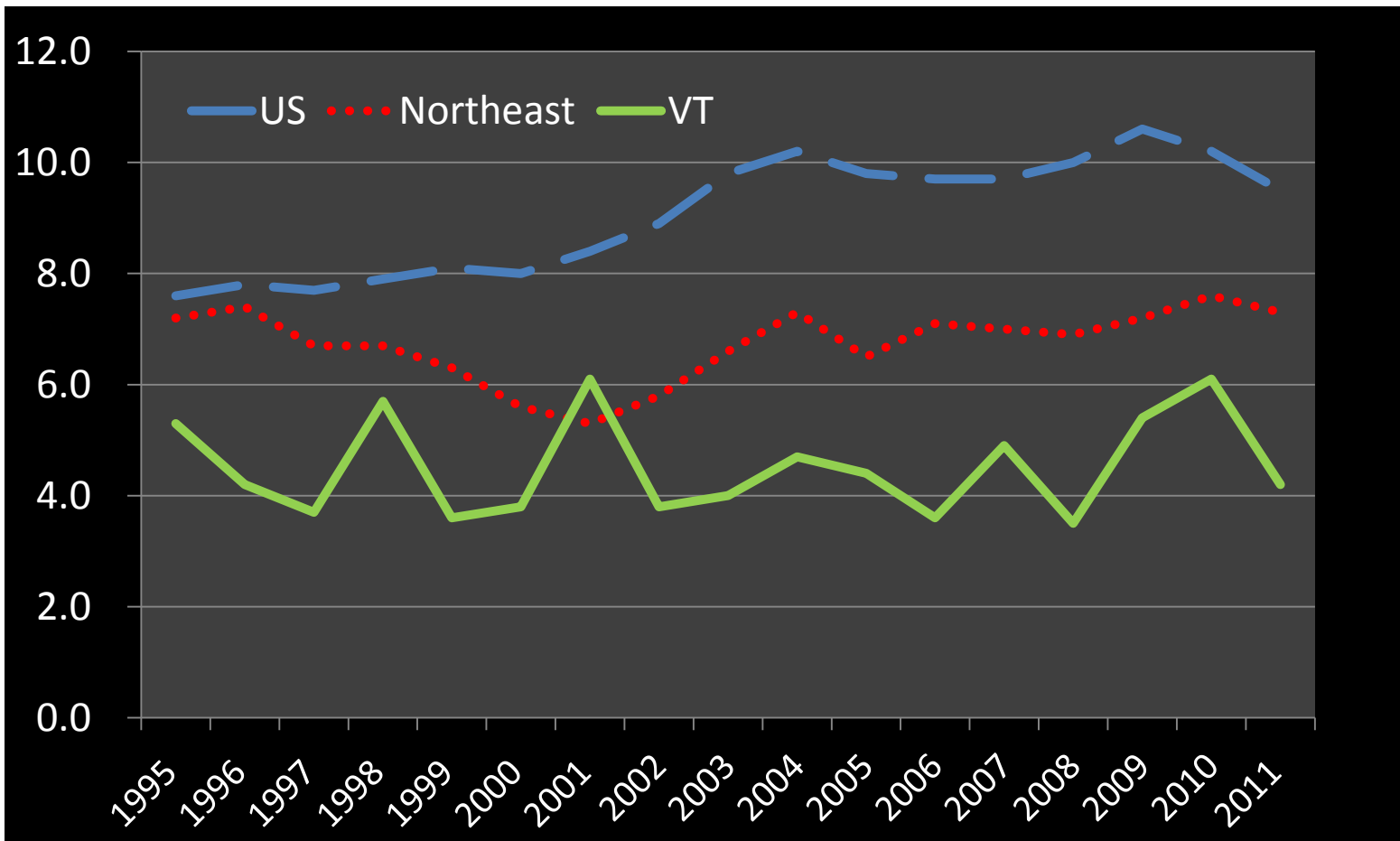
Rising number of households caused by population growth and smaller households

	2000	2010	% change
Population	588,067	600,412	2%
Households	240,634	256,442	7%
Average household size	2.44	2.34	-4%

