# Housing Development Subordinate Loan

## PURPOSE

The Housing Development Subordinate Loan (HDSL) is a subordinate loan that provides public financing to fund development costs for new or existing rental and Mixed-Use Projects that provide public benefits. The HDSL is intended to fund the difference between the projected project costs and available sources of construction or permanent financing to the extent the loan is supportable from operating revenues.

## PRODUCT DESCRIPTION

The HDSL provides construction and/or bridge financing, that either partially or fully converts to term financing. This loan has lower interest rates and generous terms in order to make projects that provide public benefits feasible and developable. The HDSL is designed to work in conjunction with other public and private financing sources, when projects will predictably generate sufficient cash flow (after payment of operating expenses, required reserve contributions and required senior debt service) to allow regular periodic payments on the HDSL.

The following summary outlines the general product characteristics available to Project Sponsors within the construction, bridge and permanent loan period. A more detailed description of loan terms, specific to the HDSL, is outlined in the Product Specific Guidelines section below. In addition, all HDSL loans are subject to PHB's general guidelines as outlined in the Housing Development Finance Manual.[1]

## SOURCE OF FUNDS & LEGAL COMPLIANCE

Funding for this loan may be through tax increment financing (TIF), city or federal funds. Borrower shall comply with any and all restrictions related to the funding source. For example, TIF funds must be used for infrastructure and physical improvements (including tenant improvements) of real estate projects within an Urban Renewal Area. Federal and city funds also have restrictions and obligations.

[1] PHB will continue to use the Housing Development Finance Manual that was created at the Portland Development Commission. PHB will review and revise the manual as necessary.

CONSTRUCTION/BRIDGE PERIOD:

| | |
|---|---|
| **Interest Rate:** | 0 - 3% |
| **Term:** | Maximum of 18 months |
| **Repayment:** | Deferred payment until end of construction period, interest accrues |
| **Other Terms** | See Permanent Loan Period |

PERMANENT LOAN PERIOD:

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|---|---|
| **Maximum Amount:** | Up to $3,000,000<br>(PHB Director may approve up to $2 million; Commissioner in Charge up to $3 million) |
| **Interest Rate:** | 0 - 3% |
| **Loan Amounts Per Unit:** | No set maximums, but total direct financial assistance funding must compare favorably with PHB Published Averages (based on income level served) |
| **Term:** | Up to 30 years |
| **Repayment:** | Amortization period is 30 years, with some flexible options available, subject to PHB approval |
| **Debt Coverage Ratio (DCR):** | Minimum 1.10[2]. |
| **Loan to Value (LTV):** | Total secured amortizing debt may not exceed 100% LTV. |
| **Other Repayment Terms:** | Project Sponsor pays PHB 50% of Excess Cash Flow (see below) |

## MINIMUM QUALIFICATIONS

[2] May increase depending on project specific risk factors

Project Sponsors who meet the following criteria may be eligible to receive an HDSL:

1. The Project Sponsor must own the subject property or have site control, and

2. Other financing sources for the project, including primary debt, must be maximized, and

3. The Minimum Investment Requirement must be met (as outlined in PHB guidelines), and

4. Designated Affordable Units must be affordable for 60 years (as required by Title 30 of the City Code).

**PHB funds are limited. PHB may not be able to provide loans to all eligible projects.**

## PRODUCT SPECIFIC GUIDELINES

**Eligible Project Sponsors:** An individual, corporation, partnership, sponsor or a joint venture that has ownership or site control of a rental property may apply for an HDSL.

**Eligible Projects:** A project providing rental housing that furthers the goals and objectives in Portland's Comprehensive Housing Plan, Consolidated Plan, Urban Renewal Area plans or other applicable policy directives is eligible for an HDSL.

**Interest Rates:** Interest rates during the construction and permanent loan periods range from 0% to 3%. In cases where the PHB is providing a portion of the loan funds through a credit facility with a private lender, the Project Sponsor may receive an interest rate based on PHB's cost of funds and/or the ability of the project to repay debt.

**Loan Term:**

1. **Construction Loans** carry a maximum 18-month term or until the permanent loan funds are available, whichever period is shorter. Construction interest may be paid monthly or at the end of the construction loan period, subject to underwriting.

2. **Permanent Loans** carry a maximum 30-year term or the length of the amortization period, whichever period is shorter.

**Repayment Terms:** HDSL repayment terms are structured to balance the goals of (1) maximizing participating financing; (2) assuring that the project is feasible over the Term of Affordability; and (3) providing for timely repayment of public funds.

HDSL loans are structured as fully amortized 30-year loans unless there is mutual determination that an alternative schedule is more appropriate for the project. Alternatives may include, but are not limited to, a longer or shorter term, a deferred payment period, or a balloon as part of the structure.

**Participating Financing:** Project Sponsors must seek maximum participating financing on the best terms available. Interest rates for superior loans should be at the current market rate or better for the financing type. Generally, the combined debt coverage ratio for all participating financing (other than PHB financing) should be no greater than 1.15-1.20 to 1:00 for superior loans, and the combined loan to value ratio (LTV) for all senior financing will be evaluated by PHB in order to determine that leverage has been maximized for the project. The PHB evaluates bond-financed projects against current bond underwriting requirements.

