Virginia Housing Trust Fund
Structure and Use Plan
and
Loan and Grant Fund Impacts
2015 Update

Purpose and Background

During the 2013 Regular Session, the General Assembly took two significant actions with respect to the Virginia Housing Trust Fund (the Trust Fund). First, it increased the financial commitment to the Fund, adding $1 million to the amount previously appropriated for this item. This increased total program funding to $8 million for FY 2014. 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 be used for short, medium and long-term loans to reduce the cost of homeownership and rental housing. The budget also permitted the use of up to 20 percent of the Trust Fund for grants targeting reductions in homelessness.

The second major action affecting the Trust Fund was the passage of Chapter 754 of the 2013 Acts of Assembly (HB 2005).[1] This legislation incorporated key provisions of the budget language within a pre-existing statutory framework originally developed for the former Virginia Housing Partnership Fund (VHPF). A new subsection, §36-142 E,[2] required 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 another reporting requirement related to the financial status of the VHPF in §36-150. That section formerly required DHCD to prepare 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 provided for DHCD to address matters regarding the Trust Fund that the agency deemed appropriate, including the status of the former VHPF, or other items that might be requested.[3]

During its 2014 Regular and Special Sessions, the General Assembly did not appropriate any additional monies for Trust Fund operations in FY 2015. Thus, in the absence of new funding, the current biennium budget did not trigger the requirement for a new allocation plan.

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[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

However, the 2014 Appropriations Act (Chapter 2, Special Session I) added a new Trust Fund reporting requirement within Item 103:

> F. As part of the plan required by § 36-142 E, Code of Virginia, the department [DHCD] shall also report on the impact of the loans and grants awarded through the fund, including but not limited to, (i) the number affordable rental housing units repaired or newly constructed, (ii) the number of individuals receiving down payment and/or closing assistance, and (iii) the accomplishments in reducing homelessness achieved by the additional support provided through the fund.[4]

DHCD has prepared the current report in response to the provisions of this enactment. It provides a review the Fund's proposed allocation of its resources and their actual use during the prior fiscal year. In December, in accordance with the provisions of §36-150,Code of Virginia, the Department will provide any additional relevant information about the status of the Trust Fund as well as information relating to the financial status of the former VHPF.

Parameters of the Housing Trust Fund

Virginia's most pressing housing needs are well-documented. They include families priced out of decent, safe housing in the communities where they work, persons with disabilities waiting for a place to live outside a state institution or congregate facility, homeless persons struggling with mental health and other issues and veterans trying to resume civilian life. The General Assembly established the Virginia Housing Trust Fund to address such needs.

Budget bills and statutory provisions established 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 flexible loan products.

DHCD and VHDA supplemented this guidance with additional information received from participants in a series of information sessions. These and other input opportunities aided the agencies in further refining the program design to pursue those options most likely to meet the budget objectives. Input from participants 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

[4] http://lis.virginia.gov/142/bud/budsum/hb5002chap.pdf

countering the impact of foreclosures on Virginia communities--particularly in those areas with the highest foreclosure rates. The FY2014 Structure and Use Plan[5] discussed this process in more detail.

DHCD and VHDA adopted the broad categories shown on the following table. The agencies encouraged a variety of responses from eligible applicants to assure the timely and strategic deployment of available funds.[6]

Initial FY 2014 Virginia Housing Trust Fund Allocations	
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 Components

The Affordable Housing Loan Program incorporated two distinct components. DHCD made a majority of the loans available through a competitive loan pool open to a variety of eligible projects addressing 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 housing agencies designed the competitive loan pool to accommodate a wide array of possible projects. However, the program design acknowledged the direction of a number of previous initiatives as well as the limited available funds. It established a priority for demonstration projects addressing 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 its settlement agreement with the Department of

[5] http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD3052013/$file/RD305.pdf
[6] Report Document 383 (2013), *The Virginia Housing Trust Fund and the Financial Status of the Virginia Housing Partnership Fund*, contains more detailed information about the first round allocation of Trust Fund resources. See: http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD3832013/$file/RD383.pdf

Justice) 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 offered 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 projects that addressed the affordable rental housing needs of very low-income citizens. The agencies assigned a high priority to projects that addressed the most critical areas of housing need, including prisoners re-entering the community and returning veterans. To assure the long-term viability of affordable rental projects, the agencies gave a higher consideration to those with an identified strategy for financial sustainability, such as providing rental assistance to income-qualified tenants. In keeping with the requirement for financial flexibility, the agencies set repayment rates and terms for each individual loan. In addition, the loan program encouraged applicants to pursue opportunities to leverage funds from other sources such as Low-Income Housing Tax Credits (LIHTC), program income recycled through the federally-funded Neighborhood Stabilization Programs (NSP 1 and 3), and other federal and local housing programs.

