

COMMONWEALTH OF VIRGINIA

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VIRGINIA HOUSING COMMISSION

AGENDA

Virginia Housing Commission House Room C, General Assembly Building April 27, 2011 10:00 A.M.

Members Present: Delegate John Cosgrove, Delegate Rosalyn Dance, Delegate Daniel Marshall, Senator John Watkins, Senator Mary Margaret Whipple, Melanie Thompson, T.K. Somanath, Mark Flynn

Staff Present: Elizabeth Palen, Jillian Malizio, Beth Jamerson

I. Welcome and Call to Order

- **Delegate John Cosgrove; Chair**
 - o The meeting was called to order at 10:05 AM

II. Agency Update

- **Bill Shelton, Director, Virginia Department of Housing & Community Development (DHCD)**
 - o DHCD's mission is to work in partnership with the Housing Commission and the Virginia Housing Development Authority (VHDA) to make Virginia's communities safe, affordable, and prosperous places in which to live, work, and do business. However, the economic reality and policy environments remain challenging.
 - o The challenging economic situation limits the ability to do work, and DHCD has had to be creative in order to respond to problems in a number of different areas.
 - o DHCD has a broader mission than just housing; it includes a comprehensive view of the community with an emphasis on economically distressed communities. DHCD's mission includes supporting affordable housing options, building viable communities, creating and sustaining a safer built environment, assisting local and regional groups, and participating in critical studies. DHCD does a lot in the area of building and safety, and Virginia is one of the first states to have a Uniform Safety Code. DHCD also emphasizes working with regional groups.
 - o Affordable Housing:

DELEGATE DAVID L. BULOVA
DELEGATE JOHN A. COSGROVE
DELEGATE ROSALYN R. DANCE
DELEGATE DANIEL W. MARSHALL, III
DELEGATE G. GLENN ODER

SENATOR MAMIE E. LOCKE
SENATOR JOHN C. WATKINS
SENATOR MARY MARGARET WHIPPLE

MARK K. FLYNN
T.K. SOMONATH
MELANIE S. THOMPSON

- DHCD continues to oversee federally-funded housing and homeless programs amid shifting federal priorities.
 - Historically the agency's budget has been around \$100–\$120 million but recently they have received over that amount in stimulus money alone, so the budget has almost doubled in the last two years.
 - During the 2011 session the General Assembly amended The Livable Homes Tax Credit with H.B. 1950 [§58.1-339.7 of the Code of Virginia] to increase the maximum amount of credit available from \$2,000 to \$5,000. The program makes houses more accessible and livable. The availability of the credit increase has been extended to homebuilders and licensed contractors to allow them to use the credit.
 - The Communities of Opportunity launched an affordable rental tax credits program in January. The program provides tax credits to managers of affordable rental housing in less-impooverished areas within the Richmond metropolitan area who participate in the Housing Choice voucher program. This provides an incentive to use vouchers across the market instead of concentrated in areas.
 - **Delegate Marshall**—Asked if DHCD will monitor this program.
 - **Bill Shelton**—Confirmed that DHCD will administer the program. Landlords will apply to DHCD, it will issue certificates, and then the landlords will get the tax credits back.
 - **Delegate Marshall**—Asked whether regulations have been drawn for the program.
 - **Bill Shelton**—The legislation called for guidelines, and DHCD has indeed drawn them up.
- o Homeless Programs
- State housing policy recommends more effective approaches to preventing and overcoming homelessness. DHCD is beginning to implement these approaches with more emphasis on rapid re-housing and permanent supportive housing. The agency has limited resources, but is moving state general funds it receives to support these programs. If DHCD can intervene as soon as people become homeless and move them back into housing, it reduces long-term support needs through social services.
 - DHCD wants to better coordinate social services and housing for homeless. They have launched the Homeless Services Coordinating Council to improve state agency coordination.
 - **Delegate Cosgrove**—Asked where homeless people are currently being housed, as far as shelters and other structures. Asked whether DHCD is building any new facilities or if they are taking advantage of existing housing inventory.
 - **Bill Shelton**—There is an existing shelter support network, which is mostly philanthropic. In the current environment there is a lot of housing stock available and DHCD is trying to buy it through stimulus programs. Homeless programs provide for those whose income is usually less than 30% of the average income. There are organizations DHCD can support through financing.