Householders aged 45+ account for all of VT's growth

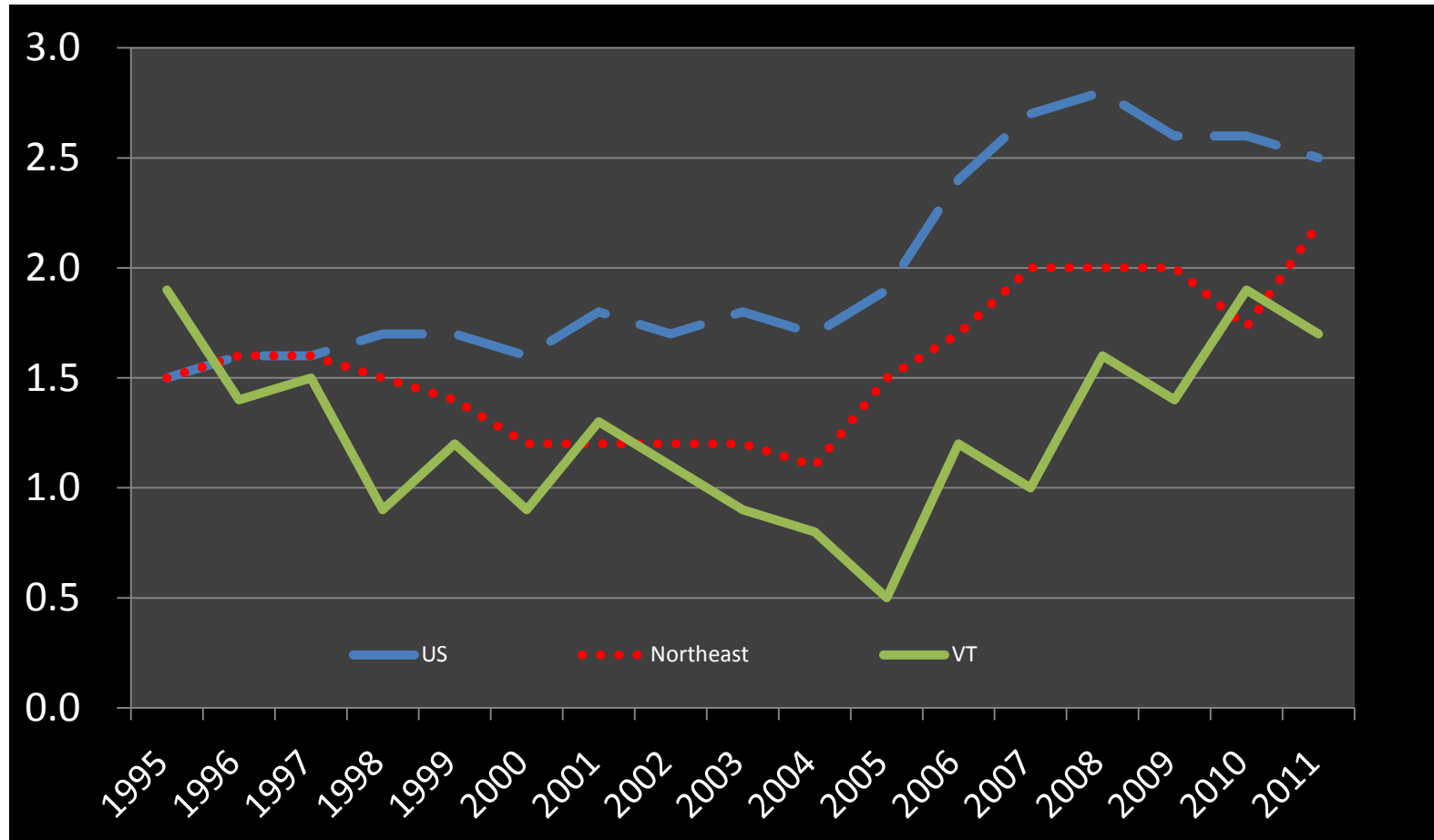


Rental vacancy rates in Vermont are consistently low



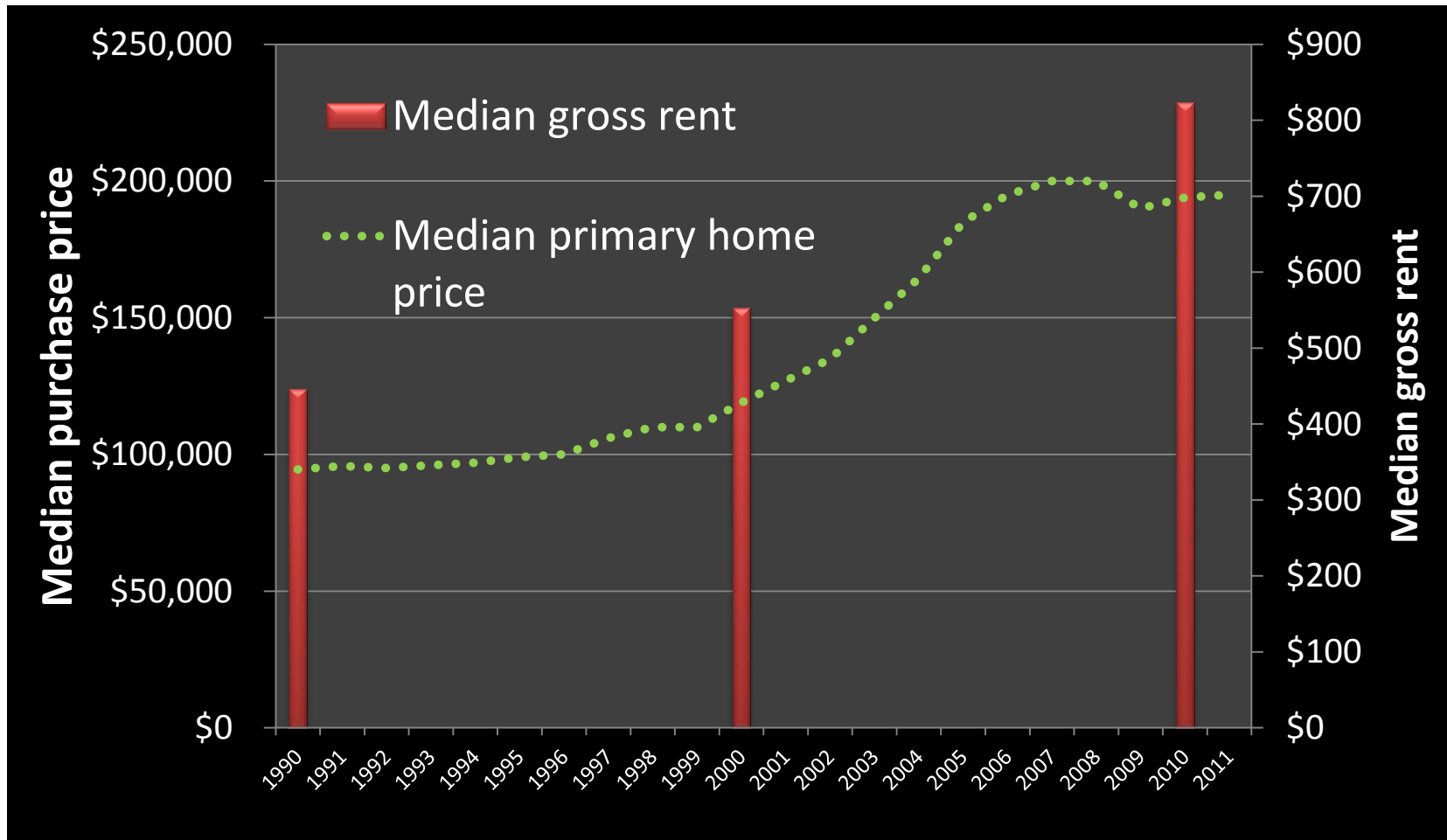
Data source: U.S. Census Bureau, Housing and Household Economic Statistics Division

Since late 1990s, vacancy rates among owned VT homes are also low



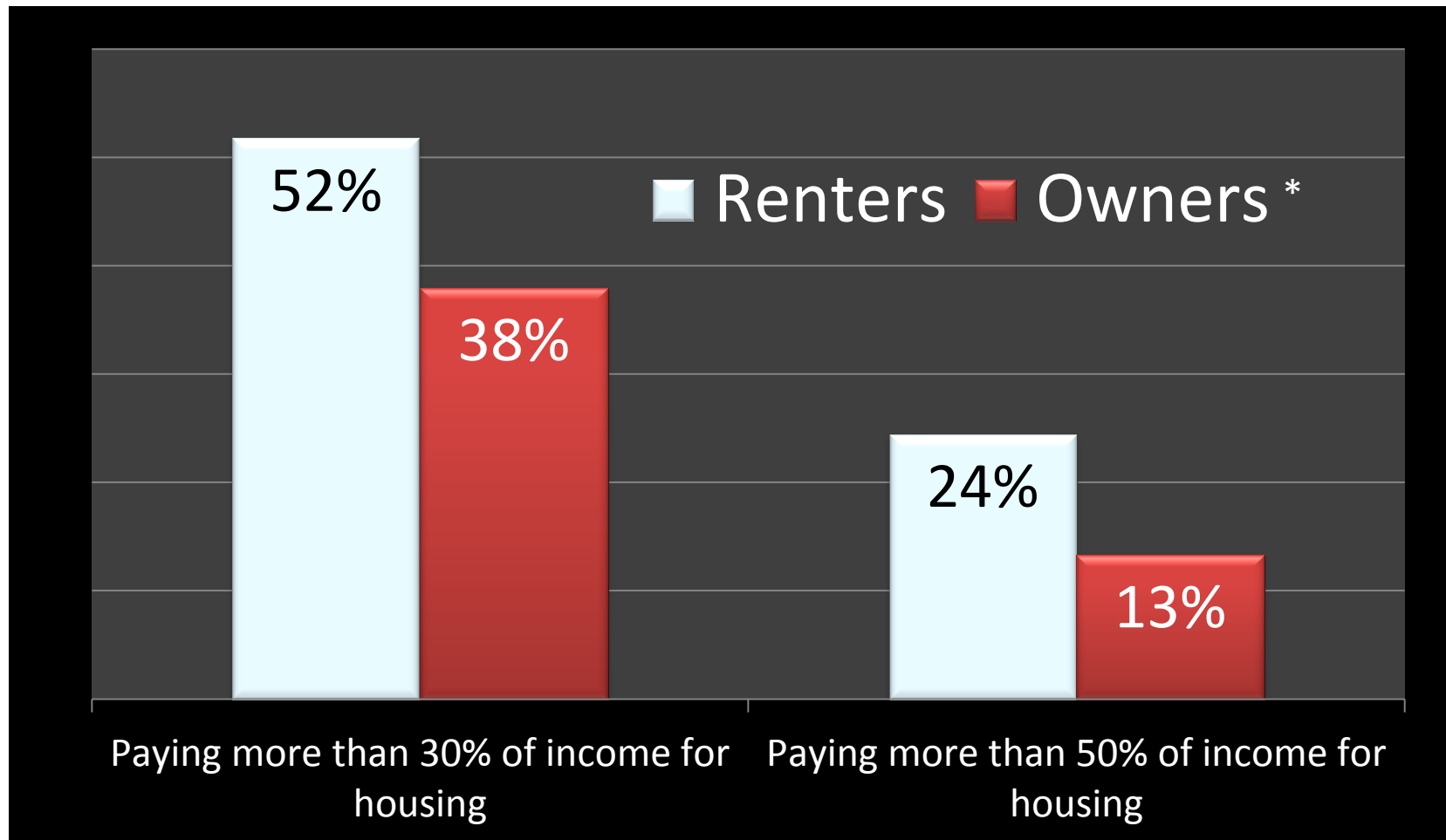
Data source: U.S. Census Bureau, Housing and Household Economic Statistics Division