**Security/Collateral:** An HDSL is secured by the subject property. Security may take the form of a mortgage, a deed of trust or a participation agreement with another public or private lender.

**Cash Flow Payment Requirement:** PHB may require Cash Flow Payments in addition to scheduled debt service payments. These payments will be made from cash flow splits of Excess Cash Flow. Excess Cash Flow is determined when a priority cushion for identifiable project risks that can be mitigated by available cash is deducted prior to determining Net Cash Flow. Net Cash Flow is Gross Revenue less Allowed Expenses, Permitted Loan Payments, other Negotiated Priority Payments, and Required Reserve Contributions. The remaining Excess Cash Flow, if any, shall be split between the Borrower and the PHB.

The priority cushion may be shared among pools of assets for projects which have multiple properties involved prior to determination of Excess Cash Flow, if the Borrower has sufficient asset management capacity and is able to provide specific details of project needs, funding levels and an acceptable maintenance/replacement program. This cushion is approved as part of other specific loan terms and represented in both the PHB loan approval and the subsequent loan documents. It is not a calculation retroactively applied to previously closed transactions.

See definitions of Gross Revenues, Allowed Expenses, Permitted Loan Payments, Required Reserve Contributions, Net Cash Flow and Excess Cash Flow under the definitions chapter in the Housing Development Finance Manual.

In summary, Cash Flow Payments are determined as follows:

| | | | | |
|---|---|---|---|---|
| Gross Revenues Income | Less | (Allowed Expenses<br><br>PLUS Required Reserve Contributions) | = | Net Operating |
| Net Operating Income | Less | Permitted Loan Payments | = | Net Cash Flow |
| Net Cash Flow Flow | Less | The greater of 15% of<br><br>Permitted Loan Payments or the Cash Flow Cushion amount according to the Cash Flow Cushion Calculator, whichever is greater PLUS any negotiated Priority Payments reflected in PHB loan documents. | = | Excess Cash |
| Excess Cash Flow Payment | Times | 50% [3] | = | Cash Flow |

[3] See note regarding sizing of cash flow payment (currently Section 3.4.F of the Housing Development Finance Manual). As part of PHB's underwriting to determine the financial need for public financing, the PHB evaluates the project's internal rate of return over a 10-year period. (See Rate of Return Guidelines, currently Section 3.4.F). If a project's projected return exceeds the maximum allowable, PHB may require either a) an increased percentage of Excess Cash Flow from the project or b) an increase in the Minimum Investment Requirement for the project (terms defined in the manual).

# EQUITY Gap Contribution or Cash Flow Share Note

## PURPOSE

An Equity Gap Contribution or Cash Flow Share Note (EGC/CFS) provides public funding for rental or Mixed-Use projects that provide public benefits and are owned by For Profit or Eligible Non-Profit Organizations. An EGC/CFS is intended to fund the difference between the projected project costs and available sources of construction and permanent financing, including Housing Development Subordinate Loans (HDSL). PHB makes the final determination as to whether a project qualifies to use this tool.

## DESCRIPTION

An EGC/CFS provides construction and/or bridge financing, that either partially or fully converts to permanent financing and is designed to work in conjunction with other public and private financing sources. An EGC/CFS is a "last resort" financing product and will be used only when other financing has been maximized and the housing project does not generate sufficient cash flow (after operating expenses and required senior debt service) to allow regular loan payments to the PHB.

CFS has a term and an interest rate and its repayment is cash flow dependent.

EGC does not have a term or an interest rate, and its repayment is cash flow dependent. EGC's are outstanding until repaid.

If a loan under this program needs to carry either an interest rate or a maturity date, it will be classified as a CFS loan, not an EGC.

The following summary outlines the general product characteristics available to Project Sponsors. For the EGC/CFS, the same general financing terms apply to the construction, bridge and permanent phases of financing. A more detailed description of terms specific to the EGC/CFS is outlined in the Product Specific Guidelines section below. In addition, all EGC/CFSs are subject to PHB's general guidelines as outlined in the Housing Development Finance Manual.[4]

[4] PHB will continue to use the Housing Development Finance Manual that was created at the Portland Development Commission. PHB will review and revise the manual as necessary.

SOURCE OF FUNDS & LEGAL COMPLIANCE

Funding for this loan may be through tax increment financing (TIF), city or federal funds. Borrower shall comply with any and all restrictions related to the funding source. For example, TIF funds must be used for infrastructure and physical improvements (including tenant improvements) of real estate projects within an Urban Renewal Area. Federal and city funds also have restrictions and obligations.

