Report on Housing Market Conditions and Capital Needs

Virginia Housing Commission

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VHDA

Overview of VHDA

- The General Assembly established VHDA in 1972 as a self-supporting State Authority—No state appropriations
- Our mission is to "help Virginians attain quality, affordable housing"
- We provide mortgage loans primarily to first-time home buyers and to finance affordable rental housing
- Our capital is raised from private investors through the sale of tax-exempt and taxable notes and bonds
- We complement and support the activities of the private housing industry

Currently, VHDA is operating in a difficult market environment

Virginia's home buying market is in a significant correction

- Existing home sales are down 26% from their peak in June of 2005
- Likewise, new home starts are down sharply
- Annual price appreciation has fallen from over 25% at the peak of the boom, to less than 4% in June—In the northern region of the state, some areas have seen home values decline - most significant

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Housing market problems are creating state and local strains

strain on state + local tax revenues

- State and local tax revenues derived directly or indirectly from the housing industry have declined substantially, and are resulting in budget shortfalls
- Significant job losses are occurring throughout the housing sector
- Subprime and ARM loans with low initial payments are causing difficulty for borrowers as their interest rates and payments adjust upwards

more borrowers in foreclosure state

VHDA

Local and state markets are not being equally impacted

- The northern region of Virginia—which experienced the greatest housing boom—is now undergoing the most substantial correction
- In other areas of Virginia the market downturn has been more muted
- Virginia is faring much better than the nation as a whole due to its strong economy and low unemployment, but is still feeling pain

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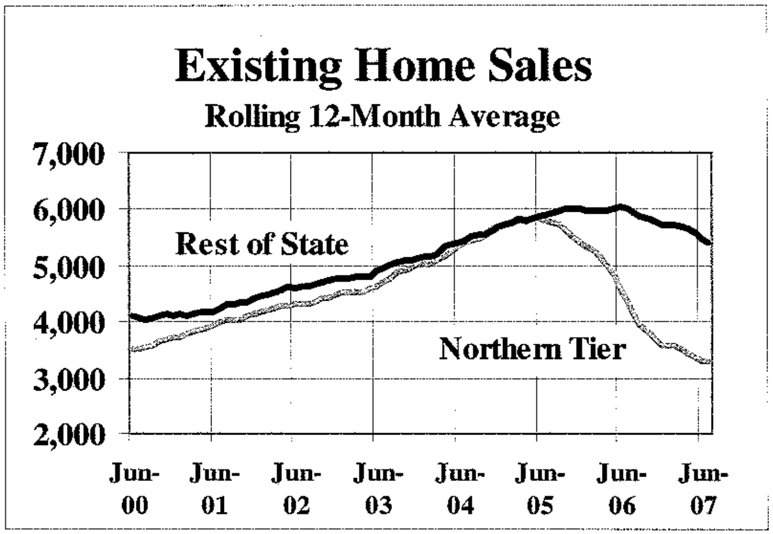
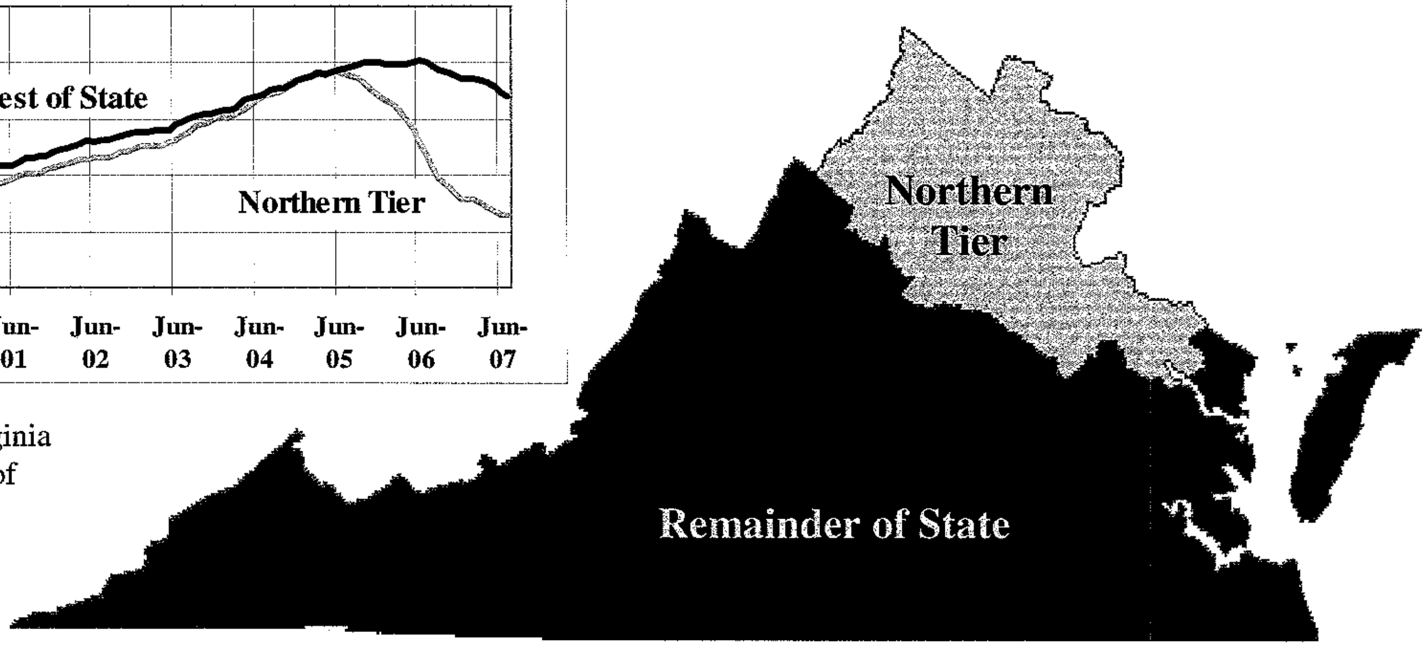
The decline in home sales has been greatest in the Northern Tier



