

Virginia Housing Trust Fund Structure and Use Plan FY 2014 Update

Purpose and Background

The 2013 General Assembly amended the existing provisions of the biennium budget for FY 2014 to include a total of \$8,000,000 in funding for the Virginia Housing Trust Fund (the Trust Fund). This represented an increase of \$1 million over the amount included in the budget as it originally passed in 2012. Other budgetary provisions affecting the design and use of the Trust Fund remained unchanged. These included a requirement that at least 80 percent of the Trust Fund is to be used for short, medium and long-term loans to reduce the cost of homeownership and rental housing. A corresponding provision permitted the use of up to 20 percent of the Fund for grants targeting efforts to reduce homelessness.

Besides increasing the budget allocation, the legislature also enacted Chapter 754 of the Acts of Assembly (HB 2005).¹ This legislation incorporated key provisions of the budget language within a statutory framework originally developed for the former Virginia Housing Partnership Fund (VHPF). The new statutory language at §36-142 E² also included a requirement that in “any year prior to the expenditure of any general funds appropriated for the Fund for the next succeeding fiscal year,” the Department of Housing and Community Development (DHCD), in conjunction with the Virginia Housing Development Authority (VHDA), must submit a plan to the General Assembly outlining the proposed uses of such funds. The enactment also included amendments to existing §36-150 that charge DHCD with preparing a report to the Secretary of Commerce and Trade, the Governor and the Chairmen of the House Appropriations and the Senate Finance Committees by each December 1. The revised requirements provide that the new report must address matters regarding the Fund that DHCD may deem appropriate, including the status of the former VHPF, or other items that may be requested.³

Because the funds are limited to the current fiscal year, the inclusion of additional monies in Chapter 806 (2013) did not trigger the requirement for a new Plan in accordance with the new provisions of §36-142 E. However, DHCD has prepared this document to update the current plan of the housing agencies on their proposed use of the Trust Fund during the current fiscal year, taking into account the additional \$1 million. Because neither the additional resources nor the statutory changes altered the overall structure of the previously reported plan, this

¹ <http://lis.virginia.gov/cgi-bin/legp604.exe?131+ful+CHAP0754+pdf>

² <http://lis.virginia.gov/cgi-bin/legp604.exe?000+cod+36-142>

³ <http://lis.virginia.gov/cgi-bin/legp604.exe?000+cod+36-150>

document demonstrates how the additional resources will be deployed in accordance with the budgetary and statutory requirements associated with the Trust Fund. The December report will provide additional information about the status of the Trust Fund as well as information relating to the former VHPF.

Input Into the Structure of the Housing Trust Fund

During late 2012, DHCD collaborated with VHDA and the Virginia Housing Coalition in soliciting public input on the structure and uses of the Trust Fund. Seven input sessions in six localities (Annandale, Charlottesville, Fredericksburg, Hampton, Richmond and Roanoke) drew more than 250 interested citizens and housing advocates with a variety of perspectives from various backgrounds. The input from those sessions highlighted the scope of the need for affordable housing in Virginia and the varied range of that need, especially among targeted populations such as persons with disabilities, persons experiencing homelessness, veterans, ex-offenders, and persons with very low incomes. Input session participants noted that these populations are the most difficult to serve because they have the fewest resources available for housing. Participants also encouraged the provision of sufficient flexibility so that Trust Fund resources could be used to meet these needs. They acknowledged the available resources could only address a fraction of Virginia's varied housing needs and the importance of leveraging other resources through strategic investments.

DHCD and VHDA met with state agencies whose programs serve individuals and families with special housing needs. These included the Departments of Social Services, Corrections, Criminal Justice Services, Behavioral Health and Development Services, Juvenile Justice, Medical Assistance Services, Aging and Rehabilitative Services, and the Board for People with Disabilities. They identified several state policy initiatives that could be enhanced and supported if sufficient resources were available to meet these housing needs. For example, the settlement agreement with the Department of Justice on Virginia's Intellectual and Developmental Disability System presents an opportunity to explore housing options for this population in more community-based settings. That agreement includes a one-time commitment of \$800,000 for rental assistance. In addition, the Commonwealth will develop a plan with the goal of increasing access to independent living options such as individual's own homes or apartments for those receiving or eligible to receive services through Medicaid Home and Community Based Waiver Services. Achieving these goals is contingent to the availability of affordable (and, often, accessible) housing options that may be facilitated by the Trust Fund.

DHCD and VHDA also provided members of the Housing Policy Workgroup and Advisory Teams—previously established in conjunction with the Governor's Housing Policy Framework—

with an opportunity to provide ideas and recommendations related to the implementation of the Trust Fund in FY 2014.