Except for 2009, Vermont home prices and rents consistently rise



Data sources: VT Dept. of Taxes and U.S. Census Bureau.

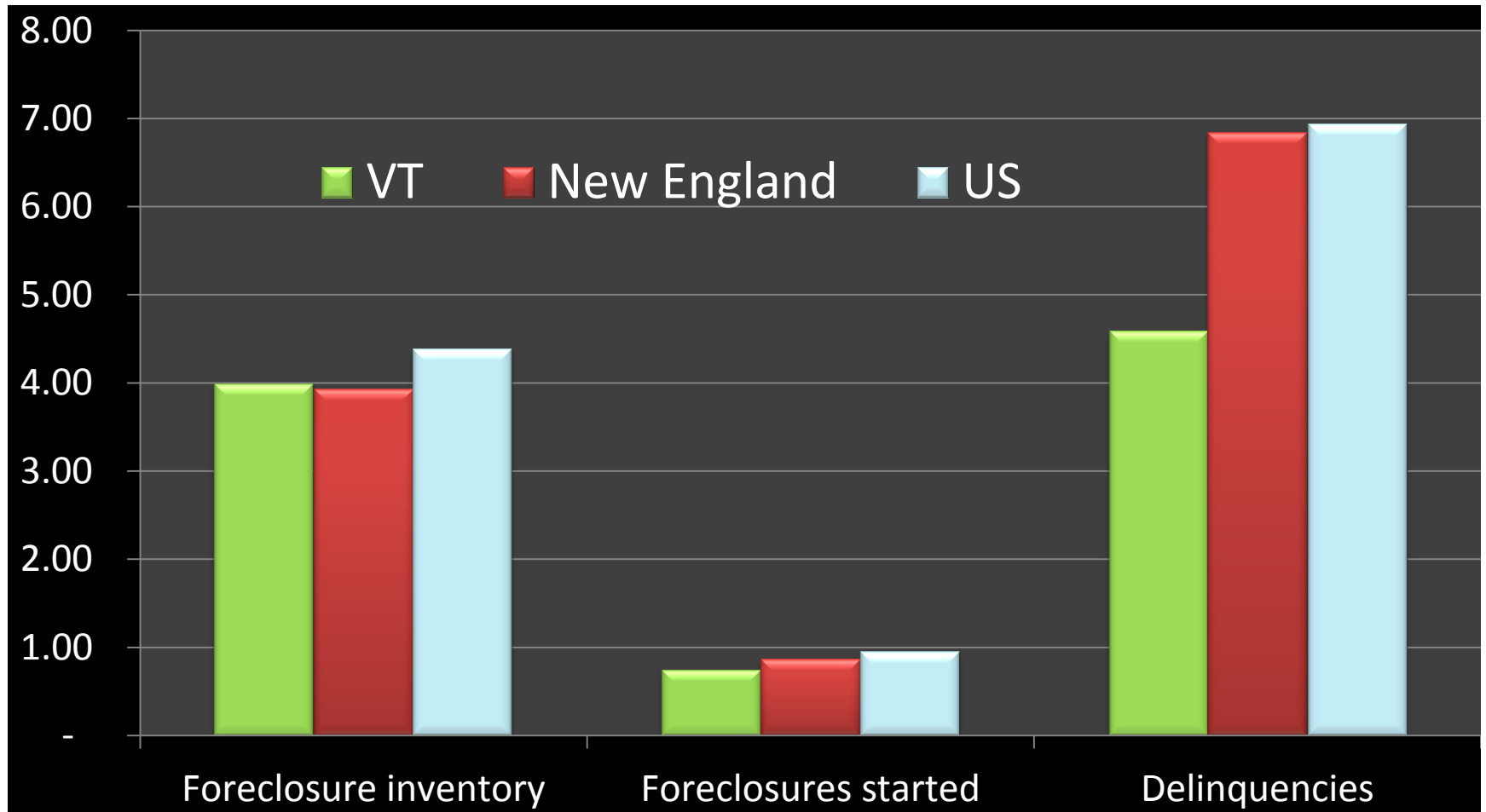
As a result, many households are cost burdened by housing expenses



Data source: U.S. Census Bureau, American Community Survey, 2006-2010.

*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.



HOUSINGVERMONT

Building possibilities.

Housing Vermont - Portfolio

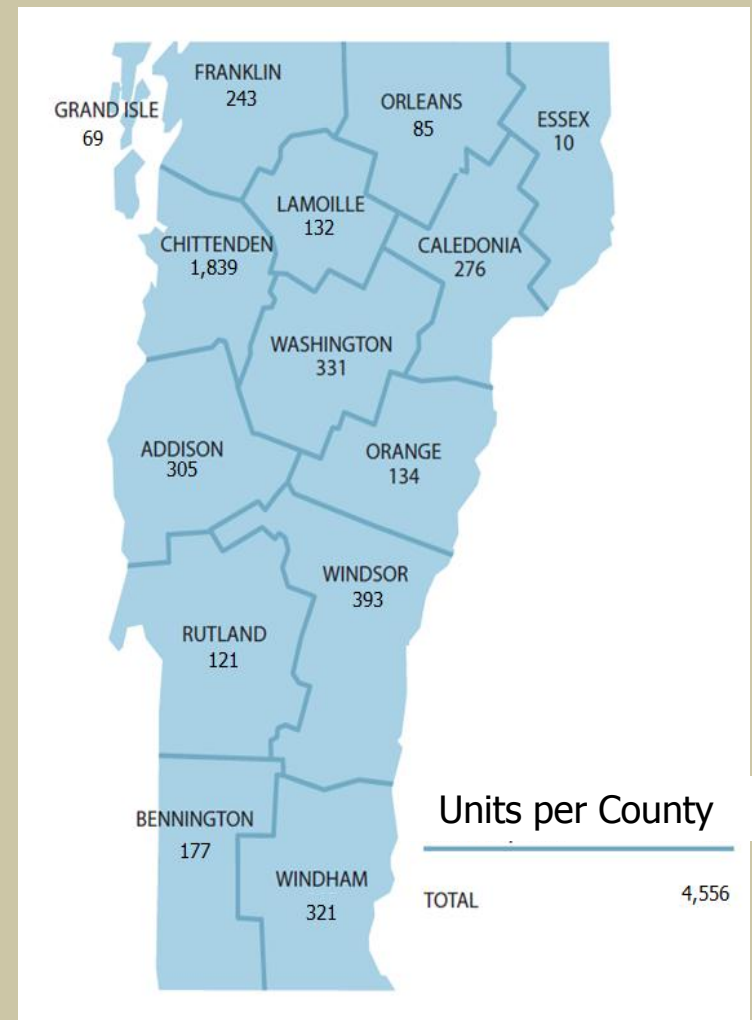


- Raised more than \$246 million in equity
- Created over 4,400 units of affordable housing
- 140 active properties
- Average property size consists of 27 units
- 24 % of our portfolio includes commercial space