Source: Virginia Association of Realtors



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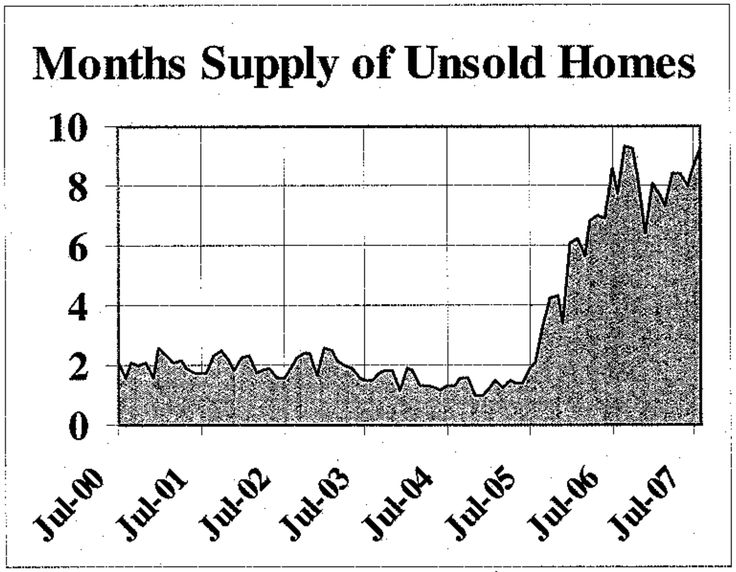
This has resulted in substantial unsold inventory in that region



Source: Metropolitan Regional Information Systems (MRIS)