**Construction/Bridge and Permanent Financing Period:**

| | |
|---|---|
| **Maximum Amount:** | Up to $3,000,000 (PHB Director may approve up to $2 million; Commissioner in Charge up to $3 million) |
| **Interest Rate:** | **EGC** – generally 0%. If the nominal rate must be higher than 0% for tax purposes, the higher interest rate shall inure to the benefit of the PHB and will be structured as a CFS. |
| **Amounts Per Unit:** | No set maximums but total direct financial assistance funding must compare favorably with PHB published averages (based on income level served) |
| **Term:** | **EGC** – outstanding until repaid; due on sale, transfer, change of use or refinance.<br>**CFS** – set term up to 60 years based on underwriting; due on sale, transfer, change of use or refinance. |
| **Repayment:** | **EGC** – scheduled payments based on cash flow until repaid. Project Sponsor pays PHB 50% of Excess Cash Flow (see below).<br>**CFS** – same as EGC except will have a set term with balloon payment. |
| **Debt Coverage Ratio (DCR):** | Not applicable |

**Loan to Value (LTV):** Total secured amortizing debt may not exceed 100% LTV.

## MINIMUM QUALIFICATIONS

Project Sponsors who meet all of the following criteria may be eligible to receive an EGC:

1. The Project Sponsor may be either for profit or non profit.
2. The Project Sponsor must own the subject property or have site control, and
3. Other financing sources for the project, including primary debt and an HDSL, must be maximized, and
4. The Minimum Investment Requirement must be met (see Section 3.4.F), and
5. Designated Affordable Units must be affordable for 60 years (as required by Title 30 of the City Code).

**PHB funds are limited. PHB may not be able to provide loans to all eligible projects.**

## SPECIFIC GUIDELINES

**Eligible Project Sponsors**: A For Profit or Eligible Non-Profit with ownership or site control of rental property may apply for an EGC/CFS.

**Eligible Projects:** A project providing rental housing that furthers the goals and objectives in Portland's Comprehensive Housing Plan, Consolidated Plan, Urban Renewal Area plans or other applicable policy directives is eligible for an EGC/CFS.

**Interest Rate**: There is no interest charged on an EGC. If an interest rate is requested by the project Sponsor for tax purposes, this rate shall inure to the benefit of the PHB and is a Cash Flow Share Note instead.

**Participating Financing:** Project Sponsors must seek maximum participating financing on the best terms available. Interest rates for superior loans should be at the current market rate or better for the financing type. Generally, the combined debt coverage ratio for all participating financing (other than PHB financing) should be no greater than 1.15-1.20 to 1:00 for superior loans, and/or the combined loan to value ratio (LTV) for all senior financing should be maximized wherever possible. PHB evaluates bond-financed projects against current bond underwriting requirements. In addition, projects must utilize the maximum HDSL supportable by the project prior to qualifying for an EGC/CFS.

**EGC Recapture Provisions:** The provisions for recapture in the Equity Gap Agreement include the following two methods of repayment:

1. Sale, Transfer, Refinance, Exchange or Change of Use: In the event of sale, transfer, exchange, refinance, or change of use of the subject property, EGC is subject to recapture. Proceeds derived from such sale, transfer, exchange or change of use shall be used in the following order of priority:

    a. Senior debt.

    b. Accumulated interest on PHB amortized loans.

    c. Principal balance of other outstanding PHB amortizing loans on the property.

    d. Outstanding balance of EGC/CFS.

2. Cash Flow Payment Requirement: These payments will be made from cash flow splits of Excess Cash Flow. Excess Cash Flow is determined when a priority cushion for identifiable project risks that can be mitigated by available cash is deducted from Net Cash Flow. Net Cash Flow is Gross Revenue less Allowed Expenses, Permitted Loan Payments, and Required Reserve Contributions. The remaining Excess Cash Flow, if any, shall be split between the Borrower and the PHB.

The priority cushion may be shared among pools of assets for projects which have multiple properties involved prior to determination of Excess Cash Flow, if the Borrower has sufficient asset management capacity and is able to provide specific details of project needs, funding levels and an acceptable maintenance/replacement program. This cushion is approved as part of other specific loan terms and represented in both the PHB loan approval and the subsequent loan documents. It is not a calculation retroactively applied to previously closed transactions.

See definitions of Gross Revenues, Allowed Expenses, Permitted Loan Payments, Required Reserve Contributions, Net Cash Flow and Excess Cash Flow under the definitions chapter of the Housing Development Finance Manual.

In summary, Cash Flow Payments are determined as follows:

Gross Revenues Less (Allowed Expenses = Net Operating Income

| | | | | |
|---|---|---|---|---|
| | | +Required Reserve Contributions) | | |
| Net Operating Income | Less | Permitted Loan Payments | = | Net Cash Flow |
| Net Cash Flow Flow | Less | The greater of 15% of | = | Excess Cash |
| | | Permitted Loan Payments or the Cash Flow Cushion amount according to the Cash Flow Cushion Calculator, whichever is greater PLUS any negotiated Priority Payments reflected in PHB loan documents. | | |
| Excess Cash Flow Payment | Times | 50% [5] | = | Cash Flow |

Cash Flow Payments on EGC/CFS shall be applied first to accrued interest on the PHB Note on the HDSL on the property, if any. After payment of any accrued interest, the Project Sponsor may elect whether the Cash Flow Payment will be applied to reduce the outstanding balance of the Equity Gap Contribution or CFS note or to reduce the principal balance of the Note on any outstanding HDSL. (For Low Income Housing Tax Credit financed projects, PHB Housing Investment Committee (or designated loan approval entity) may make exceptions regarding priority of Cash Flow Payments.)