Housing needs in Virginia are many and varied. They include families that cannot afford decent, safe housing in the communities where they work, disabled persons waiting for a place to live outside a state institution, homeless persons struggling with mental health and other issues and veterans trying to settle back into civilian life—the Virginia Housing Trust Fund offered options that address such needs. The remainder of this document updates the outline the agencies developed for using the Trust Fund resources to help meet those needs.

Parameters of the Housing Trust Fund

The budget bill and the newly adopted statutory provisions included language establishing the basic parameters for the Trust Fund. These included guidance on the allocation of funds for grants and loans, a statement describing the types of activities eligible for grants or loans, and a list of the types of organizations eligible to receive program funds. The budget direction also stressed the importance of considering opportunities for leveraging and providing flexibility in loan products. Participants in the various public information sessions and other input opportunities helped the agencies further refine the program design to those options most likely to meet the budget objectives. The input sessions generally supported the concept of making strategic use of the limited funds available by considering targeted demonstration projects addressing high priority areas of need. Identified uses included increasing housing options for low-income persons with disabilities, enhancing opportunities to advance effective solutions to homelessness such as permanent supportive housing, and directing resources toward counteracting the impact of foreclosures on Virginia communities—particularly in areas with the highest foreclosure rates.

To implement the provisions of the appropriations act, DHCD and VHDA proposed allocating the funds (including the additional resources made available this year) through the broad categories shown on the table on the following page. The agencies encouraged a variety of responses from eligible applicants to assure that funds are deployed in a timely and strategic manner.

Proposed Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$5,400,000
Foreclosure Rehabilitation Loans	1,000,000
Grants	
Competitive Grant Pool	930,000
Foreclosure/Homeowner Counseling	500,000
Administration	170,000
Total	\$8,000,000

Affordable Housing Loan Program

At least 80 percent of the funds allocated to the Virginia Housing Trust Fund must be used to provide loans that reduce the costs of affordable rental housing and homeownership. Building on their previous experience with the VHPF, the housing agencies have determined that VHDA would provide the underwriting services needed to implement the provisions of loans made through this program. DHCD, with the participation of VHDA, structured the design of the loan component with sufficient flexibility to maximize the long-term affordability and sustainability of the housing projects receiving assistance. Projects also included provisions that encourage opportunities for leveraging from other public and private funding sources.

The loan program incorporated two distinct components. A majority of the loans were offered through a competitive loan pool open to a variety of eligible projects accomplishing the fund’s purposes. A second, smaller component, was initially dedicated to a residential foreclosure rehabilitation and resale program to promote home ownership and preserve stable residential communities in those areas hardest hit by the foreclosure wave.

Competitive Loan Pool

The competitive loan pool could accommodate a wide array of possible projects, but it also acknowledged the direction of a number of gubernatorial initiatives as well as the limited available funds by giving priority to demonstration projects that address articulated state housing policies. Such policies include supporting affordable, community housing options for persons with disabilities (including funding that could aid the state response to the DOJ settlement) and expanding permanent housing opportunities for persons experiencing homelessness.

Another priority area—promoting the appropriate reuse of foreclosed residential properties in ways that restore home ownership while stabilizing neighborhoods and increasing the supply of housing targeted to very low-income citizens—received a separate allocation from the loan fund.

Most of the funds in the Housing Development Loan Pool were intended to provide low-interest loans structured to meet the financing needs of specific projects. DHCD and VHDA anticipated that a majority of the loan pool would provide financial assistance for specific projects that address the affordable rental housing needs of very low-income citizens, while giving priority to projects that address the previously-mentioned critical housing needs as well as other areas of need such as prisoner re-entry and returning veterans. To assure the long-term viability of affordable rental projects, the agencies gave priority consideration to projects with an identified strategy for financial sustainability, such as providing rental assistance to income-qualified tenants. In keeping with the direction that the loans provide flexible financing, the agencies will set repayment rates and terms for each individual loan from the Trust Fund. In addition, provisions of the loan program will encourage applicants to pursue leveraged funds from other sources such as Low-Income Housing Tax Credits (LIHTC), recycled program income from the Neighborhood Stabilization Program (NSP 1 and 3), and other federal and local housing programs.