- o Building Viable Communities:
 - DHCD conducts oversight of federally funded community development programs.
 - DHCD has increased funding for Main Street and Enterprise Zone grants. The General Assembly made changes to the Enterprise Zone grant program in 2011, which modified Enterprise Zone job credit application requirements (H.B. 1599, S.B. 1348), and authorized the DHCD to redesignate joint enterprise zones (H.B. 2131, S.B. 779). Older “white elephant” properties are now sitting vacant. These changes allow the DHCD to intervene and provide some incentive money to help make the building more economic for the community.
 - DHCD is also receiving new funding for industrial site revitalization.
- o Safer Built Environment:
 - The 2009 Uniform Statewide Building Code and the Statewide Fire Prevention Code and related regulations are now in effect.
 - Defective drywall:
 - DHCD is currently considering a remediation protocol for homes and structures containing defective drywall. Concerns include how to fund such a protocol and what standards would be used. Implementation is slow because there is no national remediation standard. There is also a concern with timing, because the standards DHCD adopts will need to satisfy any national standards that are issued.
 - **Delegate Marshall**—Asked whether there is a complete inventory of the houses that have been affected.
 - **Bill Shelton**—DHCD does not have every street address, but they know the general areas affected. There is a database that was shared with the Attorney General from the Consumer Product Safety Commission.
 - **Delegate Marshall**—Asked if they are working on obtaining information for all the houses affected by Chinese drywall. He expressed concern that buyers moving to an affected area may not know if they are buying a house with defective drywall.
 - **Bill Shelton**—Legislation has been passed that deals with disclosure. Sellers are required to disclose whether they know the drywall is defective. The DHCD has asked people to register, but it is voluntary, not a requirement.
 - **Mark Flynn**—Asked if the issue was confined to the Tidewater area.
 - **Bill Shelton**—Tidewater is where the problem is concentrated. Some townhomes in the Richmond area have been affected, but it is difficult to definitively know if that is the full extent of the problem.
 - **Mark Flynn**—News reports have suggested that perhaps the same issue may be showing up in some non-Chinese drywall.
 - **Bill Shelton**—The Consumer Product Safety Commission says that there was some testing of domestic drywall, but they could not prove that it definitely did or did not have the same problems. They cannot rule out that it couldn’t happen in the United States.

- **Delegate Marshall**—Asked whether DHCD is tracking to see what other affected states, including Florida and Mississippi, are doing about the situation.
 - **Bill Shelton**—DHCD is watching those states, and there has been some state response. The product distributed in Virginia came from a different company than the drywall distributed in other states, which is the company that has a hand in fixing the houses.
 - **Delegate Marshall**—Asked how that company is actually fixing the houses.
 - **Bill Shelton**—Generally, the remediation process consists of pulling out the wiring and electric components from the drywall. It could affect copper, appliances, and any soft products.
 - **Delegate Cosgrove**—Asked if there has been a definitive set of standards and procedures for the replacement of the Chinese drywall.
 - **Bill Shelton**—A Louisiana court made an award based on its determination of how much it would cost to replace the drywall. The National Association of Home Builders (NAHB) has issued guidelines. Delegate Oder has asked the Governor to have DHCD look at them, and DHCD has, but it will be late July or early August before something is actually adopted. DHCD wants to adopt something that will withstand the test of scrutiny.
 - **Delegate Cosgrove**—Asked if DHCD will have to wait for a federal standard.
 - **Bill Shelton**—That is what DHCD is waiting for, but it doesn't seem likely to happen. Any standard will probably be from a private sector group.
 - **T.K. Somanath**—Asked if there is a chance that there could be more defective drywall that has not yet been used by builders in houses in Virginia.
 - **Bill Shelton**—The alert has been raised on this issue and people are aware of it, but there could always be something new.
 - **Delegate Dance**—Asked whether the new funding for site revitalization is for specific areas.
 - **Bill Shelton**—It is statewide but targeted at distressed areas from a recommendation of the Distressed Communities Work Group from the Governor's Task Force. There are \$3 million dollars in appropriations.
 - **T.K. Somanath**—Asked what effect cutting the Housing Opportunities Made Equal (HOME) funding and the Community Development Block Grant (CDBG) funding has had on housing in Virginia.
 - **Bill Shelton**—The reduction was based on a formula. HOME was cut by 12%, but the cuts depend on the formula allocation.
- o Participating in Critical Studies:
- DHCD is implementing housing policy issues this year. Social services and housing homeless are some areas of focus.
 - *HJ 648 (Plum, 2011)* requests that DHCD study amendments to the Uniform Statewide Building Code that provide for accessible routes into public and

