Housing Vermont
Syndicator, Developer and More

Housing Vermont (HV) was founded in 1988 to capitalize on the Low Income Housing Tax Credit (LIHTC) program created by the federal government two years earlier. Since then, HV has grown to help Vermonters in numerous effective and creative ways.

A UNIQUE MODEL

HV has a unique structure; it’s both a tax credit syndicator and a project developer. As a syndicator, the company has raised more than $333 million in private equity to finance 171 affordable rental housing developments throughout Vermont. This equity has leveraged an additional $435 million in private financing and public investment. As a real estate developer, HV collaborates with local organizations to bring them expanded development expertise.

President Nancy Owens explained that the hybrid model originated out of necessity. Their very first project in Burlington needed a developer, so HV built that capacity.

“Vermont is a very rural state – just 650,000 people – so we share our expertise statewide with housing partners who may only need us once every few years,” said Owens. “With our development capacity, those smaller organizations have the ability to do those projects without the ongoing costs.”

Based in Burlington, HV has a staff of 25 people who work on either raising capital for projects or developing projects. Though the departments are discrete, both syndicators and developers work together toward the common goals of affordable housing and economic development.

Once a property is built and leased up, HV also employs experts who provide asset management and financial reporting services. This team deals with the taxes, monitors annual audits at each of the properties, and prepares quarterly reports for investors.

HV has made a huge impact, producing more than 6,000 affordable apartments for low- and moderate-income Vermonters including seniors and those with special needs.

SUPPORTING VERMONT COMMUNITIES

In 2010, HV launched Vermont Rural Ventures (VRV), a subsidiary that uses New Markets Tax Credits (NMTC), to support investment in the economic, environmental, and social well-being of Vermont communities. Prospective NMTC projects generally need to be located in qualified census tracts.

To date, VRV’s NMTC allocation has created favorable financing in excess of $180 million for 16

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Housing Vermont ribbon cutting with Senator Leahy, Former HUD Secretary Julian Castro, HV President Nancy Owens and others, September 2016
Income Averaging
A New Set-Aside Option

In 2018, the federal government made several changes to the Low Income Housing Tax Credit (LIHTC) program, including increasing the amount of LIHTC allocations by 12.5% over 2018-2021. Congress also created a new occupancy set-aside option known as “income averaging” (IA).

WHAT IS THE SET-ASIDE OPTION?
The minimum set-aside establishes the minimum number or percentage of LIHTC units an owner needs for a project to produce a tax credit. It also establishes the income limit the owner uses to qualify households for the LIHTC program.

There are two options: either 20% of the units must be rented to households at or below 50% of the area median income (AMI) or 40% of the units must be rented to households at 60% AMI.

Most property owners elect to operate their LIHTC properties under 40% at 60%, but regardless of which set-side option is chosen, the developer must meet it within the first year of the 10-year credit period, and maintain it for the entire compliance period, or risk tax credit recapture.

WHAT IS INCOME AVERAGING?
Income averaging is a third set-aside that requires 40% of the units must be rented to households that average 60% AMI. For example, with this option a project can have a 40% AMI and a 80% AMI household, as long as the average is 60% AMI.

According to Sherrin Vail, NNEHIF’s Director of Asset Management, the new set-aside option would mean that LIHTC properties can provide affordable units to households with a median income as low as 20% or as high as 80%.

“We with IA we can house a larger cross-section of people,” said Vail. “It would allow us to provide homes for more people with extremely low income, plus allow more flexibility for people whose incomes are a little higher but who still need affordable housing.”

For developers, the new provision would also allow some flexibility, especially for properties that have HUD subsidies and need a significant infusion of capital funds for physical upgrades. Without IA, the previous set-aside restrictions wouldn’t allow the tax credits to work.

Because income averaging permits a broader mix of incomes, it may make developing LIHTC properties attractive in places where it is currently difficult, such as high housing cost areas or low-income neighborhoods in need of revitalization. Investors in LIHTC properties would thus be able to invest in communities more widely to meet their Community Reinvestment Act (CRA) priorities.

ESTABLISHING PARAMETERS
While IA provides many benefits, there are risks, primarily due to the current lack of clear rules. The IRS has yet to provide guidance for how to implement IA once the properties are built, making it difficult to manage the individual households so that the project remains in compliance.

“If you don’t fully understand the rules, it’s hard to follow them. And everyone – developers, investors, property managers – wants to get this right,” said Mike Sprague, Asset Manager at NNEHIF.

Due to a lack of IRS guidance on IA, many states are drafting their own policies, while other states are “waiting and watching” to see how the implementation of this new set-aside plays out.

The professionals at NNEHIF are in direct communication with the state housing agencies about how IA policies and procedures will be drafted in each state. NNEHIF also monitors best practices nationally, continuously learning from experts at HUD, the IRS, and third-party consultants about the latest developments in IA methodology.

As the parameters and procedures for IA continue to evolve over time, developers, investors, and asset managers should educate themselves on the topic best they can. (Asset managers, in particular, should make sure that their staff knows how IA works and how to track it.) Online and in-person trainings from reputable resources can help stakeholders prepare to employ the IA set-aside option.

