



May 4, 2020

## VHDA Rental Housing Development Loan Program Updates

# Loan Commitments and Funding

The COVID-19 environment has certainly proven to be challenging to many of us in both our personal and professional lives. With respect to the operations of Virginia Housing (VH), the speed and magnitude of the coronavirus impact demanded an immediate and significant reaction. Virginia Housing's initial response was to confirm that the Authority remained open for business and announce that most staff would be working remotely. In this context, however, being open for business does not necessarily mean business as usual.

With respect to the Rental Housing portfolio, our first priority was to assess the potential impact of rising unemployment, and the subsequent inability of tenants to make rent payments. Several stakeholder feedback sessions were undertaken, resulting in an optional forbearance program available to owners of VH financed properties, in which certain rights and obligations are specified under the agreement. Essentially, the plan allows for up to 3-months of principal and interest forbearance in exchange for no tenant evictions for non-payment of rent.

Another priority is the construction loan portfolio. We have loans on approximately 55 developments under construction, totaling over \$1.5 billion. Our initial step was to gather input from a group of developers with active construction loans to identify specific challenges that may be experienced during construction due to circumstances of the COVID-19 pandemic. Using this information, we will seek to identify what options may be available to address these unique challenges. What we have found thus far is that the current stage of construction will likely have the most significant impact on successful and timely completion. The material supply chain, the availability of labor and related cost increases are also of concern. We are now reaching out to owners to assess deal-specific circumstances regarding construction status. Those conversations will continue and action taken as warranted.

Additionally, we remain committed to our pipeline of Rental Housing loan applications. We continue to accept applications and underwrite loans, although we have stopped posting a daily rate sheet to our website. This is due to the uncertainty that remains in the capital markets. This uncertainty includes both the ability to access the markets and to adequately predict the resulting cost of funds. In April, VH was able to issue both Rental Housing and Homeownership bonds. VH was the first state HFA to access the capital markets in April. Proceeds from both issues will be used to fund existing mortgage loan obligations in each program. VH has plans to access the capital markets again in May to further support our existing permanent and construction loan portfolios.

Upon completion of its May capital markets activity, VH expects to reassess its access to the capital markets and to establish a schedule for future taxable and tax-exempt Rental Housing bond issuance that could provide funding for new production. It should also be noted that VH expects to lock rates for any such future taxable loans pursuant to a bond issuance schedule in a manner consistent with its longstanding process for tax-exempt loans. In that process, a loan commitment is issued and accepted by the Borrower along with the payment of fees and submission of required documentation in order to be included in a prospective bond offering; however, the interest rates on the loans are not locked until the bonds are actually priced roughly two weeks later. Therefore, VH does not expect to be able to lock rates on taxable loans between bond pricing dates until further notice.

The earliest such schedule is expected to require signed commitments and payment of points is by June 30, to accommodate a mid-July bond pricing. Regardless of the actual timing of these anticipated bond issues, we expect to include only those developments that are ready to proceed immediately, meaning, among other things, all local approvals are in hand and permits are ready to be issued, plans are approved, and the construction contract has been signed. There may be other requirements imposed as a condition for funding to be determined by VH as we continue to monitor market changes. As usual, commitments for such deals will be contingent upon the Authority's ability to access the capital markets at rates that allow for the development to be feasible and underwrite to the required DSCR.

I hope you find this information helpful and encouraging. Feel free to contact me or my staff if you have any questions.

Dale Wittie  
Director of Rental Housing Programs

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