Security/Collateral: The PHB ensures security through a recorded instrument, an Equity Gap Contribution Agreement. The Agreement describes the amount, the conditions and the provisions of the EGC. Also, the Agreement describes the conditions under which the EGC may be recaptured in full by the PHB. There will be no provision for sharing project losses. The Equity Gap Contribution Agreement is recorded to evidence the project sponsor's obligation, although it is not a lien against the property. If a Project Sponsor receives an EGC only from the PHB, the PHB reserves the right to record liens against the property upon default. A Cash Flow Share note is subject to a recorded Trust Deed and does constitute a lien against the property.

[5] See note regarding sizing of cash flow payment in the Housing Development Finance Manual (currently Section 3.4.F). As part of PHB's underwriting to determine the financial need for public financing, the PHB evaluates the project's internal rate of return over a 10-year period. (See Rate of Return Guidelines, currently Section 3.4.F). If a project's projected return exceeds the maximum allowable, the PHB may require either a) an increased percentage of Excess Cash Flow from the project or b) an increase in the Minimum Investment Requirement for the project (terms defined in the manual).

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# NON-PROFIT FACILITY GRANTS

## PURPOSE

Non-Profit Community Facility Grants are designed to provide direct financial assistance in the form of conditional grants to Eligible Non-Profit Organizations for the acquisition and/or rehabilitation or construction of community facilities providing services to targeted populations. Eligible projects must offer services to primarily low-income residents or serve designated low-income neighborhoods in the City of Portland. This tool includes a predevelopment option that will advance funds to non-profits that require assistance in the project feasibility, site control, development consulting and project planning phases, prior to a development application.

## DESCRIPTION

The Non-Profit Community Facility Grant provides predevelopment funds or construction and/or bridge financing that partially or fully converts to term ("permanent") financing. The Non-Profit Facility grant may be used in conjunction with other public and private financing sources or as the sole source of financing to cover capital costs associated with providing space for delivery of services to the identified population.

The following summary outlines the general characteristics. A more detailed description of financing terms for the Non-Profit Community Facility Grant is outlined in the Specific Guidelines portion of this section.

SOURCE OF FUNDS & LEGAL COMPLIANCE

Funding for this loan may be through tax increment financing (TIF), city or federal funds. Borrower shall comply with any and all restrictions related to the funding source. For example, TIF funds must be used for infrastructure and physical improvements (including tenant improvements) of real estate projects within an Urban Renewal Area. Federal and city funds also have restrictions and obligations.

**Pre-Development Financing:**

| | |
|---|---|
| Maximum Financing: | Up to $25,000 |
| Interest Rate: | Not Applicable. Normally funded as a conditional grant. |
| Term: | Up to 24 months |

**Construction/ Bridge and Permanent Financing:**

| | |
|---|---|
| Maximum Financing Amount: | Up to $100,000 |

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Interest Rate: Not Applicable. Normally funded as a conditional grant unless project's revenue will be sufficient to consistently meet a 1.1 DCR after funding operating expenses and replacement reserves.

Term: Maximum conditional grant period is seven years from funding in order to stay within the change in use condition of the grant.

## CONTACTS

Applicants may contact the Housing Development Finance Manager at (503) 823-2375.

## MINIMUM QUALIFICATIONS

1. Property must be owned by an Eligible Non-Profit Organization or be leased by the Eligible Non-Profit Organization for a minimum period of ten years.

2. Property must be used to provide services to primarily Low- or Moderate Income residents of the City of Portland or to serve Low-Income neighborhoods in the City of Portland.

### SPECIFIC GUIDELINES

**Eligible Project Sponsors**: An organization may be eligible if the following minimum criteria are met:

1. The organization must be an Eligible Non-Profit Organization, which may include a public governmental agency.

2. The purpose of the tax-exempt organization must be to provide community education, social, health services or special needs housing to Portland residents. The organization cannot be incorporated primarily for religious purposes.

3. The organization must show compliance with local, state and federal regulations when applicable.

4. The organization must be able to demonstrate that it has the management and fiscal capacity to operate the facility, or if applicable, any entity created must demonstrate adequate management and fiscal capacity to operate the facility.

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**Eligible Projects:** A project is eligible for these funds if the following minimum criteria are met:

1. The services provided at the completed facility must benefit a) principally Low and/or Moderate-income individuals or families, or b) serve a designated Low-Income neighborhood. Income guidelines are based on 80% or less of median income for the Portland area.

2. The project site must be located within the boundaries of the City of Portland.

3. The sponsoring non-profit organization must have satisfactory control of the project site, at the time of application, and for a reasonable duration thereafter.

4. The project must demonstrate fiscal feasibility using PHB's underwriting criteria.

5. A project may include housing units only if they are provided primarily for temporary or limited stay occupancies which are not typical of residential rental properties (i.e. shelter facilities) and are not fundable under traditional income property programs.

**Eligible Costs:**

Eligible costs that may be covered under this program include:

1. **Predevelopment Costs**:

   A. Predevelopment planning studies to determine the feasibility of the project, the needs of the organization, or project management.

   B. Costs associated with the acquisition of a property, except for the actual purchase funding, where the non-profit sponsor intends to construct or rehabilitate a building for eligible uses.

   C. Professional services related to project design and management. These may include architectural, engineering, environmental studies, or construction management services.

