Metro Council - Budget Committee
November 12, 2015

Office of Housing and Community Development – Project Investments and Partnerships with Forgivable Loan Components

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Primary Funding Sources

HUD – Housing & Urban Development
CPD – Community Planning and Development
CDBG – Community Development Block Grant
HOME – Home Investment Partnership

CDBG Funding – Used to develop viable urban communities by providing decent housing and a suitable living environment, particularly for low and moderate income persons and households.

HOME Funding – Used for a wide range of activities including acquiring, developing, and/or rehabilitating affordable multi family, as well as down payment assistance for single family home buyers.

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Strategy

The goal is to invest program dollars to meet goals outlined in our Consolidated Plan (2015-2019). We are currently in the 1st year of a 5 year plan.

This plan identifies housing and community development needs, analyzes market conditions, and provides a framework for making data-driven, place based investment decision.

Public hearings and additional community engagements efforts solicit input from around the community in the formulation of this plan as well.

We work with scores of community agencies and partners to accomplish this work, and consider additional local planning efforts as we prepared the plan.

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Investments

The department issues periodic NOFAS (Notice of Funding Availability) to solicit applications for funding.

These applications are reviewed, underwritten and scored. Points are available for projects that incorporate loan repayment as a part of their pro forma.

Awards are made, and loan terms and forgiveness are determined at that time on a case by case basis.

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Underwriting

OHCD uses an underwriting model to review financial feasibility of the proposed project:

- **Review both hard and soft costs**
- **Review operating pro forma to ensure adequate cash flow for sustainable operations through period of affordability**
- **The Debt Coverage Ratio is examined as well, to ensure that it is in acceptable range per our compliance guidelines**
- **Review replacement reserves against our compliance underwriting requirements**
- **Consider other funding sources and leverage as well**

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Forgivable Loan Agreements

Typically, a forgivable loan agreement has the following components:

Similar to a typical note and mortgage, there is a written agreement with the borrower that evidences the indebtedness with a note, and we secure that note and agreement with a mortgage on the property that they are constructing or rehabilitating affordable housing.

The terms typically include a period of affordability that often runs concurrent to the term of the loan, to ensure long term affordability.

During the period of affordability, there are ongoing monitoring and compliance requirements to ensure that the borrower is not in default, which include:

- **Rent and income verification of each resident**
- **Review of financial statements and project performance**
- **Site inspections**
- **On site file monitoring and review**

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Forgivable Loans

We fill in financing gaps to support affordable housing efforts. There are typically compliance guidelines and periods of affordability attached to each project that we invest in.

Often times affordable rents reduce the ability of the project to carry all of the debt service. In these cases, our investment can be forgiven over a period of time, and this forgiveness is linked to the period of affordability.

Our current rental loan pool is comprised of forgivable and non forgivable loans, with about a 40%/60% split.

Outcome

The goal is to provide affordable housing to the working families across Jefferson County. They are the end users, and they are the targeted beneficiaries.

The goal for any of the investments that we make is to right size them – whether it is down payment assistance or investment in a multi family building. We review each case to make sure that the borrower truly exhibits a need, and work to fill the gap .

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Questions


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