problem is in this area

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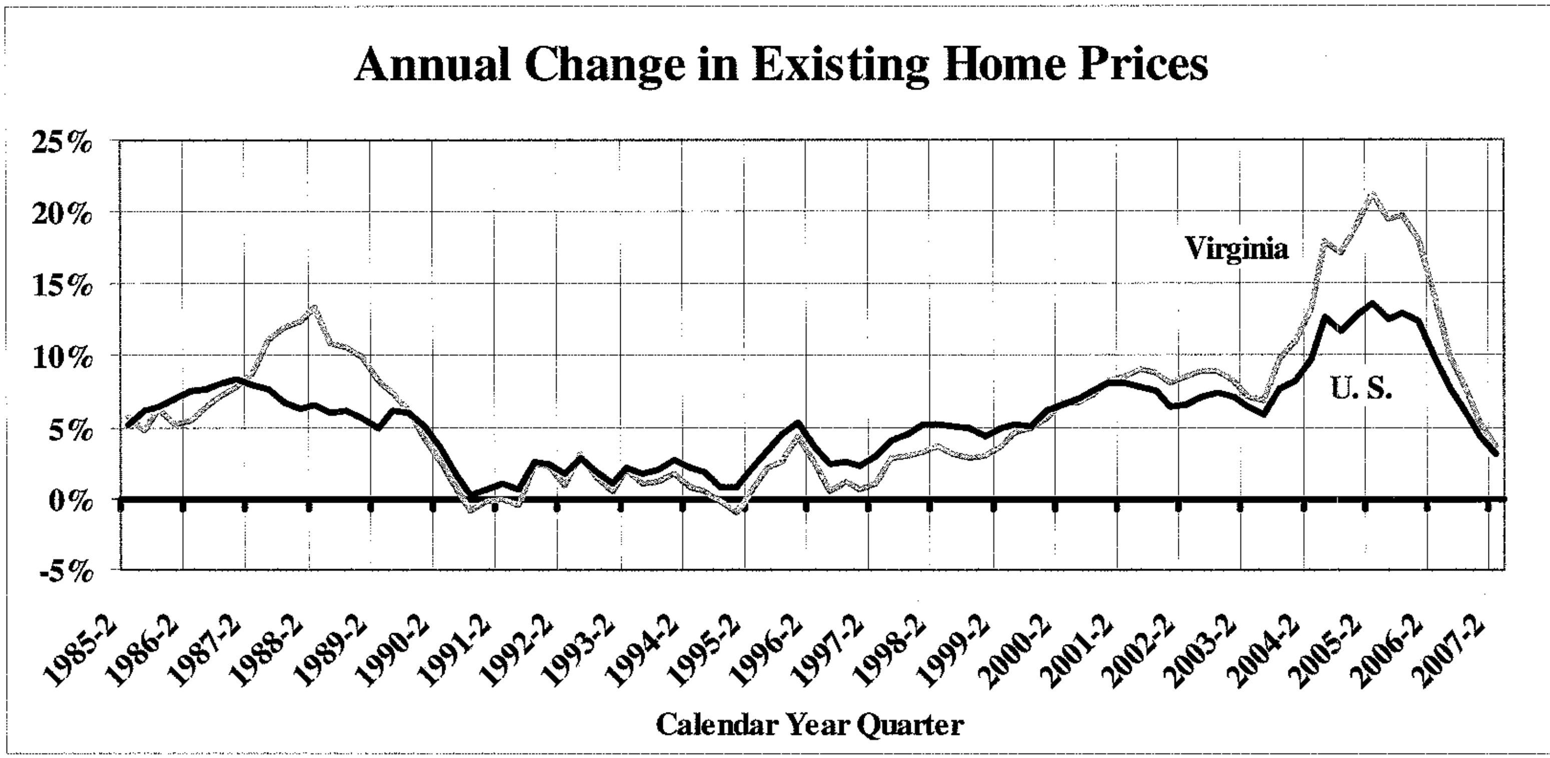
Appreciation is down sharply, but values are still positive

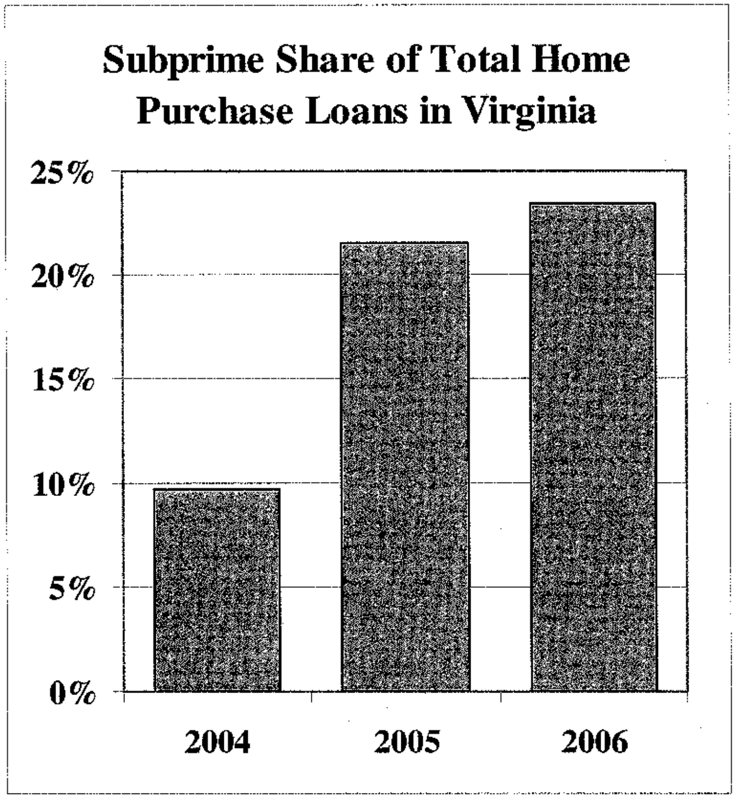


Source: Office of Federal Housing Enterprise Oversight (OFHEO) Quarterly Home Price Index

not first time we've seen this in VA
- 1991 + 1995 - mainly in NOVA
- notice rapid incline + rapid decline - reason we feel it more