Housing Vermont Portfolio

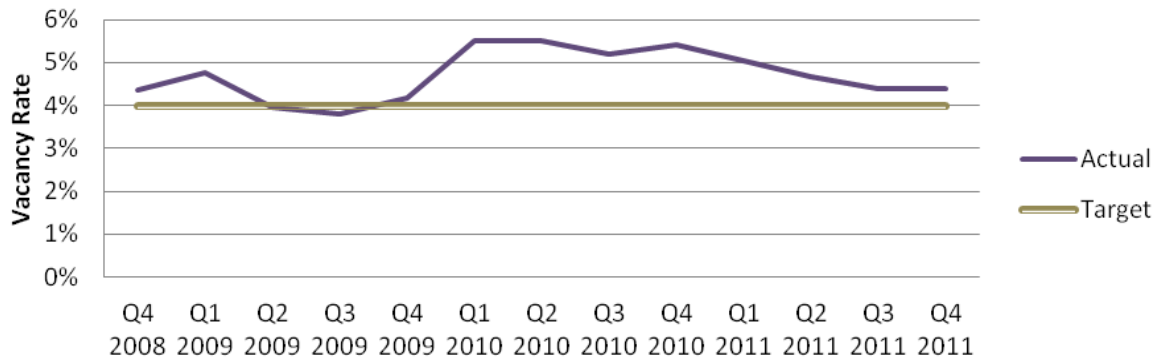
Our residents across the state

- 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



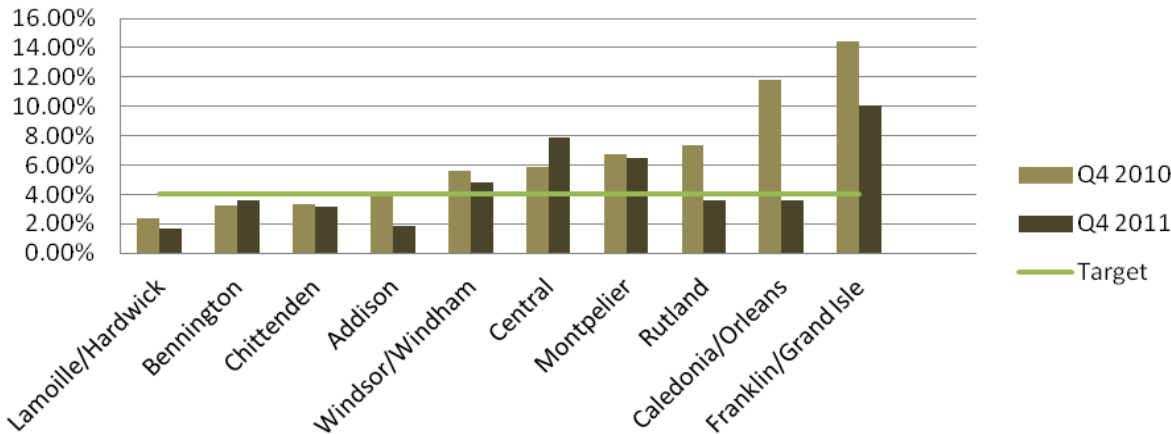
Current Trends

Overall Portfolio Vacancy



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

Economic Vacancy By Region

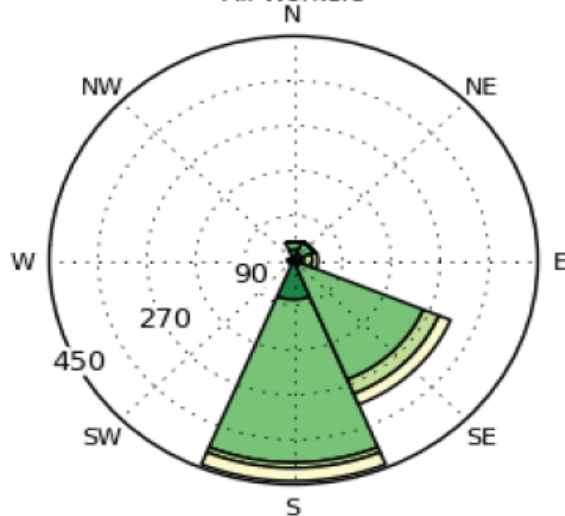


- All market regions except Central and Bennington improved in 2011 from 2010.

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

Job Counts by Distance/Direction in 2010
All Workers

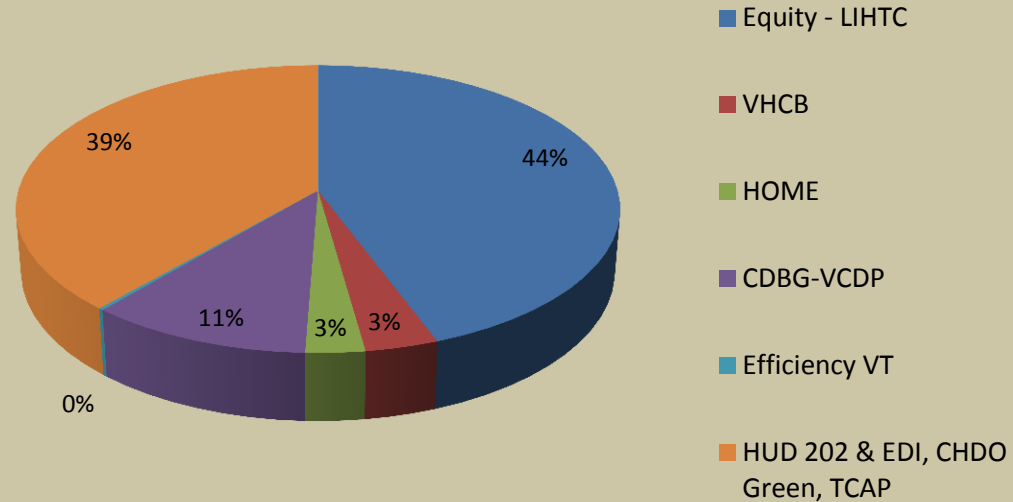


Jobs by Distance - Home Census Block to Work Census Block

	2010	
	Count	Share
Total Primary Jobs	901	100.0%
Less than 10 miles	161	17.9%
10 to 24 miles	621	68.9%
25 to 50 miles	60	6.7%
Greater than 50 miles	59	6.5%