   D. Professional services for development consulting are eligible and will be evaluated for consistency with the project. Developer's fees paid during the pre-development period will be netted from the total developer's fee at the time of conversion to a development loan.

2. **Development Costs:** In addition to the above mentioned items, other eligible costs include:

   A. Direct and indirect costs associated with the construction of a new facility that will enable the agency to offer its services more effectively and/or provide for the special needs of the user population.

B. Direct and indirect costs associated with the rehabilitation of an existing facility which will protect the immediate health and safety of the facility's users, bring the facility into compliance with city codes, provide energy efficiency, or enable the agency to offer its services in a more effective manner.

C. Direct and indirect costs associated with the purchase of a property for the purposes of rehabilitation or new construction.

**Ineligible Costs:** Pre-Development or Development Financing will not pay costs associated with staff, equipment and furnishings, operations, or any activity that has the primary purpose of organizational capacity building, such as training or organizational planning.

**Maximum Financing Amount:**

1. Predevelopment Financing: Projects may be eligible for pre-development financing of up to $25,000 or the cost of eligible pre-development activities, whichever is less. This financing will be funded by the PHB, or a third party source, up to the maximum financing amount.

2. Construction/ Bridge and Permanent Financing: The Community Facility Grant Program has a maximum financing amount of $100,000 or 98% of the development cost, whichever is less.

**Financing Term:**

1. Predevelopment Financing: Financing terms will be up to 24 months, or close of construction financing, whichever is less. If the proposed development does not proceed, the predevelopment loan can be repaid through a repayment plan, depending on the borrower's ability to repay. After these resources are utilized, PHB may consider forgiveness of its portion. However, at minimum the project sponsor will be required to deliver to PHB all documents, studies, working papers or other elements of work product developed, in whole or in part, with the use of predevelopment loan funds. PHB may require the funds to be repaid and forgiveness should not be assumed by any project sponsor.

2. Construction/ Bridge and Permanent Financing: The maximum financing term is seven years, or the term of the lease, which ever is less (minimum ten-year lease term). This term is imposed in order to stay within the change in use condition of the grant.

**Repayment Term:**

Repayment terms will be determined upon underwriting and will be structured to match the cash flow from the project. Normally the financing will be structured as a conditional grant because most projects' revenue will only fund operating expenses and replacement reserves.

1. Conditional Grant: If the project's revenue will only fund operating costs and replacement reserves, the financing is structured as a conditional grant. In that case, there is a repayment obligation only from a 50% portion of Excess Cash Flow in accordance with the Equity Gap Contribution or Cash Flow Share provisions described in Section 3.2.B. In addition, the grantee may not change the use or planned use of the property from that for which the acquisition or improvement was made without approval from the PHB. This restriction remains for a period of seven years from the funding of the grant.

2. Interest Bearing Loan: Occasionally a project's revenue will be sufficient to consistently meet a 1.1 DCR after funding operating expenses and replacement reserves. In this case, the financing is structured as a loan with an interest rate not to exceed 3%, and a loan term that does not exceed 30 years. The loan will also require PHB approval for a change in use from that for which the acquisition or improvement was made. This restriction remains for a period of seven years from the funding of the loan.

**Predevelopment Financing:** Repayment terms will be determined upon underwriting and will be structured to match the cash flow of the project. Principal and interest will accrue until loan repayment.

**Construction/ Bridge and Permanent Financing:** Repayment terms will be determined upon underwriting and will be structured to match the cash flow of the project.

**Security:** Security for financing will be determined on an individual basis. If the proposed development does not proceed, the predevelopment loan can be repaid through a repayment plan, depending on the borrower's ability to repay. After these resources are utilized, PHB may consider forgiveness of its portion. However, at minimum the project sponsor will be required to deliver to PHB all documents, studies, working papers or other elements of work product developed, in whole or in part, with the use of predevelopment loan funds. PHB may require the funds to be repaid and forgiveness should not be assumed by any project sponsor.

**Change in Use:** Projects may not change the use from that for which the acquisition or improvement was made for a period of seven years without approval.

## HOW TO ACCESS FUNDS

1. **Intake:** Applicants may contact the Housing Development Finance Manager at (503) 823-2375. Upon making this initial contact and pre-screening application, PHB will meet with the applicant to discuss the potential project's eligibility, and the possible financing structures for the loan. Given the broad range of possible community facility projects, this meeting will be important in determining the individual needs and challenges related to the applicant's project. Key underwriting criteria for the project will be highlighted in this meeting. Following the pre-application meeting the eligible inquiring project sponsor may make a formal application for pre-development or development financing.

2. **Underwriting:** Following the initial intake screening, applicants may submit a formal application which should include any relevant financial or real estate due diligence. This information will be used to underwrite the proposed project.

   The three partner organizations will review the application to evaluate the following:

   A. <u>Pre-Development Financing</u>: Pre-Development financing will be evaluated based on project consistency with city support services-related policy and financial feasibility. The applicant must demonstrate the capacity of the proposed development team before the loan closes.

   B. <u>Development Financing</u>: Development financing will be underwritten and funding decisions made on the basis of three broad criteria: public benefit, financial feasibility, and the capacity of the development team under contract.