As with many of its agency programs, DHCD used a competitive process to select projects for funding. To assure the rapid deployment of funds after the initial eligibility date of June 30, 2013, and to facilitate coordination with other housing finance programs such as LIHTC and HOME, DHCD began the application period in advance of FY 2014. DHCD received funding requests from 29 applicants totaling more than $15 million. DHCD ranked competitive project applications using a standardized review with a 100-point scale.[7]

DHCD originally offered funding to the nine highest scoring projects in descending order until all available funds were exhausted. One project subsequently withdrew. DHCD fully executed contracts with all the remaining partners by mid-March 2014.

The table on the following page summarizes the results of the initial competition.

[7] 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.

FY 2014 Competitive Loan Pool					
Project Applicant	**Location**	**Project Name**	**Loan Amount**	**Proposed Units**	**Purposes**
Community Housing Partners	City of Hopewell	Langston Park Apartments	$673,000	56	Creation of affordable rental units for families and individuals < 50 % of Area Median Income
Community Residences, Inc.	County of Fairfax (Annandale)	CR Independent Permanent Supportive Housing	$743,108	5	Permanent supportive housing for persons with developmental / intellectual disabilities, mental illness and/or homelessness
Danville Redevelopment and Housing Authority	City of Danville	Upper Street Apartments	$700,000	13	Creation of affordable units to serve veterans, persons with disabilities and very low-income households
Hampton Newport News Community Services Board	City of Newport News	New Phoenix Village	$750,000	45	Rehabilitate units to serve very low-income elderly persons or those with disabilities
Harrisonburg Redevelopment and Housing authority	City of Harrisonburg	Commerce Village	$750,000	56	Provide permanent supportive housing for very low income chronically homeless and medically vulnerable residents
Virginia Community Development Fund, Inc.	County of Wise	Stonebriar Apartments	$200,000	24	Rehabilitate key building systems to extend the affordability of units serving low-income seniors and persons with disabilities
Virginia Supportive Housing	City of Virginia Beach	Crescent Square	$750,000	80	Participate in funding for new rental units serving homeless and low-income persons
Virginia Supportive Housing	City of Richmond	Studios II	$750,000	39	Renovate existing supportive housing development serving formerly homeless adults including veterans
Totals			$5,316,108	318	

Impacts of the Competitive Loan Pool

The eight organizations received loans at interest rates ranging from .5% to 2% for terms of twenty or thirty years. Three of these were amortizing loans while four were made on an interest only basis. One loan, while made on an interest only basis, required the Trust Fund to hold the first position among the participating lenders.

DHCD has obligated the bulk (98 percent) of the funds available for this Trust Fund program. However, because most of the individual projects address financial arrangements, either through interest reductions or as part of a blended package from different funding sources, funds will not be fully expended until the projects come to the closing table, which should occur within the current fiscal year.

Foreclosure Rehabilitation

DHCD also set aside up to $1 million of the loan pool to support the Virginia Trust Stabilization Program (TSP). Drawing on its experience with two federally funded Neighborhood Stabilization Programs (NSP 1 and 3), the agency designed this two-year demonstration program to address the ongoing effects of foreclosures in Virginia. I t included a goal of renovating 50 properties. Applicants could use the loans to transform previously foreclosed homes into community assets. Working with locally based organizations meeting eligibility criteria, VHDA provided a line of credit from its resources that these organizations could use to acquire eligible homes. These were primarily lender-owned (REO) properties in the areas hardest hit by the foreclosure crisis. This competitive program required participating organizations to submit a strategy identifying eligible neighborhoods within their service area.[8]

TSP offered deferred, potentially forgivable loans averaging approximately $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 for resale. TSP included two distinct components. The first—NSP option—required the local partner to use TSP funds as leveraging in conjunction with the federally funded NSP program in NSP eligible areas that were among the hardest hit by foreclosures. Actual per unit renovation costs in these homes were not to exceed $10,000. The second or regional option made funds available to address foreclosures throughout the state where federal NSP funds might not be available. In this case, actual per unit renovation costs in these homes were not to exceed $20,000.

Prospective homebuyers for these properties meeting VHDA criteria could access a set-aside of VHDA permanent financing subject to income and sales price limits. While this program would be available on a statewide basis, the agencies assigned their highest priority for loans 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

[8] The agencies based their evaluation on the applicants' demonstrated understanding of the local housing market, strategic use of Community Improvement Home Loan Program resources, maximization of community impact and establishment of partnerships to maximize capacity and resources.

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 the targeted areas, VHDA worked with homebuyers to facilitate their access to appropriate mortgage products. This approach encouraged local program sponsors to seek partnership opportunities for direct participation by local real estate professionals and contractors.

