

Duluth Housing Trust Fund (“HTF”) Programmatic Outline

HTF Contribution Overview

- City: \$4M- flexible funds
- LISC: \$2M- loan funds
- Foundations/Partners (goal): \$3M- mix of loan and grant funds
 - o **Total:** \$9 million mix of grant and mixed interest funds

HTF Management and Operation

- There are two discrete HTF fund accounts and Program implementation; one held and operated by the City of Duluth (“City”) and one held and operated by Local Initiatives Support Corporation (“LISC”).
- The City account will administered by the City, and the Program will be managed by the City and the Duluth HRA
 - o City of Duluth staff will engage builders and developer to participate in the Program and will assist with pre-application screening.
 - o The HRA will collect and review applications, underwrite and service all loans, coordinating closings, and produce any required reporting.
- The LISC account and Program will be administered and managed by LISC staff.
- The City account will be explicitly used in accordance with the Programs as outlined below.
- A HTF Review Committee (the “Committee”) will be established to review and approve any applications for the City Program requesting \$500,000 or more, any projects recommended by staff that present extraordinary circumstances not addressed in the program guidelines, and any use of the Flexible Multifamily Fund (described below). The Committee will have discretion to make exceptions if at least three HTF goals are met.
 - o The Committee will contain five members, including one City official, a LISC representative, the Executive Director of the HRA, and two positions appointed by the Mayor of Duluth.

City HTF Programs

The City HTF will be leveraged through two distinct programs, outlined below. These programs are designed to fill existing gaps in the housing financing market, and to achieve the following goals:

- Increase housing stock in Duluth, especially affordable* units.
- Invest in Duluth neighborhoods, making affordable units available citywide.
- Remove blight, improve safety and encourage pride in our neighborhoods.
- Leverage existing municipal infrastructure.
- Promote density wherever possible.

Program and application costs and fees will be determined as the underwriting processes is developed, but may include:

- Application fees
- Applicant title and closing costs
- Loan interest, as applicable

Note: In addition to the programs below, 25% of the total HTF will be set aside as a “Flexible Multifamily Fund” for larger, affordable multifamily projects. Eligible uses of the Flexible Multifamily Fund include no-interest construction financing, utility infrastructure costs, or blight removal, and may be matched with a grant component** if deemed appropriate by the Committee. Projects must request at least \$250,000 to be considered for this fund. Additionally, LISC may develop other loan products or programs in connection with the LISC Program.

Comprehensive Rehab & Conversion Program (CRCP)

The purpose of this program is to provide low or no-interest construction loan for projects needing substantial rehabilitation for which the existing limitations of HRA rehab programs prohibited complete renovation.

- Properties would include any single family or multifamily property up to 20 units, and any conversion project that would create up to 20 new units of housing
- Maximum loan amount = \$1,000,000.
- Loan would be for hard construction costs and would be repaid at time of permanent refinance.
 - The loan refinance (takeout mortgage) must be preapproved by a lender prior to CRCP closing and must occur within three months of issuance of the certificate of occupancy.
- Loan terms:
 - Interest rates:
 - Market rate project: 4-6%
 - Mixed income project: 2-5%
 - Completely Affordable project: 0-3%
 - Interest only payments until closing.
 - Maximum term is 18 months.
 - Term may be extended with Committee approval.
 - Grant component**
 - Projects that include affordable units are eligible to receive a portion of their loan proceeds as a grant. The amount of each grant is determined by the following factors:
 - Number of affordable units (as percentage)
 - Level of affordability
 - Duration of affordability
 - Affordable projects in non-LMI neighborhoods, as defined by HUD, will receive greater loan forgiveness.
 - Any loan with a grant component will require a recorded Agreement with the Applicant and annual reporting on rents.
 - Loans requiring a variance will not be considered.
- Example Scenario:
 - A developer acquires a multifamily structure in a non-LMI neighborhood that needs \$500,000 to rehab 10 vacant units. The developer agrees to provide 50% of the units at

70% of the area median income for 15 years, reducing their loan balance by \$122,500. The developer works with a participating lender to finance the take-out mortgage.

- This means we have secured five affordable units for 15 years at a subsidy of \$24,500 per affordable unit. This is less than the average amount of TIF assistance provided to secure affordable units in multifamily developments.
 - Context: Board of Trade consists of 17 affordable units and 67 market rate units at subsidy of \$1.8M (\$106,000/unit) and a total cost of \$20M.

Infill Development Program

The purpose of this program is to provide low or no-interest loan for new single family, accessory dwelling unit (ADU) and multifamily projects up to six units on infill sites city-wide.

- Use could be restricted to Specialized Improvement Areas or other priority areas identified in the City of Duluth Comprehensive Plan update.
- For single or multifamily projects:
 - The loan will cover construction only and must be refinanced or paid off within 45 days of the certificate of occupancy is issued.
 - The loan is based on costs provided by a licensed general contractor.
 - Applicant must show proof of permanent financing prior to closing.
 - Maximum loan amount is \$500,000 unless special approval is granted by the Committee.
 - Loan Terms
 - Applicant is required to provide a down payment of at least 7.5%.
 - Interest rates:
 - Market rate project: 4-6%
 - Mixed income project: 2-5%
 - Completely Affordable project: 0-3%
 - Interest only payments until closing
 - Maximum term is 18 months.
 - Term may be extended with Committee approval
 - Grant component**
 - Projects that include affordable units are eligible to receive a portion of their loan proceeds as a grant. The amount of each grant is determined by the following factors:
 - Number of affordable units (as percentage)
 - Level of affordability
 - Duration of affordability
 - Any grant requires a recorded Agreement between the Applicant and the City or LISC.
 - Affordable projects in non-LMI neighborhoods, as defined by HUD, will receive greater loan forgiveness.
 - Annual reporting evidencing affordable unit rents will be required.
 - Loans requiring a variance will not be considered.
- For ADU projects:
 - Program funds can be used to provide low-interest loan to purchase and install State approved, modular homes that comply with City of Duluth zoning and building codes.

- The loan amount is based on costs provided by a licensed modular company or provider.
 - Maximum loan amount is \$130,000
 - Interest rates are the same as single and multifamily projects.
- A lien will be placed against the modular unit, which can be detached and removed from foundation in event of loan default.
- There is no grant component for ADU's.

Notes:

*For the purposes of the HTF, “affordable” means unit rents or home sale prices that cost no more than 30% of the income of households earning 80% or less of the area median income, as published annually by Minnesota Housing Finance Agency.

**The availability of a grant component for a project is subject to the HTF fund balances and availability of the HTF to provide grants. It will be available on a first-come, first-serve basis.