VHDA

The credit crunch is the biggest threat to the housing market



- Subprime loans were a substantial share of loan originations in 2004, 2005 and 2006
- The near complete withdrawal of those products has created a very large credit gap

won't be able to get loans

-this will continue to be an issue

VHDA

VHDA continues to provide safe, sound lending choices for first-time buyers

VHDA offers affordable, secure alternatives to high-risk loans

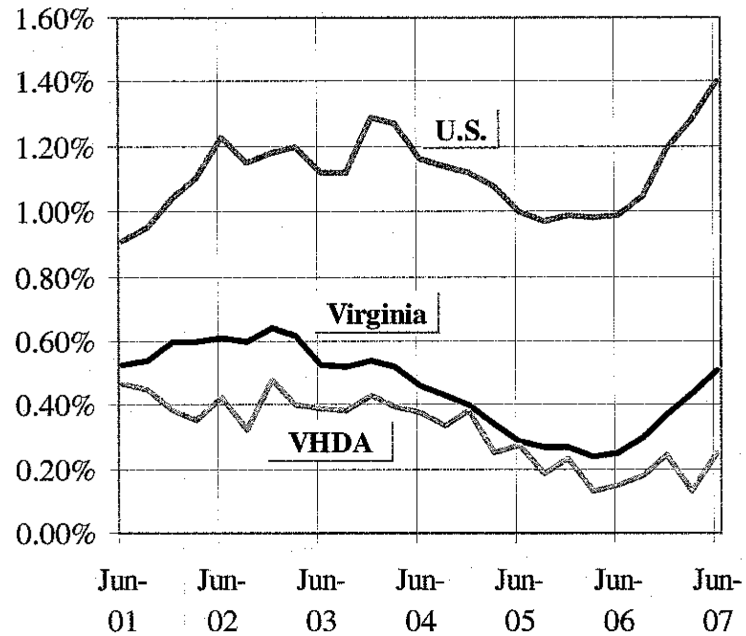
- We offer only long-term, fixed-rate loans in contrast to the riskier adjustable-rate loans that have represented a large share of conventional mortgages
- Our extensive, free homeownership education classes help home buyers avoid predatory lending practices and make informed, sound financial choices

*not a sub-prime lender

VHDA

VHDA mortgage loans continue to perform extremely well

Home Mortgage Foreclosures as a Share of Loans Serviced



Source: JKF Analysis of SFS Delinquency and Servicing Reports

- Subprime problems have impacted loan performance in Virginia far less than nationally
- Virginia and VHDA foreclosures remain well below the national average

-10 year avg for foreclosure rates - susan will send info out

-highest loan amount
NOVA - 417,000
Hampton - 408,100

-prince william area is suffering

- able to do all they can to make sure people stay in their homes and don't have to foreclose
- VA better off than rest of country

VHDA

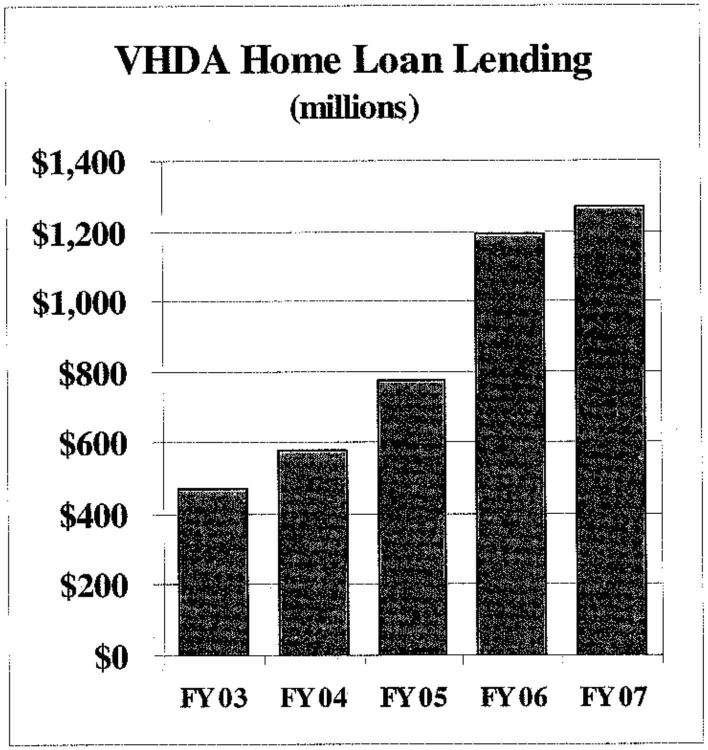
VHDA's lending and financial performance remain strong

- Conventional lenders are now having to retrench, and some are suffering financial fallout from imprudent lending practices during the recent housing boom
- In contrast, VHDA continues to expand home buying opportunities for low- and moderate-income first-time homebuyers
- Our single-family bond program continues to retain a "Triple A" rating at a time of heightened Wall Street attention to credit risks

