

June 6, 2023

## VIRGINIA HOUSING Reach Allocation Policy Announcement

The dramatic rise of interest rates over the past 18 months has necessitated a review of our REACH rental loan subsidy allocation program. Historically the REACH rate has been fixed at 2.95%. There is now a material difference between market rates and 2.95%, the consequence of which is that it now costs Virginia Housing significantly more to buy down market rates to 2.95%. Accordingly, it is our intent to change REACH allocation policy in response to this change in circumstances.

Ultimately, the objective is to transition to a process by which the developer's cost of funds for each REACH loan rises and falls in tandem with the rise and fall of Virginia Housing's cost of funds.

These changes will be implemented in two phases:

Transitional Policy – designed to lessen the impact on stakeholders, while improving Virginia Housing's ability to manage utilization. During this phase the REACH rate will continue to be fixed but will be increased to a rate which more accurately reflects market conditions and reduces the subsidy "burn rate". **The Transitional Policy will become effective for deals that rate lock after July 1, 2023.** At that time the standard REACH rate will be reset and will be re-evaluated at regular intervals based on market conditions. Our current forecast is the initial reset will increase the standard REACH rate to 3.95%. This is subject to change based on market conditions and other factors.

**Exceptions will be made for (i) those deals that are included in the fourth tax-exempt issuance, that had an application deadline of May 2, 2023, (ii) development which receive 2023 housing opportunity tax credit (HOTC) awards, and (iii) taxable 9% deals that rate lock prior to September 30, 2023. The REACH rate will remain 2.95% for those developments and the following per-deal limits will not apply.**

Please note that during the Transitional Policy phase **per-deal limits** will be

imposed as well. The maximum REACH loan will be the greater of two measures:

1. \$40,000 per unit, or
2. Percent of loan based on loan size:
  - a. Loans < \$5M – up to 50% of total loan
  - b. Loans \$5M to \$25M – up to 35% of total loan
  - c. Loans > \$25M – up to 25% of total loan; subject to a \$12M cap.

Additionally, Virginia Housing reserves the right to limit REACH to an amount required to achieve an acceptable debt service coverage ratio (DSCR), generally 1.15 to 1.20.

Locality Matching REACH funds will continue to be available, in which Virginia Housing will match locally provided funding dollar for dollar up to \$2M of loan funds but will now be offered at the standard REACH rate in effect at the time.

Mixed use, mixed income (MUMI) deals will not be eligible for REACH at this time. This does not apply to deals processed through our Strategic Markets lending group.

Long-Term Policy – establishes a rate subsidy allocation process such that the developer's cost of REACH funds rises and falls with Virginia Housing's cost of funds. The Long-Term Policy is expected to be expressed as a specified basis point reduction below Virginia Housing's standard rate, with the REACH rate calculated at rate lock. This will effectively transfer rate risk to borrowers, an approach consistent with most other commercial lending programs. Per-deal limits will also be imposed under the Long-Term Policy.

The Long-Term Policy is anticipated to be announced on or about **September 1, 2023**, and will take effect for loans that rate lock after **June 30, 2024**. Virginia Housing will provide detailed guidance on this Long-Term Policy in a future announcement.

**We believe in the power of home to grow thriving communities across Virginia, and we thank you for being part of our mission.**

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The information contained herein (including but not limited to any description of Virginia Housing and its lending programs and products, eligibility criteria, interest rates, fees and all other loan terms) is subject to change without notice.



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