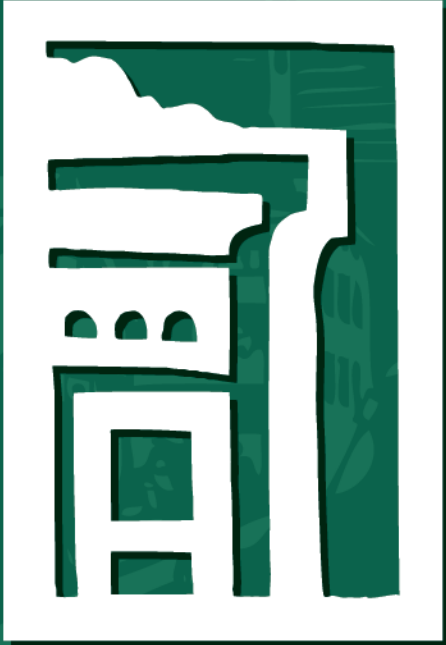
Reduction in Resources

Vergennes Senior Housing



Source	Amount
Equity - LIHTC	\$2,751,116
VT Housing & Conservation Board	216,000
HOME	175,000
CDBG-VCDP	660,000
Efficiency VT	14,000
HUD 202 & EDI, CHDO Green, TCAP	2,393,946
TOTAL SOURCES	\$6,210,062

CHAMPLAIN HOUSING TRUST



CHAMPLAIN
HOUSING TRUST



Business Opportunities in Community
Development Lending
Federal Reserve Bank of Boston

June 8, 2012

Bright Street
Target Area Renewal



2008 RECIPIENT

CHT Overview

\$ 250 million in assets

\$ 6.8 million operating budget

\$ 45 million in annual development

70 Employees

Livable wage commitment

1,500 apartments

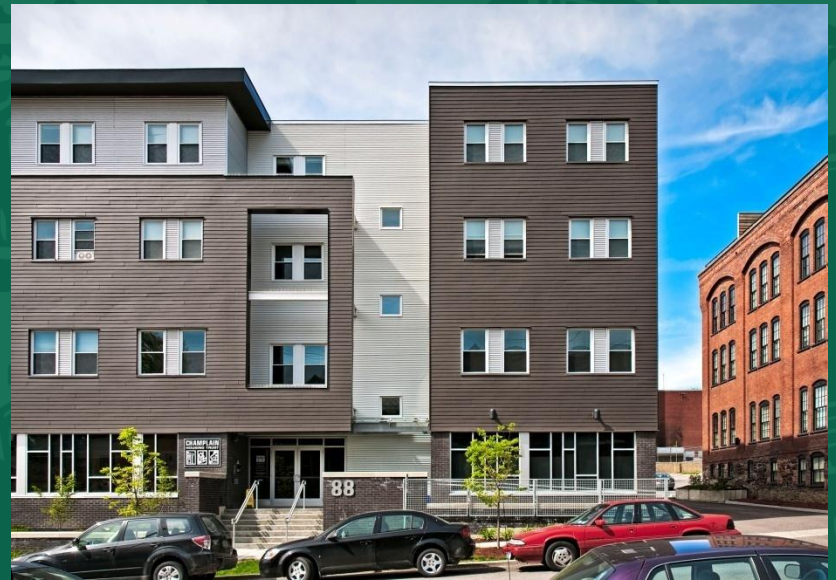
\$18,000,000 in gross annual rent

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

By SHAY TOTTEN

In December, 1994 the clock began ticking for an effort aimed at turning back decades of social, economic and physical erosion in Burlington's Old North End.

Two years ago, welfare reform was just a political slogan.

Today, thousands of cities around the country are grappling to ensure residents are sheltered, clothed and fed as the federal social safety net frays.

In Burlington, tendrils of social, economic and physical improvement strategies are beginning to ease the effect of dwindling state and federal dollars to social programs. Fueled by a \$3 million seed package of federal funds, the Old North End Enterprise Community is thriving at a time when the likelihood of more federal dollars coming to the Queen City is remote. Most of the \$3 million will be spent by June, the rest no later than September.

Even without the promise of more federal dollars, many of the more than 70 strategies which comprise the city's vision to reinvigorate a stalled economic and social enclave — home to nearly 12,000 people in one-square mile area — have either become self-sustaining or have found federal or private grant funding. The EC designation lasts 10 years, and gives the city



OUT WITH THE OLD The George and Elaine Little Park at the intersection of North Winslow Avenue, Archibald and Bright streets is one example of visible, physical improvements made to the Old North End in recent years. A comprehensive effort to improve the health and welfare of this city's impoverished area is gearing up for its third year — this time without the promise of major federal funding. PHOTO BY HANS BECKER

a better chance of receiving additional money from the U.S. Housing and Urban Development Agency, or other federal programs.

In the first two years, dozens of people have become first-time homeowners through the Burlington Community Land

Trust, hundreds have been trained on computers through the Old North End Technology Center, thousands of people have streamed through the doors of the new waterfront center, staffed by 12 EC youths, and nearly \$1 million was spent to improve roads, sidewalks and

water lines. A number of the strategies within the EC project were not funded by the \$3 million, but instead were projects already planned or underway. Still, they were part and parcel to the city's overall effort to help its neediest citizens.

See North End, page 4





Bright Street Site Plan



Redevelopment Area

Bright Street



Redevelopment Area

Intervale Avenue

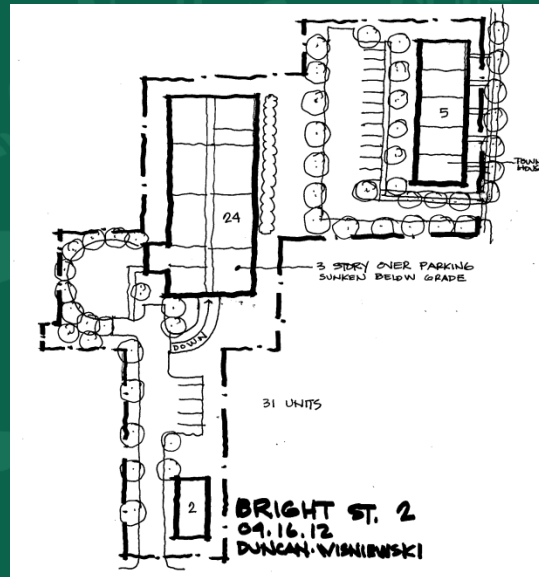
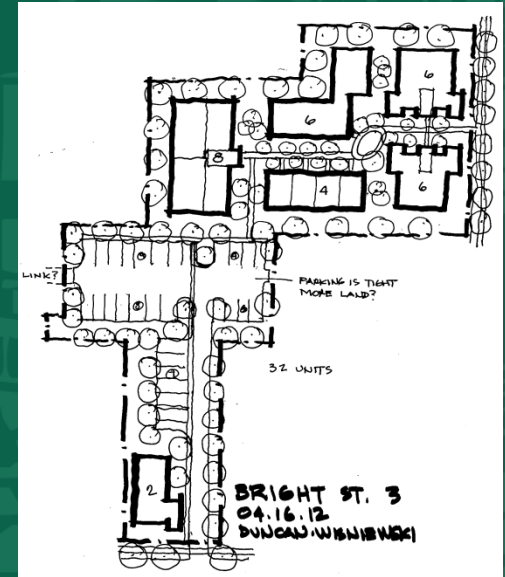
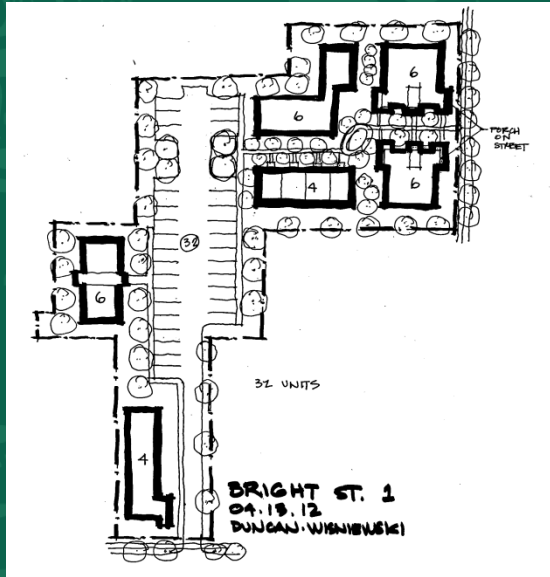