VHDA

VHDA is providing needed mortgage capital to help support the market

VHDA lending is up substantially as buyers seek safer loan products



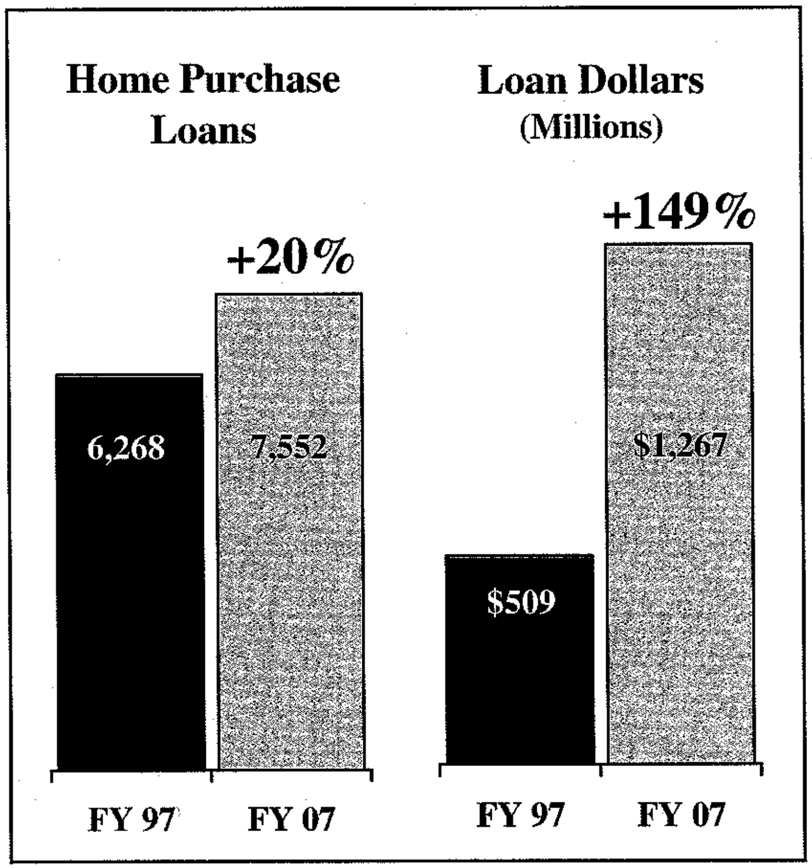
- Lenders are now looking to VHDA as a primary means for funding home loans to first-time buyers
- This is creating record loan demand, and straining VHDA's finite capital resources

VHDA lending up substantially - 06 + 07 were record years and 08 is looking to do the same

VHDA's multifamily lending also remains strong

- VHDA's Multifamily production also remains strong, providing financial assistance to 4,000-5,000 affordable rental units per year
- A large part of VHDA's Multifamily financing allows developers to acquire and rehabilitate existing properties to preserve affordability and help revitalize existing rental housing stock

Continued high home prices also add to VHDA's capital needs



- Over the past decade, the run-up in housing costs has more than doubled VHDA's capital needs
- Our average mortgage amount has risen from $81,200 in FY 97 to $167,700 in FY 07

doubled but no bond cap...

VHDA

Capital capacity has become a substantial challenge for VHDA

VHDA's issuance of tax-exempt bonds is limited by law

- Federal law imposes an annual state volume cap on the amount of tax-exempt private activity bond issuance - based on per diem basis
- Virginia law allocates that cap among issuing entities
- In 2007, VHDA's allocation share is equal to $175.4 million