As part of the transaction, the first $5,000 in TSP funds will be forgiven at closing. Any remaining TSP loan funds are recorded as a "soft second" lien against the property for the duration of a stipulated period of affordability.

FY 2014 Foreclosure Rehabilitation Loan Pool--Trust Stabilization Program	
Program Partner	**Service Area**
Habitat for Humanity, Virginia	Statewide
Central Virginia Housing	Counties of Caroline, Orange, Culpeper, King George, Spotsylvania, and Stafford and the City of Fredericksburg
Catholics for Housing	Counties of Arlington, Fairfax, Fauquier, Prince William, Frederick, Warren and Cities of Alexandria , Fairfax, Falls Church, Manassas, Manassas Park and Winchester
Southside Outreach Group (SSORG)	Counties of Amelia, Amherst, Appomattox, Brunswick, Campbell, Charlotte, Cumberland, Dinwiddie, Emporia, Halifax, Lunenburg, Mecklenburg, Nottoway, Pittsylvania and Prince Edward and the City of Emporia
Community Housing Partners (CHP)	Southwest Virginia, Frederick and Warren Counties, City of Winchester and Metro Richmond

Impacts of the Foreclosure Rehabilitation Loan Pool

Since the program became operational during the first quarter of FY 2014, the loan pool has facilitated the acquisition of 36 properties for rehabilitation and resale. These were located in 22 different localities reaching across every region of the Commonwealth. Twenty-six of these properties leveraged NSP funds. The remaining ten were acquired through the regional option. Of these 36 properties, thirteen have already been resold and eight are currently under contract with closings scheduled for mid-November 2014.

At the close of FY 2014, nearly 90 percent of the Trust Fund resources allocated to this program had been expended or obligated. The remaining program funds should be sufficient to enable DHCD reach its goal of returning at least fifty rehabilitated units to occupancy.

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 designed to reduce homelessness. As with the loan program, DHCD and VHDA split the grants into two distinct components. The largest share of the grants was offered through a competitive process open to a variety of eligible applicants targeting the reduction of homelessness. The second component was dedicated to foreclosure and housing counseling targeting those areas of the Commonwealth hardest hit by foreclosure. Any remaining residual balances of unused grant funds could be redirected to the Affordable Housing Loan Program.

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) prevented the Trust Fund from serving 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, DHCD used a competitive application process to select projects for funding. Applicants could apply for up to $100,000. The application period paralleled that of the loan program. The initial application period closed on April 15, 2013.[9] If required and additional resources became available or applicants subsequently withdrew, any follow-up application periods will follow the same schedule as the loan program. As with the loan program, DHCD ranked competitive project applications using a standardized review with a 100-point scale. DHCD assigned a higher priority to housing stabilization services and pre-development assistance that were directly related to a project proposed for funding through the Affordable Housing Loan Program. No project scoring below sixty percent received funding. Fifty-eight applicants requested a total of more than $4.8 million. DHCD made funding offers to the ten highest- ranking projects in descending order until the available funds were exhausted or all

[9] 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.

projects scoring above sixty percent were funded. One project subsequently withdrew, leaving nine active projects at present. Applicants provided additional information before funding offers were finalized. Any funding not allocated through the initial application process was to be offered during subsequent round(s).

FY 2014 Homeless Reduction Grant Participants			
Project Name	**Locations Served**	**Funding Amount**	**Purposes**
New Phoenix Village	Cities of Hampton and Newport News	$ 100,000	Provide pre-development services for the project, including relocation costs, appraisals and market studies, architectural and engineering services
Hampton Human Services Trust Fund	City of Hampton	$ 100,000	Provide rental assistance and case management services
Pathway Homes Predevelopment	Fairfax County	$ 100,000	Provide pre-development services for this SRO project
Samaritan House Housing NOW	City of Virginia Beach	$ 32,779	Facilitate rapid re-housing by providing services, including rental subsidies and support/stabilization services
Heron's Landing Housing Stabilization	City of Chesapeake	$ 100,000	Fund the provisions of supportive services including supportive counseling, skills straining, advocacy and links with community service providers
Flagler Rapid Re-housing	City of Richmond	$ 100,000	Facilitate rapid re-housing through the provision of rental assistance and financial stabilization services
Housing Resource Center Rapid Re-housing	City of Petersburg	$ 100,000	Facilitate rapid re-housing through theprovision of rental assistance and financial stabilization services
Arlington Mill Permanent Supportive Housing	County of Arlington	$ 88,000	Provide on-site supportive services to this permanent supportive housing project
STEP Housing Trust Fund Program	Town of Rocky Mount	$ 100,000	Provide rental assistance and supportive services to groups including ex-offenders and veterans
Total		$820,779	

Homeless Reduction Grant Impacts

Projects and organizations receiving Homeless Reduction Grant funding directed most of those resources to rapid re-housing rental assistance/stabilization or permanent supportive housing stabilization. In addition, two recipients have committed funds to pre-development costs for projects that directly address their ability to reduce the impact of homelessness in their service areas.