RESOURCES
Sherrin Vail, Director of Asset Management at NNEHIF (nnehif.org)
Mike Sprague, Asset Manager at NNEHIF (nnehif.org)
Spectrum Enterprises (spectrumlihtc.com)
Novogradac (novoco.com)
EJW Qualified Compliance Consulting (qualifiedcompliance.com)
A.J. Johnson Consulting Services (ajjcs.net)
National Center for Housing Management (nchm.org)
The paucity of affordable housing isn’t limited to urban areas. People who live in rural and remote counties of Northern New England can also have a tough time finding an affordable place to live, for several reasons.

Over the past several decades, rural communities have watched once-thriving industries decline. The loss of manufacturing, forestry, and agriculture jobs has resulted in widespread unemployment and underemployment. Plus, as the population ages, there is an increasing demand for homes for seniors and people with disabilities.

**USDA AND RURAL HOUSING**

One mechanism for developers to create affordable rental housing for low-income families, the elderly, and people with disabilities has been Section 515 Rural Rental Housing, mortgages made by the U.S. Department of Agriculture (USDA) for rural development (RD).

Since the program’s inception in 1963, Section 515 has financed nearly 28,000 rental properties, comprising more than 533,000 apartments units. Maine has 333 Section 515 RD-funded multifamily properties, providing 8,035 rental units. New Hampshire and Vermont, combined, have 150 Section 515 properties.

In 2010, Congress stopped funding Section 515, so no additional housing was built through the program. According to the Housing Assistance Council, as these loans mature or leave the portfolio, significant numbers of affordable housing properties will be lost: “Assessed on a timeline ‘curve,’ mortgage maturity projections indicate that an average of 74 properties (1,788 units) per year will leave the program from 2016 to 2027. Over 20 percent of the properties are expected to exit the program during each of these three phases.”

Another integral part of the USDA program is Section 521 Rental Assistance. Approximately two-thirds of all Section 515 tenants live in units that are rent subsidized through this program. When a Section 515 loan ends, the property also loses its rental assistance. This is significant considering that tenants’ annual income averages only $13,600.

**PRESERVING RURAL RENTALS**

According to Bill Floyd, Executive Director of the Genesis Community Loan Fund, one way to preserve rural housing properties is to help owners sell to housing authorities or other nonprofits. However, because of numerous requirements imposed by USDA RD regulations, the ownership transfer of these properties can be challenging.

One challenge, for example, is determination of value. At the time of the sale, the owner’s equity is payable through the property and is determined by a market rate appraisal and replacement reserves, less outstanding debt. But borrowing is limited to 97% or 95% (for LIHTC deals) of security value, which is based on restricted rent and low-rate financing. But if the owner pays off the debt, they can sell the housing to whomever they like – and rental assistance goes away.

The Genesis Fund is addressing RD preservation in a number of

**MATURING USDA SECTION 515 RURAL MULTIFAMILY LOANS**

*Estimated loss of properties & units to loan maturity, 2016–2050*

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The Northern New England Housing Investment Fund (NNEHIF) is a private, nonprofit 501(c)(3) corporation that promotes housing and community development by providing equity capital, technical assistance and consulting to affordable housing developers throughout Maine and New Hampshire.

WWW.NNEHIF.ORG

Housing Vermont
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After extensive research in 2015, the board decided to set aside $626,000 for a five-year pilot initiative called HV Connections. The program will look for ways to address the needs of residents – focusing on education and child care, transportation, health, community engagement and food access – in the properties that HV owns. They are experimenting with bringing different partners to the properties, based on the residents’ needs.

“We start with a survey to find out what the needs are, then we work with area social service providers to meet those needs.” Owens said. “We’re working with one local group to create a food shelf at one of our properties because we learned that residents there have a hard time accessing food otherwise.”

This year, HV is embarking on a new endeavor, partnering with NNEHIF to offer Housing New England, Fund I. The multi-investor fund will serve the states of Vermont, Maine, and New Hampshire – one more way Housing Vermont invests in affordable housing and economic development. ♦

Ticking Clock
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DEVELOPERS
To find out if you’re eligible for free Technical Assistance, fee-based assistance, or lower-priced debt, contact Bill Floyd at The Genesis Fund (bill@genesisfund.org).

INVESTORS
The Genesis Fund accepts investments from individuals, banks, corporations, and nonprofits across the country. To learn more, contact Jane Irish (jane@genesisfund.org).

ways. Last year, they received a grant of $1.165 million from the Capital Magnet Fund at the U.S. Treasury Department and a $500,000 Federal Home Loan Bank grant, which provided new lending capital for rural rental housing. They’re also working with MaineHousing and other funding partners to secure additional resources in the form of subsidy to help fill the remaining gaps.

“What we’re trying to do is find other forms of housing subsidy to fill the gaps to make the transfer of USDA RD 515 properties feasible,” said Floyd. “It’s a challenge to secure those resources, but the amount is small compared to the cost of new construction.”

Additionally, Genesis Fund was one of only four technical assistance (TA) providers in the country to secure USDA RD funds to provide TA to buyers and sellers of 515 properties with maturing mortgages.

As the clock ticks down on Section 515 properties with maturing mortgages, The Genesis Fund remains committed to developing resources and expertise to preserving housing in rural communities. ♦