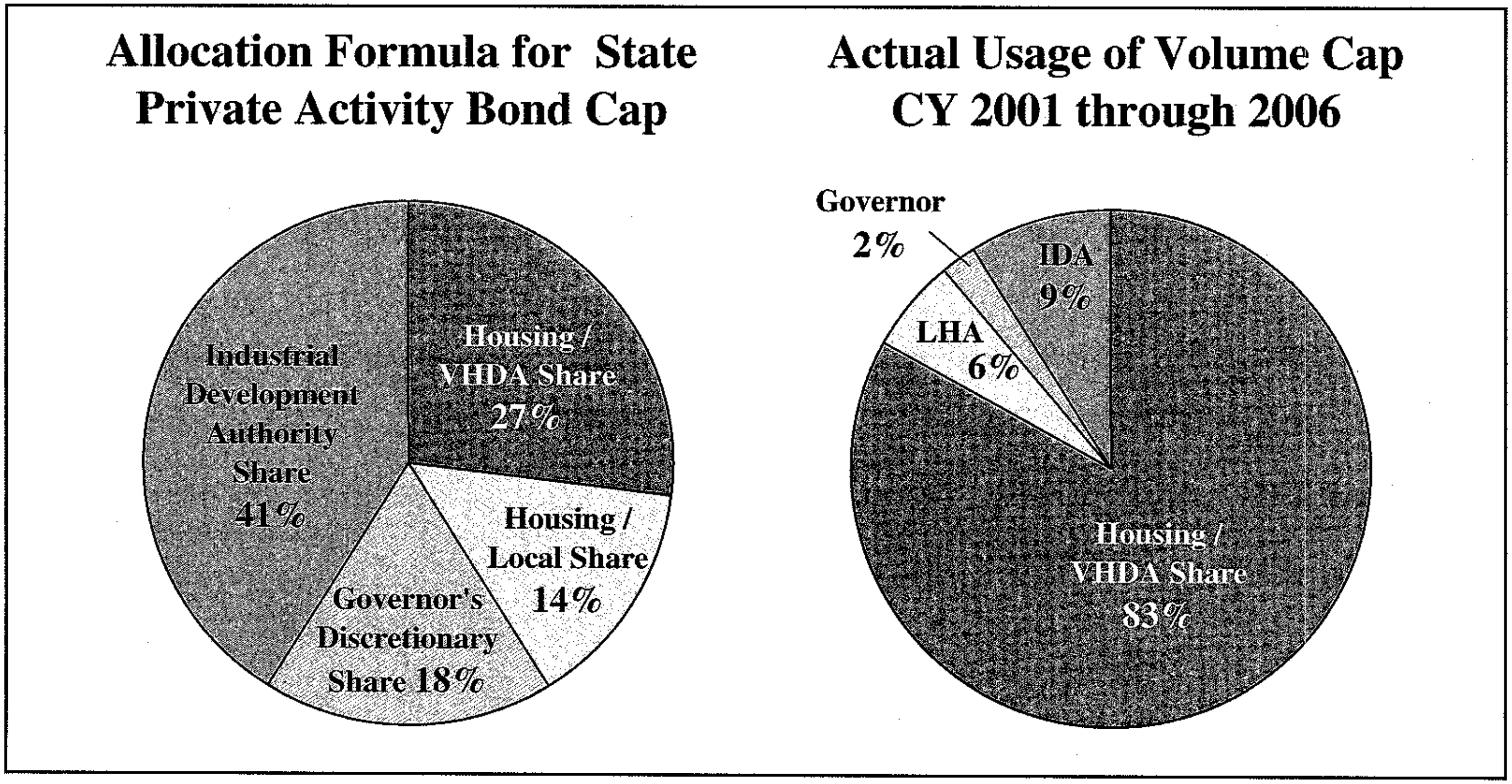
VHDA

VHDA has been able to supplement its formula bond allocation

- The IRS permits VHDA to recycle some of the prepayments on its tax-exempt bond loans into new mortgages
- Also, VHDA is able to receive unused bond cap from other issuing entities as well as issuance authority from the Governor's discretionary share of the cap

- fed - gives $, va allocates to agencies. State could reallocate

VHDA loan programs depend heavily on bond cap reallocations

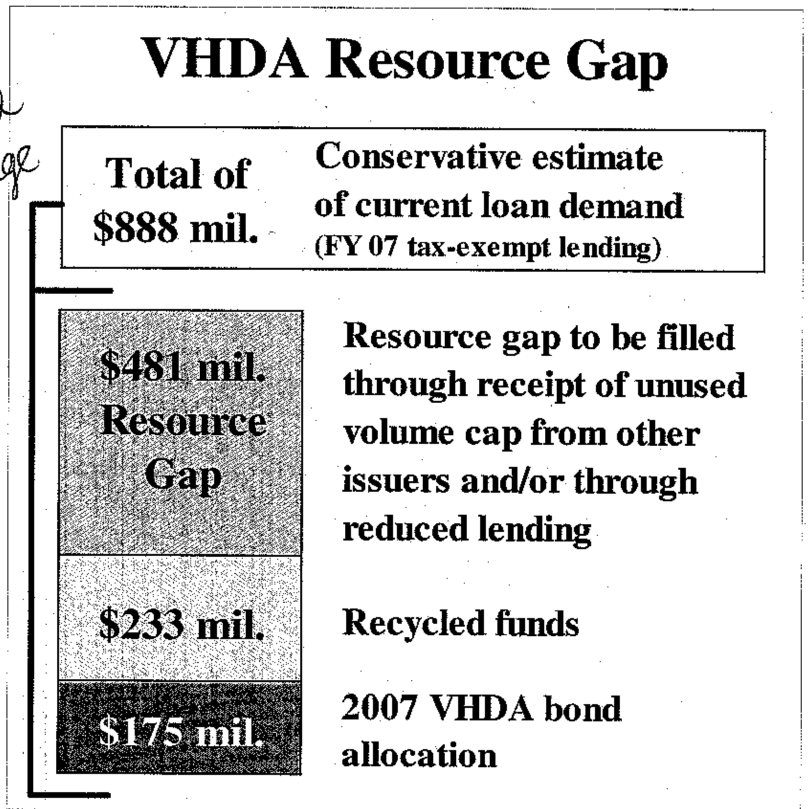


- Can get on use capacity to carry over for 3 years
if VHDA has more continuous / ongoing projects