3. **Financing Approval:** Projects selected to receive funding will receive a "Reservation of Funds" letter from PHB. This letter will stipulate a period of time and necessary conditions to be fulfilled by the applicant during that period. These conditions can take the form of commitments from other lenders, review of project plans, environmental reviews, progress in financial or operational structuring, or any other conditions deemed necessary by the PHB.

   Upon fulfillment of those conditions, the project will go to the PHB Housing Investment Committee and receive a formal letter of "Commitment." Any new conditions, or remaining conditions, not completely resolved during the reservation period will then be addressed prior to closing.

4. **Loan Closing:** Predevelopment and Construction/Permanent Financing will be closed through the PHB.

5. **Notice to Proceed:** Following financing closing a "Notice to Proceed" will be issued and the project may begin construction. Financing disbursements will be progress payments made on a monthly basis. Pre-Development Financing will follow this same general process without the "Notice to Proceed" provision.

# HOUSING DEVELOPMENT SUBORDINATE LOAN - FOR SALE PROJECTS

## PURPOSE

The For Sale Housing Development Subordinate Loan (FSHDSL) is a subordinate loan that provides public financing to fund development costs for new for sale Residential and Mixed-Use Projects that provide public benefits. The FSHDSL is intended to fund the difference between the projected project costs and available sources of construction financing to the extent the loan is supportable from residential unit sales and parking and commercial unit sale or lease.

## DESCRIPTION

The FSHDSL provides construction and/or bridge financing. This loan has lower interest rates and generous terms in order to make projects that provide public benefits feasible and developable. The FSHDSL is designed to work in conjunction with other public and private financing sources,

The following summary outlines the general characteristics available to Project Sponsors within the construction, bridge and permanent loan period. A more detailed description of loan terms, specific to the FSHDSL, is outlined in the Specific Guidelines section below. In addition, all FSHDSL loans are subject to PHB's general guidelines as outlined in the Housing Development Finance Manual.[6]

## SOURCE OF FUNDS & LEGAL COMPLIANCE

Funding for this loan may be through tax increment financing (TIF), city or federal funds. Borrower shall comply with any and all restrictions related to the funding source. For example, TIF funds must be used for infrastructure and physical improvements (including tenant improvements) of real estate projects within an Urban Renewal Area. Federal and city funds also have restrictions and obligations.

## CONSTRUCTION PERIOD:

[6] PHB will continue to use the Housing Development Finance Manual that was created at the Portland Development Commission. PHB will review and revise the manual as necessary.

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|---|---|
| **Maximum Amount:** | Up to $3,000,000 (PHB Director may approve up to $2 million; Commissioner in Charge up to $3 million) |
| **Interest Rate:** | Minimum 3% |
| **Term:** | Maximum of 24 months to sellout with one 12 month extension available |
| **Repayment:** | Refer to Repayment Terms below |

Project Sponsors who meet the following criteria may be eligible to receive an FSHDSL:

1. The Project Sponsor must own the subject property or have site control, and
2. Other financing sources for the project, including primary debt, must be maximized, and
3. The Minimum Investment Requirement must be met (see Section 3.4.F of the manual).

**PHB funds are limited. PHB may not be able to provide loans to all eligible projects.**

## SPECIFIC GUIDELINES

**Eligible Project Sponsors:** An individual, corporation, partnership, sponsor or a joint venture that has ownership or site control of a property may apply for an FSHDSL.

**Eligible Projects:** A project providing for sale housing that furthers the goals and objectives in Portland's Comprehensive Housing Plan, Consolidated Plan, Urban Renewal Area plans or other applicable policy directives is eligible for an FSHDSL.

**Interest Rates:** Interest rate during the construction or bridge loan periods is a minimum of 3%. In cases where the PHB is providing a portion of the loan funds through a credit facility with a private lender, the Project Sponsor may receive an interest rate based on PHB's cost of funds and/or the ability of the project to repay debt.

**Loan Term:**

(1) **<u>Construction Loans</u>** carry a maximum 24-month term, with one 12 month extension available. Construction interest may be paid concurrently with unit sales or at the end of the construction loan period, subject to underwriting.

(2) **Bridge Loans** carry a maximum 18-month term, which is not renewable. Interest repayment schedule may be either according to agreed upon terms, or at the maturity date.

**Repayment Terms:** FSHDSL repayment terms are structured to balance the goals of 1) maximizing participating financing; and (2) providing for timely repayment of public funds.

If the Project Sponsor is able to secure affordable financing terms for the homebuyer, in the form of low interest rates (0 – 3%) and favorable fees, a portion of the PHB loan (in an amount proportional to the subsidy to the homebuyer) may be converted to another product (e.g., a homebuyer assistance tool) or a grant, in PHB's sole discretion.

**Participating Financing**: Project Sponsors must seek maximum participating financing on the best terms available. Interest rates for superior loans should be at the current market rate or better for the financing type. The combined loan to value ratio (LTV) for all senior financing should be maximized wherever possible. The PHB evaluates bond-financed projects against current bond underwriting requirements.

**Security/Collateral:** An FSHDSL is secured by the subject property. Security may take the form of a mortgage, a deed of trust or a participation agreement with another public or private lender.

