

VHDA Report to the Virginia Housing Commission

May 18, 2010

Susan F. Dewey
Executive Director

Virginia Housing Development Authority



VHDA remains focused on two key program challenges:

1. Accessing adequate capital at a cost sufficient to maintain program activity and support the recovery of Virginia's housing market
2. Ensuring—under difficult market conditions—that available resources are used prudently and equitably to address Virginia's home purchase and rental housing needs

CHALLENGE #1: Accessing Adequate Loan Capital

VHDA is able to fully capitalize its affordable lending programs in 2010.

- Currently, VHDA is able to access the tax-exempt bond market at interest rates that support the feasibility of our multifamily lending programs.
- The same is not true for bonds supporting home purchase loans.
 - Federal market intervention continues to negatively skew the pricing of home purchase bonds.
 - VHDA—along with other state housing finance agencies—is relying on the U.S. Treasury’s New Issue Bond Purchase Program to capitalize our home purchase lending in 2010.
 - The Treasury bond program expires in February 2011.

New challenges to raising capital are expected to arise in 2011.

- In the event that the housing bond market has not recovered by year-end, then VHDA will need to look to alternative capital sources in 2011 when the Treasury bond program expires.
- VHDA is analyzing a number of options including a return to use of Ginnie Mae securitization of loans made through VHDA's "FHA Plus" program, as well as the feasibility of self-insured loan programs.

**CHALLENGE #2:
Addressing Housing Needs
in a Difficult Market
Environment**

VHDA continues to provide substantial funding for affordable rental housing.

- Year-to-date in FY10, VHDA has provided \$239 mil. in new financing for 55 multifamily developments serving 4,246 renter households.
- This strong production is made possible by increased demand for tax-exempt bond financing and federal support for the tax credit program.
- In 2009, VHDA fully allocated federal Stimulus funds that provided alternative funding for the federal tax credit developments while the private investor market was dysfunctional.

Our greatest challenge is serving renters with extremely low incomes.

- Federal program funds for deep rental subsidies continue to substantially lag the needs of:
 1. Increasing numbers of extremely low-income households
 2. The subsidy costs of recapitalizing HUD's aging inventory of assisted rental developments
- Federal administrative funds remain inadequate to cover the cost of effective subsidy management.
- In response, HUD has proposed a "Transformation of Rental Assistance" (TRA) initiative to restructure, consolidate, and streamline all of HUD's deep rental subsidy programs.

We are supporting the home purchase market while managing lending risks.

- Currently, VHDA is the primary source of mortgage financing for first-time homebuyers due to the absence of flexible underwriting and down payment assistance from other sources.
- Year-to-date in FY10, VHDA has provided \$490 mil. in mortgage loans to 3,600 first-time buyers.
- VHDA is able to continue this critical lending role by carefully managing risk.
 - We require homebuyer education for all loan recipients.
 - We continue to review and adjust underwriting standards based on market conditions and loan performance.

VHDA is prudently managing portfolio risks in a difficult market environment.

- increasing numbers of our borrowers are struggling to make payments due to loss of income.
- Two thirds of our home loan portfolio is insured by federal agencies (FHA, VA, RHS) or private mortgage insurers. For these loans, servicing and loss mitigation are carried out in conformance with insurer standards and requirements, and losses are mainly borne by the insuring agency.
- For the 35% of our loan portfolio that is self-insured, we maintain proactive loss mitigation practices focused on achieving sustainable outcomes.

VHDA is committed to sustainable homeownership.

- We are proactively assisting all borrowers who have the ability to sustain long-term homeownership.
- Loss mitigation starts with a borrower's willingness to work with VHDA.
- VHDA offers an array of workout strategies flexibly tailored to fit a borrower's situation and need.
- Not all borrowers can be helped—nearly a third of those seeking assistance have too much overall debt.
- Those qualifying for assistance have had successful outcomes.

VHDA is continuing to serve Virginia's housing needs.

- We are maintaining high levels of lending serving the needs of low- and moderate-income renters and first-time homebuyers.
- We are promoting and funding accessible rental housing and the incorporation of Universal Design features in new construction.
- We are giving significant Green Building incentives to applicants for federal Low Income Housing Tax Credits. In 2009, all development awarded tax credits will incorporate Green Building standards.
- We are supporting homebuyer education for all first-time buyers regardless of whether or not they choose a VHDA loan.
- We are providing significant capacity building training to nonprofits and local governments to further affordable housing development and the use of best practices.

In conclusion:

- VHDA is continuing to address Virginia's diverse affordable housing needs under difficult market conditions.
- We are balancing prudent management of our short-term capital, underwriting and portfolio risks with continued focus on our long-term strategic goals.
- We look forward to ongoing collaboration with the Housing Commission to increase quality, affordable opportunities for all Virginians.