VHDA

Rising demand for VHDA loan funds has created a resource gap

major demand for ~~tax~~ mortgage



Current demand for mortgages funded with tax-exempt bonds is over twice the level of bond issuance authority on which VHDA can count

~~tax~~ for 2007, most bond cap has already been used.
↳ will run into problems for this year

Capital uncertainties require VHDA to reduce loan demand

- Reliance on reallocations from unused set-asides makes program volume difficult to manage
- Therefore, VHDA has taken steps to reduce loan demand, is considering further steps to restrict program access, and is seeking additional bond cap
- However, some reduction in the number of loans made will still be necessary even if VHDA is successful in accessing unused bond cap or in increasing its share of the bond allocation formula

- use tax exempt bonds for both single family + multi family loans

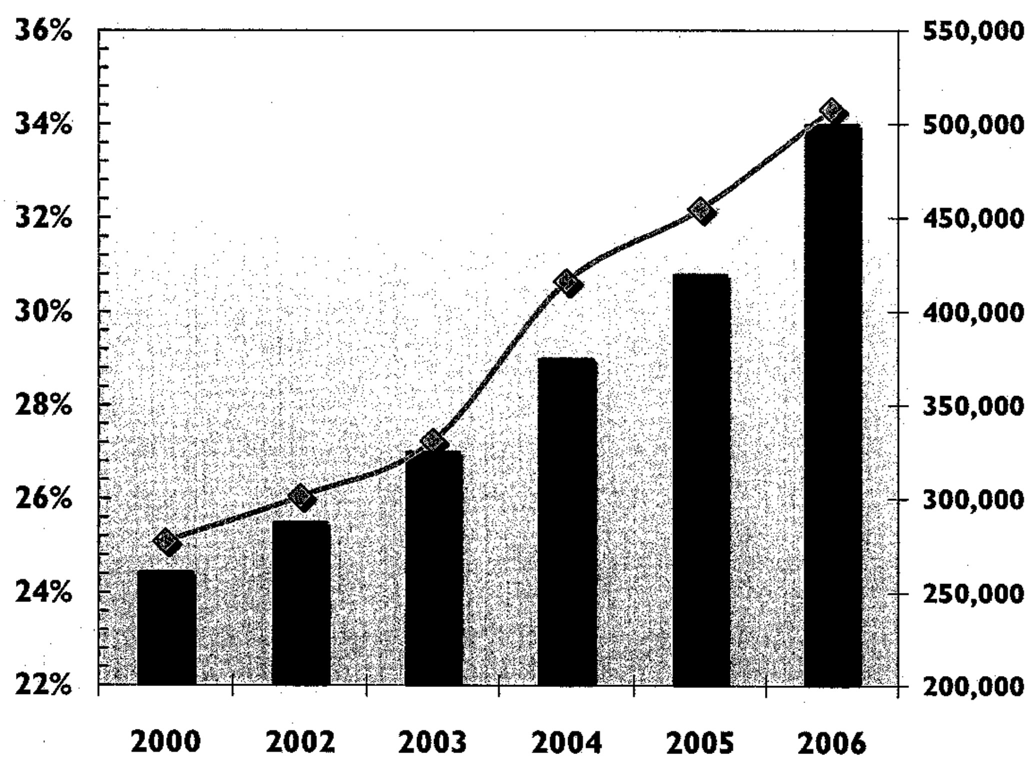
Eroding Housing Affordability in Virginia

The median home value increased $31,900 between 2005 and 2006 to $244,200. [i] For the median home value, assuming a 30 year mortgage, 6.5% APR, PIMI, and 10 percent down payment, a household would need $74,000 to afford the monthly payment of $1727.[ii] Only 3.5 out of 10 Virginia households can afford a home at this price.

