



October 23, 2023

VIA EMAIL: MBlyden@Legvi.org

The Honorable Marvin A. Blyden
Chairman
Committee on Housing, Transportation, Infrastructure, and Telecommunications
35th Legislature of the Virgin Islands
Capitol Building
P.O. Box 1690
St. Thomas, VI 00804

RE: VI Slice Moderate Income Homeownership Program (“VI Slice Program”)

Dear Senator Blyden:

Your correspondence of October 11, 2023 was respectfully received. Owing to previously scheduled commitments, I am unable to attend the Committee on Housing, Transportation, Infrastructure, and Telecommunications hearing on October 24, 2023. Notwithstanding, from the perspective of Merchants Commercial Bank, what follows is our role relative to residential financing in the United States Virgin Islands (USVI), as well as an update surrounding our efforts to utilize the VI Slice Program for prospective moderate-income homeowners.

RESIDENTIAL LENDING

For the past seventeen (17) years, Merchants Commercial Bank has provided state-of-the-art financial resources and solutions to USVI businesses and consumers. Merchants Commercial Bank is the only locally owned and operated commercial bank chartered under the auspices of the Office of the Lieutenant Governor, Division of Banking, Insurance, and Financial Regulation, with deposits insured by the Federal Deposit Insurance Corporation (FDIC). While we serve customers on St. Croix, St. Thomas, St. John, and Water Island, we have two (2) physical locations at: 1) Tutu Park Mall (St. Thomas) and 2) Islandia-Building (Cruz Bay, St. John).

With respect to residential financing, Merchants Commercial Bank continues to offer a full range of products, geared primarily towards satisfying the need for timely, service driven lending decisions. The residential loan products that Merchants Commercial Banks offers include:

- Residential Mortgage Loans for Construction;
- Residential Mortgage Loans for Acquisition;
- Land Loans;
- Home Improvement Loans; and
- Home Equity Lines of Credit.

Since we do not sell our loans in the secondary market, Merchants Commercial Bank does not offer a conventional 30-year fixed-rate mortgage. However, the Bank provides residential mortgages with a balloon feature that amortizes principal and interest payments over thirty (30) years and is particularly suitable for those borrowers that do not qualify for conventional mortgages.

STATUS OF VI SLICE PROGRAM

On March 2, 2023, Merchants Commercial Bank became the first bank in the territory to formally execute a Memorandum of Agreement (MOA) in partnership with the V.I. Economic Development Authority (VIEDA) to participate in the VI Slice Program. Notwithstanding our collective efforts over the past eight (8) months to leverage the VI Slice Program to increase homeownership rates among moderate-income households in the USVI, as of this writing Merchants Commercial Bank has not closed a residential mortgage transaction using the VI Slice Program. From our internal data collected since signing the MOA on March 2, 2023, we have gathered the following information specific to Merchants Commercial Bank:

- a total of sixty-four (64) households contacted Merchants Commercial Bank to inquire about the VI Slice Program and of those 64 households:
 - forty-five (45) of those households (or ~70%) did not complete the Uniform Residential Loan Application (URLA) or provide required supporting documentation to advance the underwriting process, such as filed tax returns or construction estimates;
 - seventeen (17) of those households (or ~27%) were declined primarily due to insufficient income, not qualifying as a first-time homebuyer, or having an ownership interest in land; and
 - two (2) of those households (or ~3%) have advanced to underwriting and are presently being reviewed to assess their adequacy for the VI Slice Program.

Invariably, the rising interest rate environment, which escalated by at least 5.25% since March 2022 via the Federal Reserve's effort to curb inflation, has given rise to a reduction of residential real estate transactions in the USVI. Moreover, with windstorm insurance premiums steadily increasing – coupled with the fact that the territory has its lowest level of residential real estate inventory available in the past 15 years – affordability of new home purchases for first-time buyers is adversely impacting demand for residential mortgages.

While the VI Slice Program has taken steps in an effort to expand the pool of prospective candidates, including relaxing Total Loan to Value (TLTV) limits, and advising that they would defer to Lenders' internal policies as they pertain to Debt-to-Income (DTI) ratios, market conditions have proven challenging to widespread utilization.

We appreciate the opportunity to provide testimony related to the VI Slice Program and our role with respect to residential financing and remain open to answer any follow-up questions you may have in the future.

Sincerely,



Valdamier Collens
President