Redevelopment Area

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

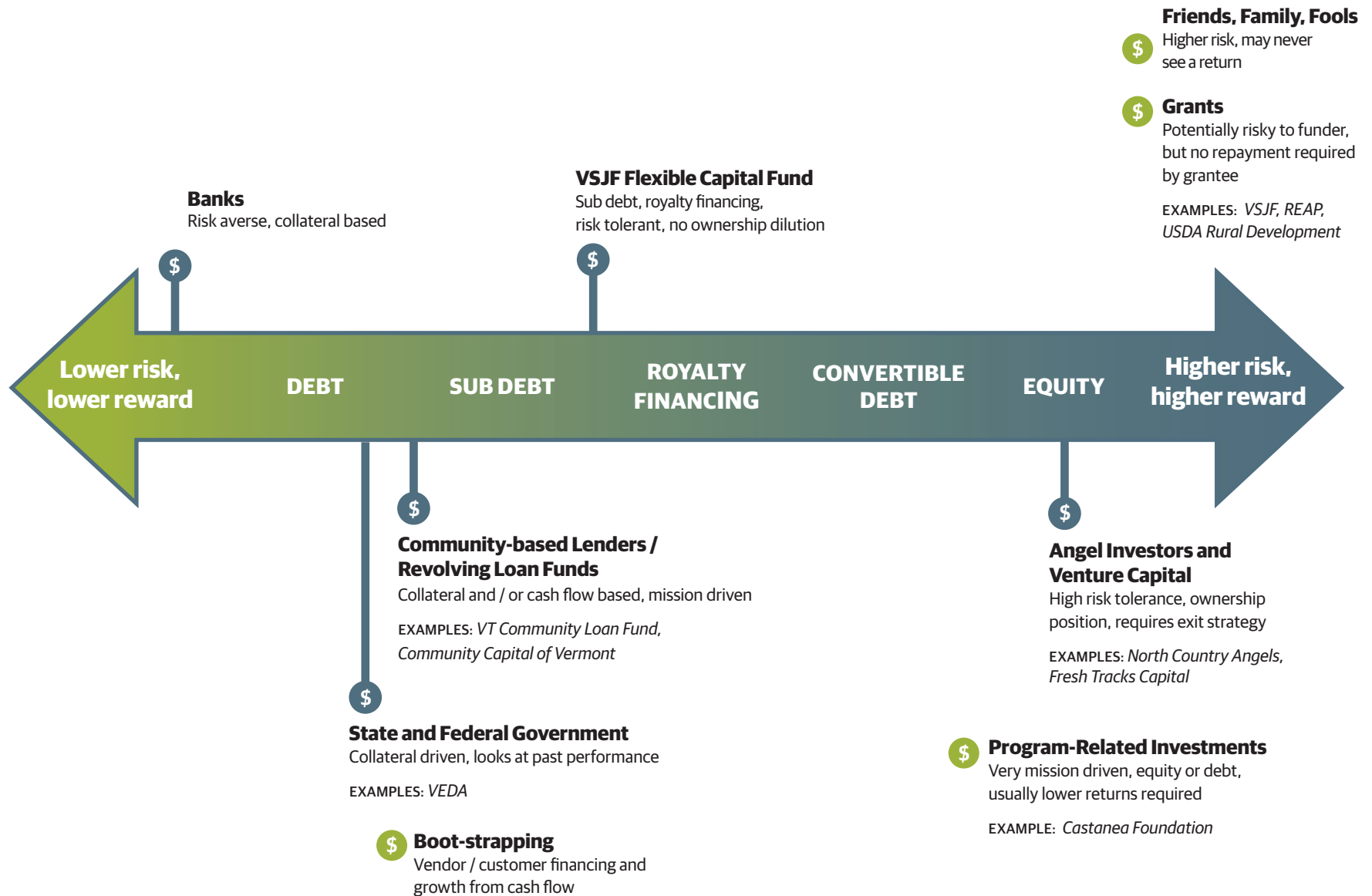
Business Opportunities in Community Development Lending

Small Business: The Collaborative Path to the Deal

Vermont Smoke and Cure

<u>Project Costs</u>		<u>Project Funding</u>	
26.35%	Purchase of Machinery and Equipment, Parts and Tooling	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
55.32%	Fit-Up Expenses; 17.40% as Equipment, and 37.92% of fit-up affixed to leased facility	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.
3.85%	Construction carry costs, professional fees, lease deposit	10.44%	CDBG Grant, 1%, interest only for 2 years, 10 year term
4.95%	Moving costs, lease carry costs	12.04%	VSJF Subordinated Debt, Fixed rate, 8 year term, interest only 18 months, negotiated royalty based on % of gross sales
3.51%	Lease payoff	20.07%	Landlord Fit-Up Contribution
3.01%	Project Contingency	19.92%	Owner Equity
<u>3.01%</u>	Working Capital		
<u>100%</u>	Total Project Costs	<u>100%</u>	Total Project Funding

Capital Continuum



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.

*Definitions from www.investopedia.com and www.businessdictionary.com.

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

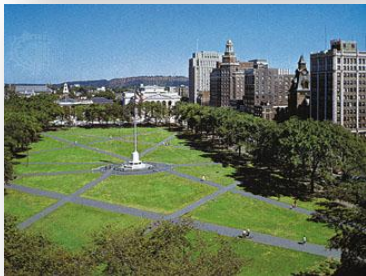
463 Members: 212 thrifts, 154 credit unions, 70 commercial banks, 27 insurance companies



Massachusetts
239 members
Advances: \$9.4B
Capital Stock: \$1.1B



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



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



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



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



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

Affordable Housing Programs

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

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 development 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

Collaboration is the cornerstone...