private buildings for persons with disabilities. It does not change accessibility standards, but retrofits accessible routes from parking areas into commercial and private properties. It is a two-year study, and there will be a report back to the General Assembly.

- **Susan Dewey**, *Director, VHDA*

- These are challenging times for housing. VHDA is a major player in helping the state.
- There are two key challenges: access to adequate capital—VHDA needs to borrow at rates it can lend—and addressing housing needs in a difficult market environment.
- Typically, VHDA uses the tax-exempt bond market to support its lending programs. This works well with multi-family programs, but the same is not true with single family programs. This is because federal intervention has been keeping interest rates abnormally low, and VHDA cannot borrow at those rates. VHDA is currently using the Treasury Bond Purchase Program, but that expires in December and is unlikely to be renewed. VHDA is looking at alternate ways to raise capital through Ginnie Mae and Fannie Mae.
- VHDA has provided \$201 million for 44 multi-family developments serving over 3,000 renter households. Some are small, four unit properties that serve persons with disabilities, and some are larger, serving over 1,000 persons.
- VHDA is the allocating agency for the Federal Low-Income Housing Tax Credit program. There is a sufficient demand for the program, but there are challenges in the rural area where investor interest does not give VHDA the return that it needs to provide those credits.
- VHDA is working on creating mixed income and mixed use developments with local communities as part of their revitalization plans. VHDA helps communities examine the options available to them as well as funding.
- The biggest challenge VHDA faces is serving renters with extremely low incomes, particularly the homeless and ex-offenders. There is not enough property to serve the increasing numbers of extremely low-income households.
- VHDA has the ability to provide assistance with down payments and closing costs. VHDA provided mortgage loans to almost 2,000 first-time homebuyers so far in 2011, which is a lower number than last year. VHDA limits risks associated with lending by requiring homebuyer education and using strong underwriting criteria. They also service all loans in house rather than selling them off, so they work directly with the homeowners. Lending has been a challenge with unemployment. They are still providing fixed, 30-year mortgages, but job loss makes it difficult to keep people in their homes.
- Most of VHDA home loans are insured either by federal agencies, including the Federal Housing Administration (FHA), the Department of Veteran's Affairs (VA), and the Department of Agriculture Rural Housing Service (RHS), or private mortgage insurers. Delinquencies are higher than in the state and country, but the foreclosure rate is lower. This is because they do everything they can to intervene when a borrower becomes delinquent and make sure borrowers stay in their homes.