As with many of its programs, DHCD elected to use a competitive process to select projects for funding. The maximum loan available to a single project was capped at \$750,000. To assure the rapid deployment of funds after June 30, 2013, and to facilitate coordination with other housing finance programs such as LIHTC and HOME, the agencies began the application period well in advance of the new fiscal year by requiring the submission of initial applications by April 15, 2013. Project evaluation criteria included: (1) direct impact on one or more high priority state housing policies; (2) leveraging; (3) affordability; (4) financial sustainability; (5) impact on local housing needs; (6) feasibility, (7) readiness, (8) coordination of services and (9) the applicant's administrative capacity. DHCD ranked competitive project applications using a standardized review with a 100-point scale. No project was funded that scored below sixty percent. DHCD planned to make funding offers to the highest scoring projects in descending order until available funds are exhausted or all projects scoring above sixty percent have been funded. Applicants may be asked to provide additional information to finalize funding offers. Funding not allocated through the initial application process will be offered during subsequent round(s) with the final round of applications due no later than November 1, 2013. Property funded through a Housing Trust Fund loan will be subject to a lien intended to ensure its continued use as targeted, affordable housing during a specified period. The outstanding balance on the loan will be due in the event the affordability period is not met.

Foreclosure Rehabilitation

As part of the Trust Fund's response to the ongoing effects of home foreclosures in Virginia, a portion of the loan pool of up to \$1 million was set aside for a demonstration program, Community Improvement Home Loans, to assist in transforming previously foreclosed homes into community assets. Working with locally-based organizations meeting eligibility criteria, VHDA will provide a line of credit from its resources these organizations may use to acquire eligible homes, primarily lender-owned (REO) properties in the areas hardest hit by the foreclosure crisis. This will be a competitive program. Organizations must submit a strategy identifying eligible neighborhoods within their service area. Individual funding requests will be evaluated based on the applicant's:

1. Demonstrated understanding of the local housing market;
2. Strategic use of Community Improvement Home Loan Program resources;
3. Maximization of community impact; and
4. Establishment of partnerships to maximize capacity and resources.

The program will offer deferred, potentially forgivable, loans averaging \$15,000 to include local administrative costs and the cost of remediating deficiencies in the condition of the home and placing it in a marketable state. Eligible homebuyers meeting VHDA criteria would have access to a set-aside of VHDA permanent financing subject to income and sales price limits. While this program would be available on a statewide basis, priority for such loans will be assigned to proposals:

1. Serving areas with high foreclosure levels;
2. Demonstrating strong potential for quickly restoring units to home ownership;
3. Providing home ownership opportunities to qualifying low-income households such as first-time homebuyers; and
4. Revitalizing communities that remain among the hardest hit by the effects of foreclosure as evidenced by their identification as areas of the state targeted for foreclosure counseling by VHDA.

In such targeted areas, VHDA will work with homebuyers to facilitate their access to appropriate mortgage products. This approach encourages local program sponsors to seek partnership opportunities for direct participation by local real estate professionals and contractors.

The Community Improvement Home Loan approach to overcoming problems associated with high foreclosure levels may also create an opportunity to leverage the Trust Fund participation in the Loan Program with additional resources that became available through the Atlanta Federal Home Loan Bank (FHLBank Atlanta). Such resources could supplement the funds for home improvement loans or provide down payment assistance to first-time homebuyers.

Homeless Reduction Grant Program

The budget *permits* the use of up to 20 percent of the funds allocated to the Virginia Housing Trust Fund to provide grants for activities to reduce homelessness. As with the loan program, DHCD and VHDA proposed splitting the grants into two distinct components. The largest share of the grants was to be offered through a competitive process open to a variety of eligible applicants targeting the reduction of homelessness. The second component will initially be dedicated to foreclosure and housing counseling targeting those areas of the Commonwealth hardest hit by foreclosure. In the event available grant funds are not fully allocated to these activities, any residual balance may be redirected to the Affordable Housing Loan Program.

A pool of \$500,000 was set aside for grants for foreclosure counseling in areas of the Commonwealth with the highest incidence of foreclosure. These grants were allocated in conjunction with VHDA's housing and foreclosure counseling activities and provide opportunities for linkages with the Community Improvement loan program discussed in the previous section.

In accordance with budget language, the balance of the Homeless Reduction Grant funds could be used for temporary rental assistance, not to exceed one year, housing stabilization services in supportive housing for homeless individuals and families, and predevelopment assistance to support long-term housing opportunities for the homeless. The restriction on the amount of the Trust Fund available for grants (and the one-year assistance limitation) suggests the Trust Fund could not serve as a significant, long-term source of rental assistance. However, it could be used to close temporary gaps for individuals, providing bridge funding for individuals transitioning into rental arrangements with documented commitments of future rental assistance from other federal, state or local sources.