# Housing Development BRIDGE Loan

**PURPOSE**

The Housing Development Bridge Loan (HDBL) is an interim subordinate loan that provides public financing to fund immediate costs for new or existing rental and Mixed-Use Projects that provide public benefits. The HDBL is intended to fund the short term projected project costs that may be needed to enable a project to develop a feasible development/rehab budget, resolve short term financial obligations, cure immediate repairs/turnover costs, and other essential financial needs including satisfying debt service obligations on a short term basis. The funds are not intended to be used to bridge construction or lease up periods prior to the conversion of standard permanent financing.

DESCRIPTION

The HDBL provides short term bridge financing that converts to term financing. The loan has a 0% to 3% interest rate in order to make projects that provide public benefits feasible and developable.

The following summary outlines the general characteristics available to Project Sponsors within the bridge loan period. A more detailed description of loan terms, specific to the HDBL, is outlined in the Specific Guidelines section below. In addition, all HDBL loans are subject to PHB's general guidelines as outlined in the Housing Development Finance Manual.[7]

SOURCE OF FUNDS & LEGAL COMPLIANCE

Funding for this loan may be through tax increment financing (TIF), city or federal funds. Borrower shall comply with any and all restrictions related to the funding source. For example, TIF funds must be used for infrastructure and physical improvements (including tenant improvements) of real estate projects within an Urban Renewal Area. Federal and city funds also have restrictions and obligations.

BRIDGE PERIOD:

**Loan Maximum:** Up to $100,000

[7] PHB will continue to use the Housing Development Finance Manual that was created at the Portland Development Commission. PHB will review and revise the manual as necessary.

| | |
|---|---|
| **Interest Rate:** | 0% to 3% interest rate |
| **Term:** | Maximum of 18 months |
| **Repayment:** | Varies, interest if any accrues |
| **Debt Coverage Ratio (DCR):** | Minimum 1.10, if applicable |
| **Loan to Value (LTV):** | Not Applicable |

## MINIMUM QUALIFICATIONS

Project Sponsors who meet the following criteria may be eligible to receive an HDBL:

1. The Project Sponsor must own the subject property or have site control.
2. The project must be located in the City of Portland.
3. This tool is available to Eligible Non-Profit Organizations.

**PHB funds are limited. PHB may not be able to provide loans to all eligible projects.**

## SPECIFIC GUIDELINES

**Eligible Project Sponsors:** An individual, corporation, partnership, government agency, sponsor or a joint venture that has ownership or site control of a rental property may apply for an HDBL.

**Eligible Projects**: A project providing rental housing that furthers the goals and objectives in Portland's Comprehensive Housing Plan, Consolidated Plan, Urban Renewal Area plans or other applicable policy directives is eligible for an HDBL.

**Interest Rates:** Interest rates during the bridge loan period are 0% to a maximum of 3%. In cases where the PHB is providing a portion of the loan funds through a credit facility with a private lender, the Project Sponsor may receive an interest rate based on PHB's cost of funds and/or the ability of the project to repay debt.

**Loan Term:** Bridge loans carry a maximum 18-month term or until the permanent loan funds are available, whichever period is shorter. Bridge interest if applicable may be paid monthly or at the end of the bridge loan period, subject to underwriting.

**Repayment Terms:** HDBL repayment terms are structured to balance the goals of
(1) maximizing participating financing; (2) assuring that the project is feasible over the Term of Affordability; and (3) providing for timely repayment of public funds.

**Security/Collateral:** If the Project Sponsor has title to the Property, the loan may be secured with a deed of trust or other collateral at the discretion of the PHB Housing Investment Committee. If the proposed development does not proceed, the predevelopment loan can be repaid through a repayment plan, depending on the borrower's ability to repay. After these resources are utilized, PHB may consider forgiveness of its portion. However, at minimum the project sponsor will be required to deliver to PHB all documents, studies, working papers or other elements of work product developed, in whole or in part, with the use of predevelopment loan funds. PHB may require the funds to be repaid and forgiveness should not be assumed by any project sponsor.

**Reporting Requirements:** During the period in which any amount of bridge loan remains outstanding, a Project Sponsor must prepare and submit status reports with each draw request or other schedule as reasonably requested by PHB, detailing the progression of the Project and use of the funds.

**Documentation:** PHB and the Project Sponsor must execute a Bridge Loan Agreement. The Project Sponsor must submit all due diligence documents.

# HOUSING PREDEVELOPMENT LOAN

## PURPOSE

Housing Predevelopment Loans are designed to fund technical and professional services necessary to explore project feasibility of rental and ownership housing serving Low, Moderate or Middle Income Households, or Mixed-Use or Mixed Income housing developments which include housing units meeting the affordability requirements. Loan funds are to fund developments that meet PHB's housing strategy objectives or other public benefits.

## DESCRIPTION

The use of predevelopment funds is limited to predevelopment activities such as obtaining site control, initial design and financing work, environmental evaluation and appraisals are eligible. This tool is not intended to fund the purchase of property, except for option payments to hold property.