Grant recipients report that approximately 220 households comprising almost 450 persons have thus far benefited from the activities the grant funds enabled. The program has made possible greater availability of additional case management and supportive housing staff, provided a much-needed funding source for rental assistance, and supported other activities or interventions that equip families and households to improve their housing circumstances. The result has been evident in the increased capacity of these organizations to assist their clients stabilize their lives and reduce the risk of returning to homelessness through improved health, increased incomes and better housing options. The combination of timely responses that either prevent people from falling into homelessness or assure that the period of homelessness is minimized have contributed to the general reduction in the numbers of homeless being reported through annual surveillance.

Foreclosure/Homeowner Counseling Grants

DHCD set aside a pool of $500,000 in grants for foreclosure counseling in areas of the Commonwealth with the highest incidence of foreclosure. These grants were awarded to 26 recipients in conjunction with VHDA's ongoing housing and foreclosure counseling activities. This approach also provided opportunities for linkages with the Community Improvement Loan program discussed earlier.

Foreclosure/Homeowner Counseling Grant Impacts

Housing Trust Fund resources effectively leveraged another $240,000 in funding from VHDA. The combination of these resources enabled VHDA to offer services to over 5,300 clients. Noteworthy achievements include over 2,000 clients who completed training on financial literacy, home maintenance and predatory lending. A significant number of clients were also able to resolve mortgage delinquency issues, allowing those households to remain in their homes. Over 200 households were able to bring their mortgage current; approximately 370 were able to refinance or modify their mortgage; over 80 households were able to work out a repayment plan with the lender. Besides the direct benefit accruing to the families and individuals who were enabled to retain possession of their homes, local communities received an indirect benefit when these properties remained occupied and maintained by those owners.

Loan and Grant Fund Impacts

The financial resources associated with the Housing Trust Fund have been available for approximately 16 months. During that period, approximately 97.5 percent of program funds have been obligated and more than 14 percent have been expended on qualifying projects or activities. The initial expenditures targeted problems that could be addressed immediately. These involved responses aimed at mitigating the lingering effects of the foreclosure crisis. They provided a source of loan funding for the rehabilitation and restoration of foreclosed properties so that they could return to productive use as affordable housing within viable communities. They also provided additional supports through grants to foreclosure and homeowner-counseling services intended to overcome problems associated with foreclosure or to prevent future recurrences of the waves of foreclosures that affected households and communities across the state when the housing bubble burst. Other grant funds went to organizations committed to activities that directly address the reduction of homelessness through rapid re-housing strategies and supportive services.

The remaining resources, primarily loans, have been committed to larger scale and longer-term activities and projects that address housing affordability and the availability of permanent supportive housing. As these resources are expended, the actual number of units being assisted will be reported and their outcomes evaluated. Besides accounting for the number of units receiving assistance, DHCD will be able to provide a more in-depth look at the ability of projects to reach hard-to-serve target populations; services provided to support reducing homelessness and the degree to which other financial resources can be leveraged for housing.

Without an infusion of additional resources, however, it currently appears that the Trust Fund will have deployed or expended virtually all of its currently available resources before the end of FY 2016.

Virginia Housing Trust Fund 2014 Summary Activity Data

FY 2014 Virginia Housing Trust Fund Allocations		Funds Obligated (6/30/2014)	Funds Expended (6/30/2014)	# of Projects Funded	# of New or Rehabbed Affordable Units Assisted	# of Households Receiving Assistance
Loans						
Competitive Loan Pool	$5,400,000	$5,316,108	$0	7 (supporting rapid re-housing and stabilization services)	Proposed: 318	
Foreclosure Rehabilitation Loans (Trust Stabilization Program)	$1,000,000	$1,000,000	$335,917	5 participating community partners	Acquired: 36 Resold: 13 Sale pending 8	
Grants						
Competitive Grant Pool (Homeless Reduction)	$ 930,000	$820,779	$292,292	7 (supporting rapid re-housing and stabilization services); 2 housing pre-development projects		220 households including: 14 with 1 or more veterans 38 youth household heads 23 chronically homeless 220 adults and 214 children
Foreclosure/Homeowner Counseling	$ 500,000	$500,000	$500,000	26 Housing Counseling Agencies		2,430 households received homeownership training and education 2,902 households received help resolving or preventing mortgage delinquencies
Administration	$ 170,000	$170,000				
Total	$8,000,000	$7,806,887	$1,128,209			