As with the loan program, projects were selected for funding through a competitive application process. Applicants could apply for up to \$100,000. The application period ran in parallel with the loan program. The initial application period closed on April 15, 2013. If required, subsequent application periods will follow the same schedule as the loan program. As with the loan program, DHCD will rank competitive project applications using a standardized review with 100-point scale. No project would be funded that scores below sixty percent. DHCD will make

funding offers to the highest scoring projects in descending order until available funds are exhausted or all projects scoring above sixty percent have been funded. Applicants may be asked to provide additional information to finalize funding offers. Funding not allocated through the initial application process will be offered during subsequent round(s). Any grant funds not allocated by November 1, 2013, will be rolled into the Competitive Loan Pool.

DHCD's initial project selection employed the following criteria: direct impact on an established state housing policy; sustainability; impact on local needs; impact on reducing homelessness; feasibility; and capacity. Priority was given to housing stabilization services and pre-development assistance that are directly related to a project proposed for funding through the Affordable Housing Loan Program.

Organizations Eligible for Virginia Housing Trust Fund Allocations

The budget specified several types of organizations as being eligible to receive funding through the Trust Fund. Local governments, local housing and redevelopment authorities, regional or statewide organizations providing affordable housing and homeless assistance/services to Virginia citizens and holding companies expressly created for owning and operating affordable housing may apply for funding from the Virginia Housing Trust Fund. This would not preclude eligible organizations from contracting with a variety of other parties to assist in providing the housing and other resources required to satisfy the conditions of the grant or loan product.

Virginia Housing Trust Fund Administration and Management

Funding for the Housing Trust Fund is included in the Department of Housing and Community Development's budget. DHCD and VHDA already had a proven record of accomplishment in jointly administering statewide housing initiatives. The newly enacted Housing Trust Fund provisions in Title 36 provided an enduring framework for continuing that arrangement.

In the late 1980s, the General Assembly passed legislation creating the Virginia Housing Partnership Fund. It was intended to improve the quality and affordability of housing throughout the Commonwealth and was jointly administered by DHCD and VHDA. DHCD set policy, provided technical assistance to its housing development partners in responding to funding opportunities and selected projects for funding through a competitive application process. VHDA provided underwriting services and originated and serviced loans.

This model worked well during the years the Partnership Fund received occasional new infusions of funding through the budget. In the early 2000s, the Partnership Fund ceased receiving appropriations and the budget directed the sale of its portfolio to VHDA to provide

the additional revenue needed to close gaps in the overall state budget. However, the organizational framework of the Virginia Housing Partnership Fund remained intact within the Code of Virginia (§§ 36-141 through 36-151) where it provided, with the recent amendments, a convenient template for administering the Housing Trust Fund.

Based on this model, DHCD and VHDA will jointly determine the policy parameters of the Housing Trust Fund. Specific aspects of Trust Fund implementation will be handled by the individual agencies in accordance with their designated areas of expertise and responsibility.

With respect to the loan offerings, DHCD will provide technical assistance during project development. VHDA, drawing on its forty-year experience in mortgage lending as the state's housing finance agency, will provide project underwriting for the Affordable Housing Loan Program and perform loan origination, servicing and monitoring for all program loans. DHCD, which has more than thirty years experience in managing federal and state grant and loan programs for housing and community development, as well as extensive involvement in homeless programs, will administer the process to solicit applications for both the Affordable Housing Loan Program and the Homeless Reduction Grant Program. Overall responsibility for the ongoing administration and monitoring of grants made through the Homeless Reduction Grant Program will fall to DHCD.

Finally, because the various components of the Trust Fund will require substantial administrative effort on the part of the housing agencies, a total of no more than \$170,000 will be set aside and considered as eligible costs of the Fund.

Evaluation and Analysis of Outcomes

Although the budget did not incorporate a requirement for an assessment of the performance of the Virginia Housing Trust Fund, the agencies intend to evaluate the various components of the Fund. Such an assessment would require definition of indicators of success and a system of outcome measures. Anticipated outcome measures will include housing units provided, with a special focus on units provided to hard-to-serve target populations; services provided to support reducing homelessness; the mitigation of the adverse impacts of foreclosure on communities by the return of properties to owner occupancy; and the degree to which other financial resources can be leveraged for housing.

Both public input and the perspectives of state agencies with concerns about housing for a number of special needs categories expressed the desire to see resources directed toward areas of need addressed through crosscutting state policies. Improved interagency

collaboration and communication has clearly indicated a pervasive lack of affordable housing impedes progress on a range of state policies. The evaluation will examine the extent to which the Trust Fund is able to facilitate progress in addressing areas of priority need.

Once all Housing Trust Fund resources have been allocated, DHCD and VHDA will advise the Senate Finance and House Appropriation Committee chairs of the types of projects, uses of funds and locations associated with the grant or loan awards. As Trust Fund projects are implemented, subsequent follow-up reports will take a more outcome-oriented approach, addressing the previously mentioned variables.