- o The key to sustaining homeownership is the borrower's willingness to work with VHDA. They do everything they can to contact the borrower and send notification after 60 days of delinquency. Unfortunately, some borrowers wait too long before seeking assistance and the longer they have been delinquent, the more difficult they are to help.
- o VHDA provides homebuyer education to anyone who is interested in obtaining a home; they hold about 14,000 classes online or in person throughout the year. VHDA also provides funding to foreclosure prevention counseling agencies.
- o Some of the ways VHDA is supporting state housing policy priorities is through the incorporation of Universal Design features in new construction, and Green Building incentives in the Federal Low-Income Housing Tax Credit program. VHDA has also provided support to the Governor's Housing Policy Initiative through the development and maintenance of the Virginia Foreclosure Task Force website and by tracking foreclosure trends in Virginia. VHDA has organized monthly work sessions for the Task Force to review six to seven pieces of foreclosure-related legislation referred to it by the 2011 General Assembly. Terrie Suit chairs the Task Force and VHDA is staffing the Task Force.
- o **Senator Whipple**—Asked if the securitization of alternative sources of home loan capital means that VHDA is selling its loans to Ginnie Mae and Fannie Mae.
- o **Susan Dewey**—With Ginnie Mae, the loans are basically sold in order to obtain the insurance, but VHDA retains the servicing rights.
- o **Senator Whipple**—Asked if Ginnie Mae sells the loans.
- o **Susan Dewey**—They don't sell them because VHDA still does the servicing on the loans. It is just a way to obtain capital more efficiently.
- o **Senator Whipple**—Asked how this is an advantageous arrangement to Ginnie Mae.
- o **Susan Dewey**—Ginnie Mae gets a guaranteed fee.
- o **Senator Whipple**—Asked how VHDA is dealing with the fact that sales prices in some areas are still diminishing, and if these borrowers end up underwater.
- o **Susan Dewey**—That is a possibility for everyone right now, and VHDA is hoping that prices stabilize. Even though home prices are still dropping, VHDA typically sees buyers who are staying in the home for long periods of time.
- o **Senator Whipple**—Asked if VHDA is still giving 100% loans.
- o **Susan Dewey**—Responded that they are, and that most first-time homebuyers cannot save 20% for a down payment. VHDA has been running this program for most of its existence, and still do very well because they focus on education and underwriting.
- o **Delegate Cosgrove**—Asked if there is private mortgage insurance (PMI) on the loans.
- o **Susan Dewey**—There is no PMI on these loans.
- o **Delegate Cosgrove**—Asked whether PMI could be included.
- o **Susan Dewey**—Since these loans are FHA backed, it isn't necessary to include PMI.

- o **Delegate Marshall**—Asked if VHDA tracks the foreclosure rate on those loans and how it compares to loans that are not 100%.
- o **Susan Dewey**—VHDA does track, and the rate is slightly higher. They charge a quarter of a point higher to make up for those risks.
- o **Delegate Marshall**—Asked how much higher the foreclosure rate is in comparison.
- o **Susan Dewey**—Responded that she didn't have those numbers, but that the issue is related to the type of loan and whether the homeowner can stay in the home.
- o **Delegate Marshall**—Asked how long VHDA has been giving 100% loans.
- o **Susan Dewey**—For the last 30 years or so.
- o **T.K. Somanath**—The Better Housing Coalition (BHC) has used a lot of your mortgage products.
- o **Susan Dewey**—The key for success is counseling at all levels. Because of the counseling, VHDA's portfolio has barely had a default. The state needs first-time homebuyers in the market for housing recovery, but they will not be able to purchase a home unless there is a way to help them with down payments.
- o **Senator Watkins**—Asked if VHDA ever goes back through the loan portfolio to assess whether values have changed, and if so whether VHDA classifies those loans that are in trouble.
- o **Susan Dewey**—Responded that they are always looking at the portfolio, and they are required to have loan loss reserves.
- o **Senator Watkins**—What is the ratio?
- o **Susan Dewey**—It depends on the program. They use an intricate formula. About 92% of lending they have done is insured by a federal government program. They look at factors like multi-family, single family, what losses they think will be sustained, and come up with a percentage.
- o **Senator Watkins**—Asked if they also look at credit scores or adjustments in credit scores.
- o **Susan Dewey**—VHDA scores their portfolio twice a year.

III. Charlottesville Affordable Housing Program

- **Jim Tolbert**; *Director, Neighborhood Development Services*
 - o Began with an overview of the housing situation in Charlottesville:
 - The city has a relatively high median income of \$73,800 as of 2007, and has weathered the economic downturn well.
 - There are 16,700 occupied housing units, and 18,400 total housing units as of 2007.
 - The 2025 City Council vision includes quality housing opportunities for all.
 - A 2007 American Community Survey showed that almost half of Charlottesville households spend more than 30% of income on housing costs. As of 2008, there were 268 homeless adults. In 2009, there were 1,933 units of supported affordable housing units, which is 10% of the total housing stock.