Over a third of Virginians have housing cost burdens in excess of 30 percent of household income. For the sixth consecutive year, the percentage of Virginia households with cost burdens increased. Households with severe cost burdens (>50% of household income) increased to 11.4 percent of Virginia mortgage holders.[iii]

One in five Virginia renters spent more than half of their income on housing costs in 2006. Close to half of all renters spend spent at least 30 percent of their income on rent. The median rent was $846 in Virginia in 2006. The household income needed to afford housing at that cost is $36,257.[iv]

Chart 1: Percentage and number of mortgage holders with cost burdens exceeding 30 percent of household income. 2000-2006.



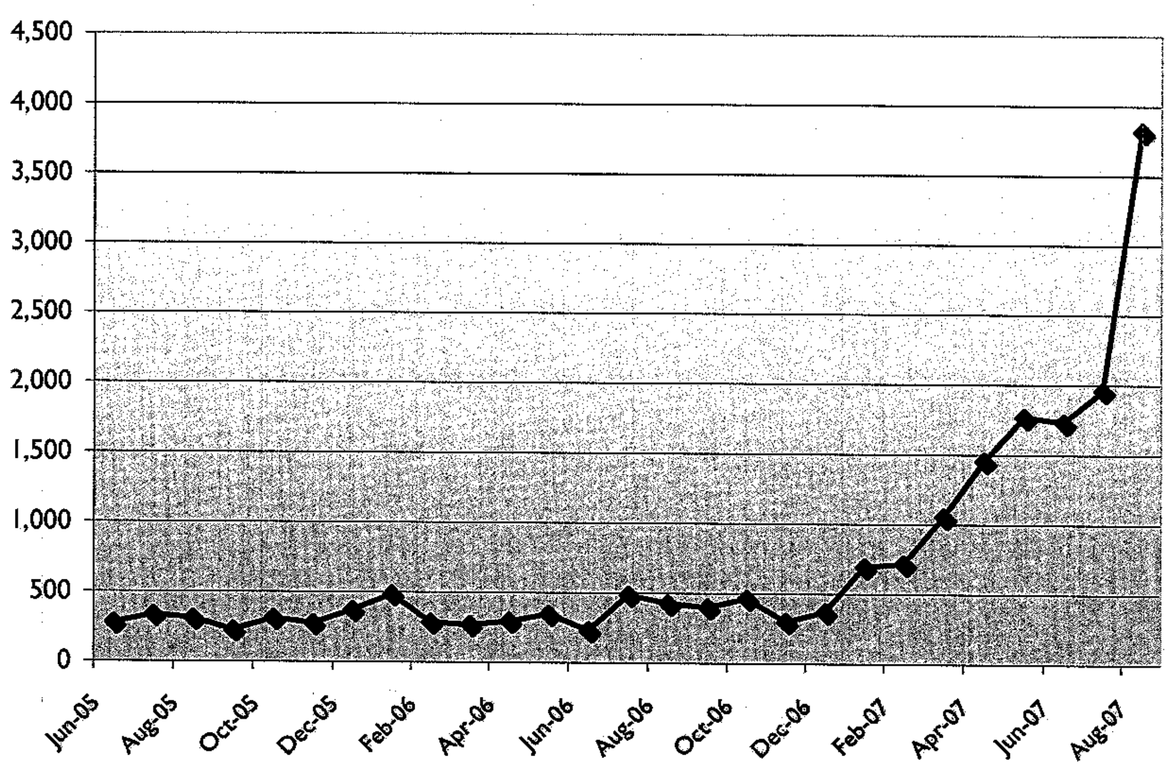
Rising Tide of Foreclosures in Virginia

Foreclosures increased 377 percent for the first 8 months of 2007. There have been 13,200 foreclosures so far in 2007 while in 2006 there were 4,350 for the entire year.[v]

Subprime loans have a much higher propensity to foreclosure than conventional loans. For the 2^{nd} quarter of 2007, 60 percent of foreclosures in Virginia were subprime (47 percent subprime ARMs).[vi]

Subprime loans increasingly occupy a greater share of loan originations in the state, especially among minorities. 23 percent of conventional home purchase loans in 2005 were high interest – an 112 percent increase from 2004. Close to half of loans made to African-Americans and Hispanics was high-interest.[vii]

Chart 2: Rise of foreclosures in Virginia, 2005-2007[viii]



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[i] Analysis of 2006 American Community Survey data, US Census Bureau.
[ii] Monthly payment calculated using mortgage payment calculator at www.bankrate.com . Percentage of annual income spent on mortgage payment used is 28 percent.
[iii] Analysis of 2006 American Community Survey, US Census Bureau.
[iv] Ibid.
[v] HOME analysis of foreclosures numbers provided by RealtyTrac, an online foreclosure listing service.
[vi] HOME analysis of "National Delinquency Survey Q207", Mortgage Bankers Association.
[vii] HOME analysis of Home Mortgage Disclosure Act (HMDA) data.