## SOURCE OF FUNDS & LEGAL COMPLIANCE

Funding for this loan may be through tax increment financing (TIF), city or federal funds. Borrower shall comply with any and all restrictions related to the funding source. For example, TIF funds must be used for infrastructure and physical improvements (including tenant improvements) of real estate projects within an Urban Renewal Area. Federal and city funds also have restrictions and obligations.

The following are some general characteristics.

**Loan Amounts:** Up to $1,000,000 per project as determined by specific project requirements subject to PHB's sole discretion and subject to PHB approval

**Interest Rate**: Below market interest rate determined by specific project requirements and subject to PHB approval.

**Loan to Value (LTV):** Security is required in the form of PHB ownership of work product, assignment of option agreement, guarantee, and/or secured by the land under development.

**Debt Coverage Ratio (DCR):** Not applicable.

**Term:** 24 months or close of construction loan, whichever is earlier.

**Repayment:** Loan is repaid at construction loan closing.

## MINIMUM QUALIFICATIONS

1. The project must be located within the City of Portland.
2. This tool is available to Eligible For-Profit and Non-Profit Developers.
3. Proposed projects include rental housing affordable to Low Income or Moderate Income Households, For-Sale Housing affordable to households earning less than 150% MFI, or Mixed-Use or Mixed-Income projects which include units that meet the above affordability requirements.
4. Proposed project must commit to meeting threshold criteria in applicable PHB policies, such as the Green Building Criteria for Affordable Housing, Minority/Women/Emerging Small Business and Workforce Training and Hiring Programs.

## CONTACTS

For more information, please contact the Housing Development Finance Manager at (503) 823-2375.

## SPECIFIC GUIDELINES

**Eligible Project Sponsors**: Eligible For-Profit and Non-Profit Organizations that are developing housing are eligible to apply for predevelopment funds.

**Eligible Projects**: Proposed projects that include rental housing affordable to Low Income Households (earning at or below 60% MFI) or Moderate Income Households (earning at or below 80% MFI), For-Sale Housing affordable to Moderate or Middle Income Households (earning at or below 150% MFI), or Mixed-Use or Mixed-Income projects that include units that meet the above affordability are eligible to apply for predevelopment funds.

**Loan Amount**: : Up to $1,000,000 per project as determined by specific project requirements subject to PHB's sole discretion and subject to PHB approval.

**Interest Rate**: Below market interest rate determined by specific project requirements and subject to PHB approval.

**Repayment**: The predevelopment loan is due and payable at the earlier of the closing of a PHB or other construction loan or 24 months from the date of the loan.

**Security**: PHB funds are secured. If the Project Sponsor has title to the property, the predevelopment loan is secured with a first deed of trust or other collateral as approved. If the Project Sponsor does not have title to the property, site control in the form of an executed purchase agreement, or other evidence of site control acceptable to PHB, with a period of time sufficient to complete purchase financing, must be executed prior to closing. Assignment of an existing option agreement would also be viewed as security. PHB will require assignment of ownership rights to all predevelopment work tools.

If the proposed development does not proceed, the predevelopment loan can be repaid through a repayment plan, depending on the borrower's ability to repay. After these resources are utilized, PHB may consider forgiveness of its portion. However, at minimum the project sponsor will be required to deliver to PHB all documents, studies, working papers or other elements of work product developed, in whole or in part, with the use of predevelopment loan funds. PHB may require the funds to be repaid and forgiveness should not be assumed by any project sponsor.

**Eligible costs**: Eligible costs include, but are not limited to, the following:

1. Obtaining site control
2. Geo-technical studies
3. Phase 1 environmental
4. Topographical site survey
5. Architectural services
6. Land division
7. Appraisal
8. An approved portion of development consultant services
9. Other project-specific costs approved by PHB

**Reporting Requirements**: During the period in which any amount of predevelopment loan remains outstanding, a Project Sponsor must prepare and submit status reports detailing the progression of the project to the designated PHB Construction Coordinator.

**Documentation**: PHB and the Project Sponsor must execute a Predevelopment Loan Agreement. The project sponsor also must submit all due diligence documents.

## HOW TO ACCESS FUNDS

1. **Intake**: The Project Sponsor contacts the Housing Development Finance Manager at PHB (503-823-2375). This request may also be in writing. The Manager assigns PHB staff to the request. Predevelopment applications may be submitted anytime during the year. Allow two weeks for review and response after a completed

application/required information is submitted.

2. **Application**: The Project Sponsor submits an application letter detailing the project and budget to PHB. PHB determines whether; (1) funds are available for the proposed project; (2) the project is consistent with urban renewal and city goals; and (3) the level of risk for the project is acceptable. If PHB approves the application, it proceeds toward a loan commitment.

3. **Commitment**: The PHB staff works with the applicant to develop a budget, scope of work and schedule of activities that are satisfactory. In addition, they agree on a disbursement schedule. PHB Housing Investment Committee approval required for all terms.

4. **Loan Closing**: Once the PHB approves the loan, loan documents are executed by the Project Sponsor and the PHB. The Project Sponsor submits any additional due diligence documents relative to their loan request and standard corporate documents to PHB.

5. **Disbursement**: Disbursements are made upon review of invoices or other evidence of costs incurred.

6. **Completion**: At time of repayment (after 24 months or at close of construction financing) all principal and all accrued interest is due and payable.