- o A 1998 housing study found that the city needed to focus on middle-income housing, because they were losing middle-income homeowners to surrounding areas.
- o The city's housing policy includes providing down payment assistance loans and assistance to homebuilders, as well as rehabilitating dilapidated properties in deteriorating neighborhoods.
- o The Charlottesville Housing Affordability Program and the Tax Relief for Elderly and Disabled Program allow the city to help provide affordable housing. Additionally, the city has a tax abatement program for additions. To qualify, the unit must be at least 25 years old, have an assessed value of less than \$518,100, additions and renovations must add 15% in value, and the home must be owner-occupied. The abatement runs for seven years and is transferable.
- o The city is rehabilitating aging housing stock through home improvements, including emergency repair, small rehabilitations, substantial rehabilitations, and handicap accessibility for the aging community
- o The city has a free paint program, where every summer free paint is provided to qualified households earning less than 80% Area Median Income (AMI). In 2010 fourteen households received paint. The program helps to increase the appearance of the community.
- o The city uses CDBG and HOME funding in its rehabilitation programs. The average amount received is \$577,775 from CDBG and \$122,000 from HOME.
- o **Delegate Cosgrove**—Asked if the free paint program provides only the paint.
- o **Jim Tolbert**—The program only provides the paint, but we have volunteers who help paint if the residents are unable to paint their own houses.
- o The 2004 Housing Plan focuses on workforce housing and the commitment of local dollars to reduce reliance on CDBG and HOME dollars.
- o The Charlottesville Housing Fund was created in 2007. The fund uses local general revenue and averages about \$1.4 million/year.
- o City Council appropriated \$250,000 for energy efficiency and weatherization upgrades to low income households.
- o The city also expanded bus routes and frequency, expanded sidewalks, and created bike lanes.
- o Since 2005 there have been 910 housing units built or preserved. The majority of that number is units preserved, they are just starting to build new units.
- o The city has partnered with Piedmont Housing Alliance, and was able to save properties and turn them into affordable rental units.
- o As an incentive to developers, the city has reduced water and sewer connection fees by 80%. The requirements for this reduction are: the units must be sold or rented to families at or below 80% AMI, the sale price must be less than the VHDA maximum sale price, and units for rent must have federal, state, or local assistance that guarantees affordability. Another incentive was a 50% fee reduction stimulus package from Apr. to Oct. 2009 where the city reduced all permit fees for any residential new construction or addition that increased livable space by 50%.

- Charlottesville also has an expedited plan review (a partnership between the city and developers) that saves developers more money. Any project with 5% affordable housing is guaranteed a three-week review period. This partnership creates a great working relationship with homebuilders and encourages them to build affordable dwelling units.
- *HB 883 (Toscano, 2008)* authorizes Charlottesville to establish affordable housing, permitting certain densities in planning the city of Charlottesville. The legislation also allows the developer to provide on-site affordable dwelling units, off-site affordable dwelling units, or a cash contribution to the city's affordable housing fund instead of providing affordable dwelling units.
- The city adopted the goal last year of increasing the ratio of affordable dwelling units to 15% of total housing units by 2025 for a total of 2,350 units. To achieve this goal by 2025, they city will need a commitment of \$25.7 million in local funds.
- The Thomas Jefferson Community Land Trust is the first community land trust in Virginia. It removes land costs from housing prices, which helps to provide affordable housing. The trust holds the land in perpetuity, which makes housing permanently affordable.
- The Housing Advisory Committee recommends housing policy and priorities to City Council and is made up of members from a variety of industries in the public and private sectors.
- Every city employee may take two days of paid leave to volunteer with Habitat for Humanity to build two housing units. Charlottesville has strong partnerships with non-profits, including the Albemarle Housing Improvement Program, Habitat for Humanity, and the Piedmont Housing Alliance.
- Current city housing projects include EcoMOD houses (0 energy home), and EcoREMOD houses, which are historic homes rehabilitated to high energy efficiency standards.
- **Delegate Cosgrove**—Asked who pays for the 80% reduction in water and sewer connection fees?
- **Jim Tolbert**—The cost is built into the housing fund.
- **Delegate Cosgrove**—Asked about the percentage of developers who choose to pay the city rather than agreeing to provide a certain number of affordable dwelling units.
- **Jim Tolbert**—Of the five plans the city has reviewed, four of them have chosen to pay the city and one is providing the units.
- **Delegate Cosgrove**—Pointed out that taxpayers bear the cost of the two days of paid vacation time.
- **T.K. Somanath**—Asked whether the \$1.4 million for the housing fund is a dedicated source or if it is provided as needed.
- **Jim Tolbert**—It is not a dedicated source.