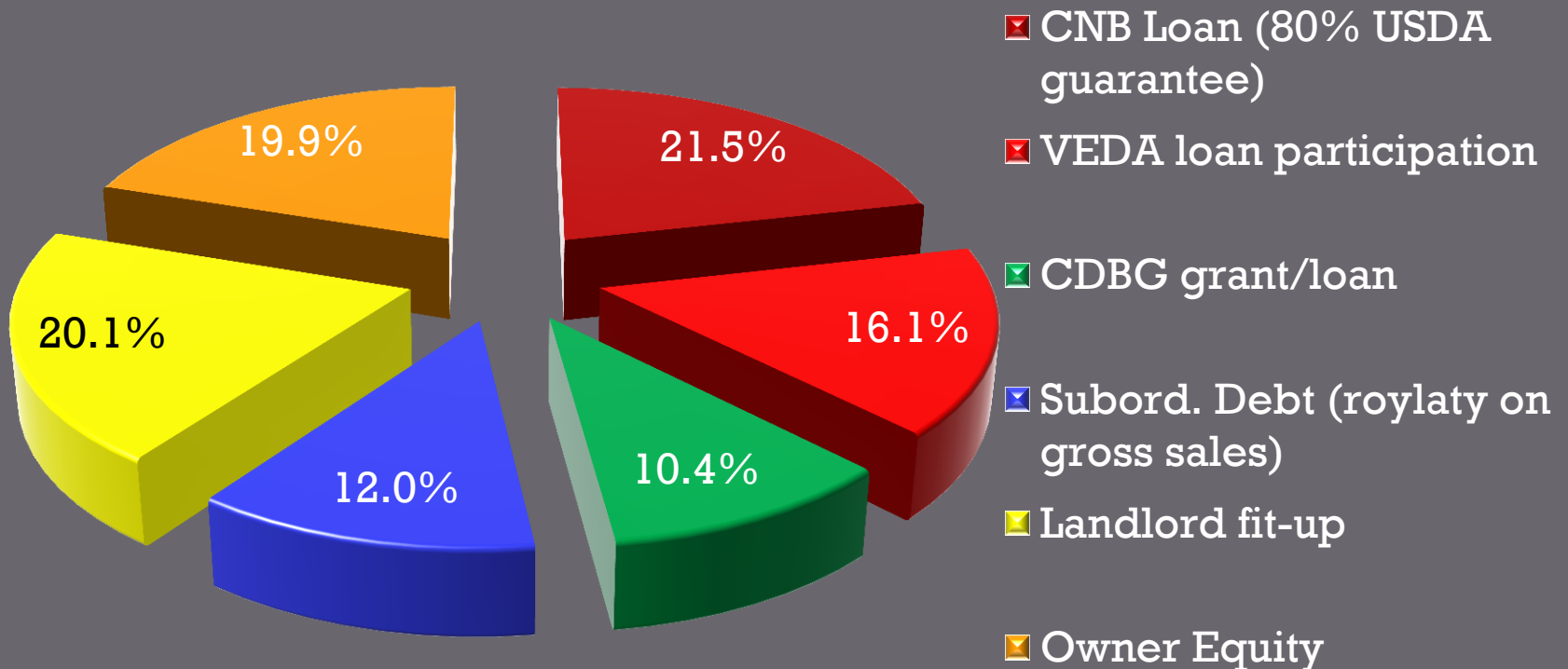
- ▣ In our “Resurgent Cities” research, collaboration is identified as a vital prerequisite
 - “Time and again, our examination of the resurgent cities’ histories indicated that the resurgence involved *leadership* on the part of key institutions or individuals, along with *collaboration* among the various 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

...and Patience

- ▣ 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



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

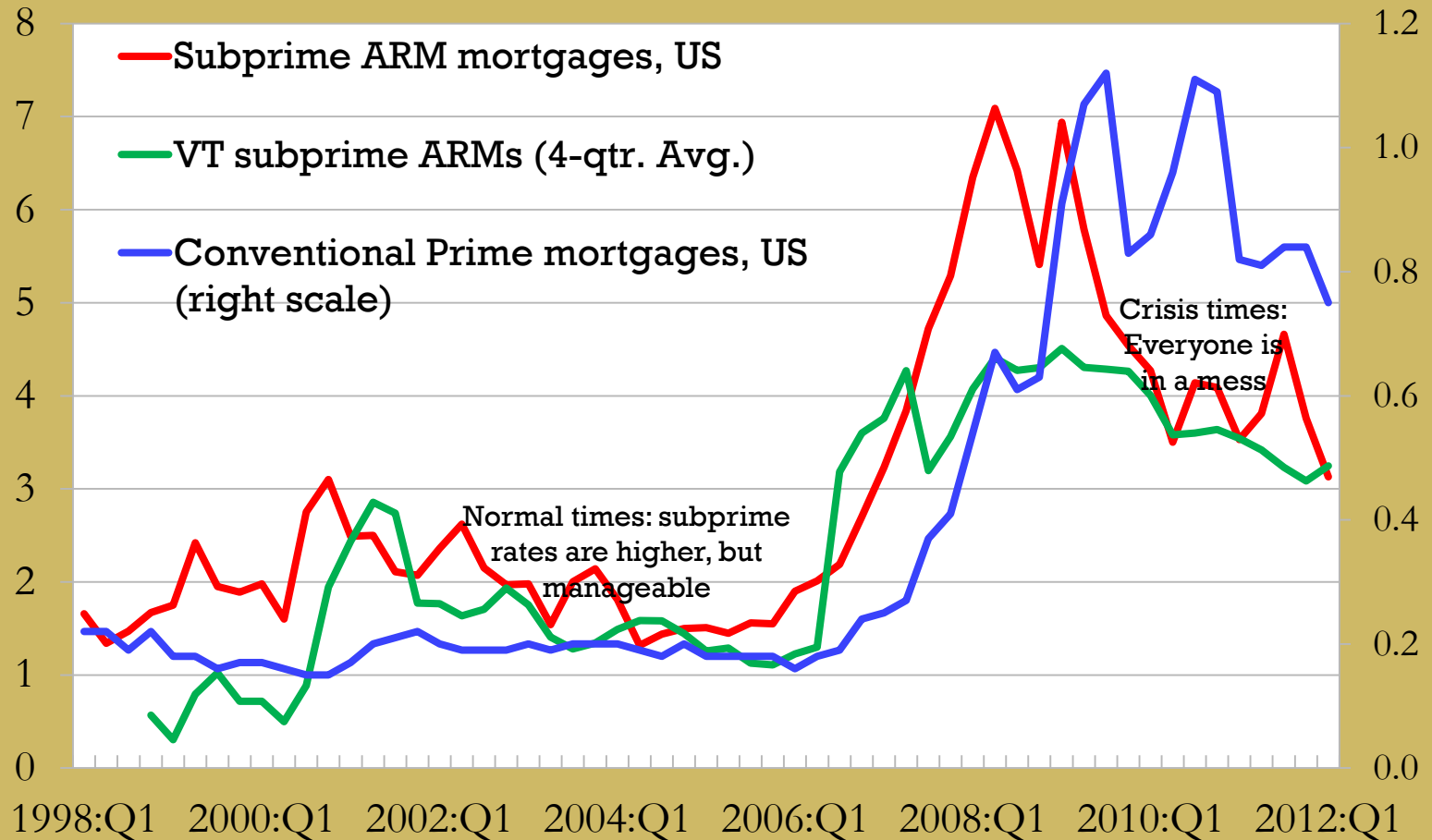
- ▣ ROC-NH rocks
 - Housing is affordable (\$41K average loan)
 - ▣ 57% low and very low income borrowers since inception
 - ▣ 67% low and very low income borrowers 2011
 - ▣ 56% first time homebuyers
 - Housing can be clustered and thus environmentally beneficial
- ▣ The default rates can be very low
 - 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!