IV. Mortgage Market Overview

- **Sonya Waddell**; *Associate Regional Economist, Federal Reserve Bank of Richmond*

- o The data in this presentation is from the Mortgage Bankers Association (MBA) and Lender Processing Services (LPS).
- o The housing situation is not getting worse, but it is still challenging. There are declines in delinquency rates, but there are also declines in housing rates. Foreclosures are at an all time high, and existing home sales are not where they need to be for the housing market to recover.
- o The foreclosure rate in the 4th quarter of 2010 was 2%. There are 30,000 loans currently in the foreclosure process. Virginia continues to do better than the rest of the nation; the national foreclosure rate was 4.6% in the 4th quarter of 2010. Part of the reason for the high U.S. foreclosure rate is because of states like Florida, which has over 450,000 loans in the foreclosure process. Virginia ranks 44th out of the 50 states and the District of Columbia.
- o In the 4th quarter of 2010 .9% of loans in Virginia were going into foreclosure, which is equivalent to about 12,500 loans. The U.S. rate was 1.3%. Prime, FHA, and VA loans have seen a flattening out of the foreclosure rate, while subprime foreclosures have jumped. In the 1st quarter of 2007 the majority of loans in foreclosure were subprime loans, which accounted for about 3,200 loans. In the 4th quarter of 2010 the majority of loans in foreclosure were prime loans, but the total number of loans in foreclosure was much higher; subprime loans accounted for about 8,000 loans. Subprime loans are still disproportionately represented in the foreclosure pool in Virginia.
- o The percentage of owner-occupied homes in foreclosure is highest in northern Virginia. This is a considerable improvement, but still high rates of foreclosure.
- o The percentage of owner-occupied homes with subprime mortgages is dropping, but now there are higher shares of subprime foreclosures in the southern parts of the state.
- o There has been a decline in 90+ day delinquencies (currently 2.7%, or about 3000 homes) and a flattening out of 60+ day delinquencies. There are more 90+ day delinquencies in the central to eastern parts of the state. The numbers are not getting worse, and appear to have stabilized.
- o The decline in house prices will continue to be a problem. As house prices decline negative equity is created and people choose to walk away from their homes. The bigger issue is with people who have big event that causes them to get behind on their mortgage, like job loss, divorce, etc. Virginia is one of the top 10 states with negative equity at 23.4%, but that does not necessarily mean that there will be large jumps in house prices. House prices in Virginia rose at a faster rate than the U.S., but the decline has been the same for both.
- o Existing home sales are not rebounding quickly enough to move inventory off the market. The good news is that labor markets are improving, which means improved conditions for homeowners. Unemployment in March was 6.3%. As labor markets improve, housing markets improve, but the southern part of Virginia continues to see higher unemployment rates than the rest of the state.
- o The bottom line is that the housing market is still a drag on the economy. House prices are still falling and foreclosure inventories are still at record levels. However, the foreclosure inventory and the number of foreclosure

starts are leveling off, and delinquency rates are falling and unemployment levels are stabilizing.

- o **Melanie Thompson**—Confirmed with Ms. Waddell that her sources are LPS and MBA.
- o **Delegate Marshall**—Asked Sonya to email the presentation to the staff.
- o **Senator Watkins**—Asked whether Florida is a judicial foreclosure state.
- o **Sonya Waddell**—It is a judicial foreclosure state.
- o **Senator Watkins**—Asked what the average time requirement is for foreclosure in Florida.
- o **Sonya Waddell**—The Virginia foreclosure process takes less than Florida but she did not know the exact numbers.
- o **Senator Watkins**—Asked whether the data takes home equity lines of credit (HELOC) that are compiled with the first deed of trust into consideration.
Sonya Waddell—The LPS data does not. She did not think the MBA data does either.
- o **Senator Watkins**—Asked if the Federal Reserve tracks home equity lines of credit.
- o **Sonya Waddell**—They do keep track of that data.
- o **Senator Watkins**—Expressed his concern regarding the number of people who have a first deed of trust that is underwater and have subsequently obtained a HELOC loan. He explained that when there is one piece of property with two deeds of trust against it, the foreclosure problem is only increased, and that some of the larger banks are already categorically reducing lines of credit on those loans. He asked about the magnitude of the problem in Virginia.
- o **Sonya Waddell**—Banks have indeed started to eliminate those lines of credit. She did not know the exact numbers, but assured Sen. Watkins she would look into the number of homes that have a first line of credit and a lien.

V. Brief Homebuilders Overview

- **Lloyd Poe; HBAV Executive Board**
 - o Mr. Poe is a homebuilder and resident in Chesterfield County
 - o Although the economy is improving, homebuilding is not, primarily because of the crossing of four issues: foreclosure, lack of job growth, financing problems, and equity loss.
 - o Although the foreclosure problem is not as bad as in other states, Virginia still has its share of the problem. There is a problem not just with determining resale value on foreclosed property, but also on surrounding homes. New comps for neighborhoods have dropped by \$10,000-\$11,000 because appraisers are having trouble not including foreclosed homes in valuation. New builders are competing with banks selling foreclosed inventory, and last year banks outsold new builders for the first time. Builders cannot compete in terms of price; the cost of a new home is at or beyond the resale of foreclosures. A builder holding inventory purchased at the height of the market is doing well to break even. There is no profit or contribution overhead for those builders, they are only

moving debt off the books. The earliest the inventory will clear out is 2014 or 2016.

- o The housing demand is driven by job growth, which is stagnant in Virginia. The economy needs to improve in order for the housing situation to improve.
- o Buyers are having difficulty obtaining financing. New builders often go to the closing table and end give up more than intended under the initial contract, because buyers were unable to obtain a loan for the original amount. Virginia is still not at the bottom of the housing value curve. House prices have returned to normal, and the house price-to-income ratio has returned to the normative figure of 3.3 in Virginia (2.2 elsewhere) from its peak of 4.74 in 2005. Acquisition, Development, and Construction (ADC) financing is essentially a thing of the past. The falling value of lots is what placed a substantial number of homes underwater, and it is unlikely that financing will ease up for the building community.
- o Many borrowers have underwater mortgages due to equity loss. The home equity loan issue has not hit yet. Other issues that have not come to the surface yet are problems with “robo-signing” and title insurance, where the title on foreclosed homes may not be clear, which only delays moving that inventory off the market. The average sales price for homes in Central Virginia was \$275,000 in 2006, and was \$198,000 in March of 2011, which is a 38% value loss. Before house prices level off they may still increase to a 40% loss.
- o There are 254,000 housing starts on new construction nationally this year. Demand is growing, but builders have no ability to build homes at a profitable price. Each improvement is met with increasing costs, such as drywall and lumber.
- o The remodeling industry is doing better than new homebuilding, and the industry is facing competition from homebuilders who are now going into remodeling.
- o The road back to normalcy will be a long one. By the 4th quarter of 2011, Virginia was 62%-68% back to normal housing production levels. There won't be much improvement over that until Spring 2013.
- o **Delegate Cosgrove**—Acknowledged that optimism among homebuilders is there, but guarded.
- o **Senator Watkins**—Expressed concern about the foreclosure problem leaving families without a place to live. He asked if Mr. Poe had noticed the marketplace for lower cost housing, and whether homebuilders might be able to fulfill that need.
- o **Lloyd Poe**—In the Richmond market, the issue with low priced housing is that there is none, with the exception of those built with government assistance. With the current costs to build a new home, he cannot produce a \$150,000 home without government assistance. The buyer will have to buy resale housing to get that price, and that doesn't help homebuilders.
- o **Senator Watkins**—Acknowledged that is the case with single family homes, but pointed out that there is a deficiency in the availability of new multi-family units.