Subprime “facts” and myths

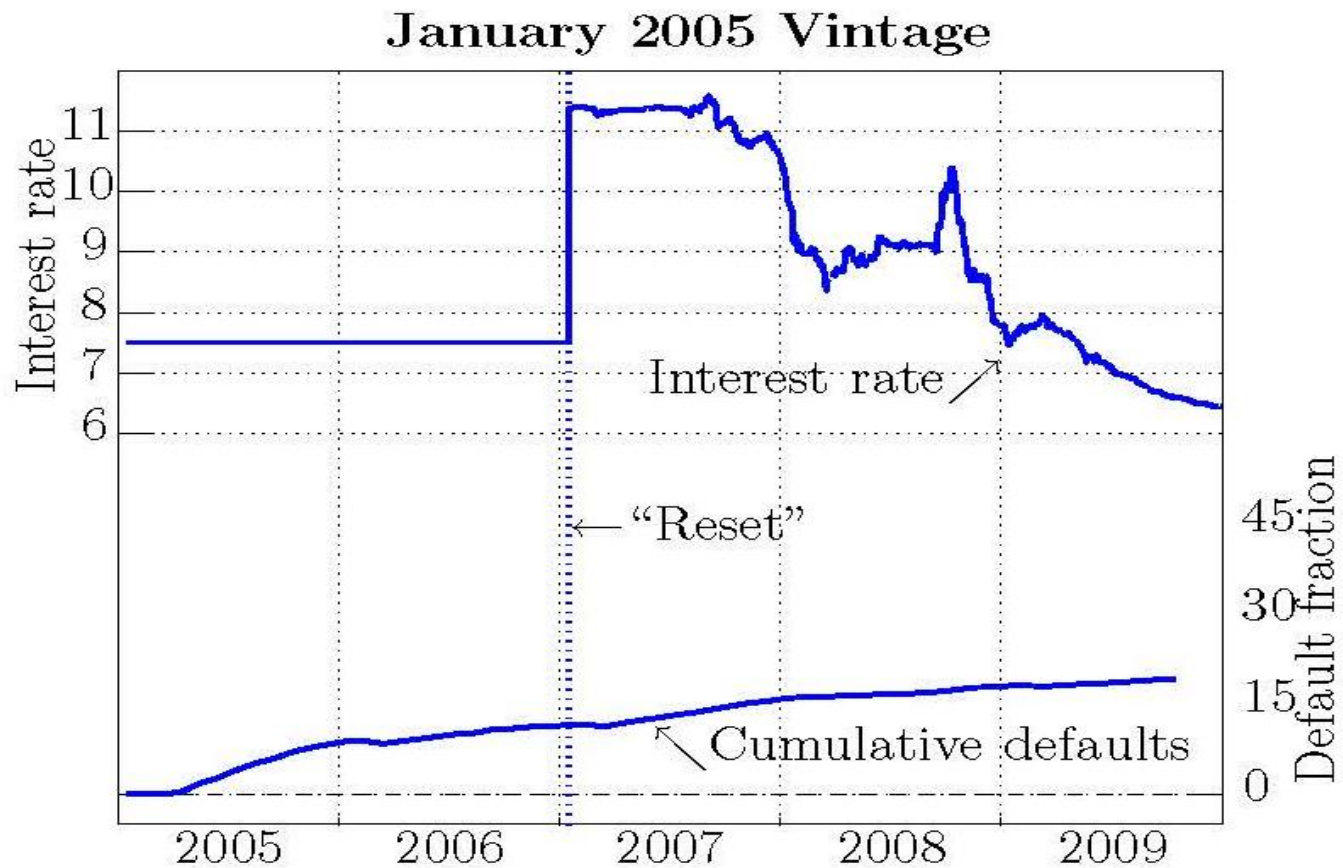
Why an LMI mortgage program might make sense

- ❑ 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

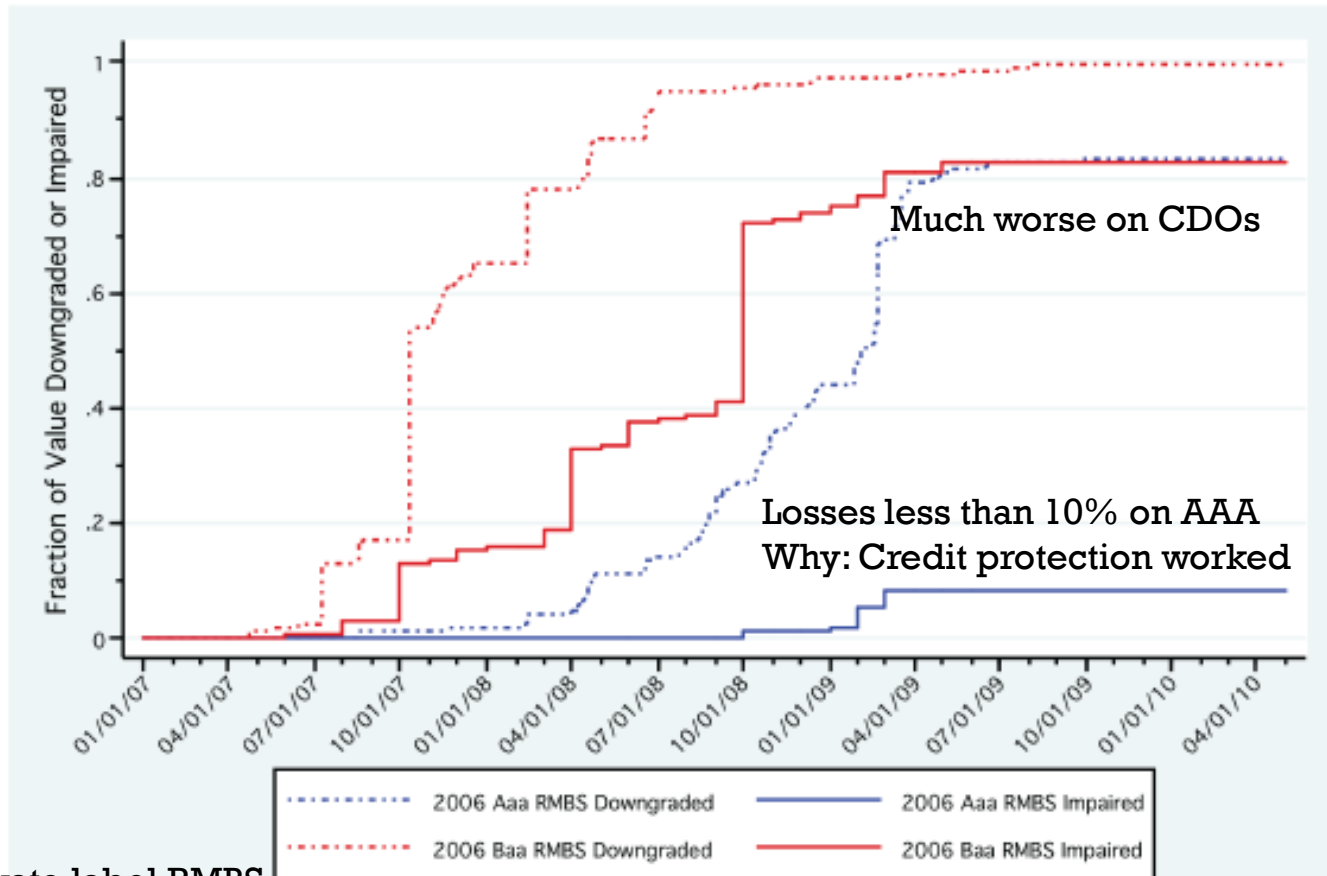


Resets—not the problem



Did securitization work? A look at MBS performance

2007 Vintage MBSs



Private label RMBS
Foote and Willen (2012)

id Finance Default Risk Services
iches of Aaa RMBS amounting to \$869 billion in total value. There are 2495 tranches of Baa RMBS amounting to \$26 billion in total value.

Prospects for an LMI mortgage program in VT and all of NE?

□ 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**
- FHA? Portfolio? Re-emergent securitization program? MA "Soft Second?"
- Houses that are affordable now and later, without appreciation of the home

Vermont HH income and FICO statistics			
HH income	%/cum. %	FICO	%/ cum. %
<\$10,000	6.1/6.1	<619	18/18
\$10-25,000	16.7/22.8	620-679	14/32
\$25-50,000	25.4/48.2	>680	67/100

***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

In summary

- ▣ 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!