- o **Lloyd Poe**—Although multi-family typically fills the need for a product under \$150,000, they are difficult to build in Richmond with current zoning requirements and other conditions.
- o **Senator Watkins**—Told the Commission that he thinks Lloyd has given them a lead and they need to be looking at the cumulative effects of current zoning requirements that local governments have in place. He recognized how the profit system works, but at some point in time that becomes part of the problem and we may have reached that point. He suggested the Commission examine the model and its effect on the ability of individuals to purchase affordable housing. He explained that very time a house is foreclosed on, a family is without a place to live, and they need to find a way to provide more affordable housing for those families.
- o **T.K. Somanath**—The City of Charlottesville provides incentives and assistance from the city. He asked Lloyd if any localities in the Richmond area have those types of incentives.
- o **Lloyd Poe**—Most of the counties here don't promote housing in terms of producing affordable quality housing without government assistance. There are no policies in place to do that around Richmond. There are things that could be done that aren't being done. The Richmond market is different from other major cities of its size in that it is deficient in housing. The problem needs to be solved, but it will require working with municipalities on regulatory issues and zoning. Lloyd told the Commission that he owns two building companies and they are closing 80 houses. The sales are being made and people are moving into homes, there just isn't any profit for the builders.

VI. Public Comment

- **Delegate Cosgrove**—Asked if there were any comments from the public. After receiving no response, he asked if there were any comments from the Commission.
- **Senator Whipple**—Explained to the Commission that she had received an email from a constituent yesterday asking for assistance with the Foreclosure Task Force in the Homeowner's Association context. The constituent is having issues with a condominium unit in foreclosure. The bank is preventing them from going forward by paying the county fees, and is not paying fees to the Homeowner's Association. She requested the Commission give more attention where there are individual foreclosures within a property. Community homeowners need a seat at the table and need to be included in legislative proposals. She asked the Commission if there is a way to address all the issues involved in this situation.
- **Delegate Cosgrove**—Suggested Sen. Whipple address that issue at next week's Common Interest Communities meeting.
- **Susan Dewey**—Informed the Commission that the same issue had come up at the last Foreclosure Task Force meeting. As a Task Force member, she told Sen. Whipple she will attempt to schedule that issue on the agenda for the next Task Force meeting.
- **Senator Watkins**—Requested the Commission give some consideration to the assembly of people willing to talk about the exclusivity of zoning that has precluded localities in the Greater Richmond area from remaining in the marketplace for

affordable housing. He suggested that there must be a logical approach that will provide the kind of relief necessary to provide new affordable housing units. Some jurisdictions impose same cash on a two bedroom apartment as on a two bedroom house.

- **Delegate Cosgrove**—Agreed that the importance of zoning capabilities needs to be addressed. He acknowledged that there are many people hurting from foreclosures, job loss, and the economy, and are left without homes. He suggested the issue be taken up by the Affordability, Real Estate Law, and Mortgages Work Group. He asked staff to forward the request to Delegate Oder as the chair of that work group.
- **T.K. Somanath**—Suggested the Commission consider a community land trust where the builder holds the land and then sell the houses. There are some models that are successful, and there are municipalities, including Richmond, that would like authorization from The General Assembly to create a land trust.

VII. Adjourn

- The meeting was adjourned at 12:14 PM.