Affordable Housing Financing Fund

September 28, 2023

Proposition 123: Concessionary Debt Program LIHTC Gap Finance Guidelines

COLORADO
Office of Economic Development & International Trade

chfa

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Affordable Housing
Financing Fund

Contact
ConcessionaryDebt@chfainfo.com
ColoradoAffordableHousingFinancingFund.com

Proposition 123:
Concessionary Debt Program

The program provides subordinate debt financing to eligible for-profit and nonprofit entities, local governments including housing authorities, and tribal governments for the creation of affordable multifamily rental housing developed with federal Low Income Housing Tax Credits.

LIHTC Gap Finance Guidelines 09-28-2023

Eligible Projects	Developments that have received an award of Low Income Housing Tax Credits and/or Colorado state Affordable Housing Tax Credits but have not yet converted to permanent financing.
Program Benefits	• Subordinate gap financing • Below-market interest rates • Flexible repayment terms
Program Allocation	Program funding 15% to 35% of total Affordable Housing Financing Fund (AHFF) allocation
Eligible Borrowers	For-profits, nonprofits, governmental entities including housing authorities, and tribal governments
Program Limits	Maximum gap loan size is limited to 1.05 debt service coverage when considering all must-pay debt, 90% of value or total development cost in combination with all must-pay debt, or $6,000,000, whichever is less. Loans may be limited to lower dollar amounts during the first year of program funding.
Minimum Debt Financing	$400,000
Loan Repayment	Amortizing and non-amortizing loan structures available based on underwriting
AMIs Served	• 60% average AMI for all restricted units • Up to 25% of the development's units may be unrestricted but are excluded from eligible project financing

Collateral	• Loans will be collateralized by the project assets
Interest Rates and Fees	• 2.5% fixed rate • 1% origination fee • Standard loan closing costs
Affordability Restrictions	A Regulatory Agreement requiring affordability for the greater of the loan term or 20 years will be required.
Priorities	• High-density housing • Mixed-income housing • Environmental sustainability

This chart is intended only to highlight certain program requirements. Loans are subject to other requirements, including the CHFA Credit Policy and applicable operating and replacement reserve requirements. To view all program details, please read the program guidelines. Please note that the programs are subject to change.

Proposition 123: Concessionary Debt Program LIHTC Gap Finance Guidelines

Program Description and Eligible Projects

The Concessionary Debt Program (Program), as created by Proposition 123, provides gap financing for projects supported by federal Low Income Housing Tax Credits. To be eligible, projects must have received an award of credits, be able to demonstrate a financing gap, and have not yet converted to permanent financing. Shovel-ready projects that result in the construction of new units will be emphasized during the first year of program funding.

Program Benefits and Funding Allocation

The Program provides subordinate loan structures at below-market interest rates to help supplement the financing sources of LIHTC projects.

The total amount allocated to Concessionary Debt from Proposition 123 funding is limited annually to between 15% and 35% of the total available Affordable Housing Financing Fund.

Eligible Borrowers

A project that applies for funding from the Program must be located in the State of Colorado in a jurisdiction that has received approval through the Colorado Department of Local Affairs to participate in the Financing Fund. For-profit entities, nonprofit entities, government entities including housing authorities, and tribal governments with prior experience in developing affordable housing are eligible to apply.

Loan Terms and Conditions

Loans from the Program may be structured as construction and/or permanent financing. Permanent loans are eligible for loan terms up to 30 years unless the senior lender requires a term longer than 30. The minimum loan size is $400,000 and maximum size will be based on a debt service coverage ratio of 1.05 when combined with the senior loan(s), 90% of value or total development cost in combination with all must-pay debt, or $6,000,000, whichever is less. Due to limited funding during the first year of the program, CHFA may reduce the maximum loan limit. Applicants should be prepared for this in advance.

Amortizing and Interest-only repayment structures are available, with loan repayments structured to match repayment capacity. Unpaid principal and interest will be due at the earlier of re-syndication or maturity.

Interest Rate and Fees

Loans from the Program will have a fixed interest rate of 2.5%.

All loans will have a 1% origination fee with standard closing costs, including, but not limited to legal fees, third-party reports, and title costs.

Security Interest

Program loans will be secured by a second or third deed of trust and security agreement on the real estate and personal property, depending on where the loan is determined to be in the capital stack.

AMI Restrictions

Rents for the restricted units in projects financed through the Program must average 60% of Area Median Income (AMI) or below, as defined by HUD/CHFA. Up to 25% of units in a project may be unrestricted but would be excluded from project financing.

Affordability Covenants

All projects will be subject to a CHFA Regulatory Agreement which will require the units to be maintained and rented as affordable units according to the restricted income and rents of the project plan (and meet the AMI Restrictions average above). The Regulatory Agreement will be in effect for the longer of the loan term or 20 years. If the senior lender's affordability restrictions differ from these, the senior lender's restrictions will apply.

Geographic Distribution

Applications will be reviewed to ensure equitable distribution of funds.

Reporting

Projects will be subject to ongoing compliance.

Statutory Priorities

All applications will be evaluated with an emphasis placed on the following criteria:

- High-density housing evaluation informed by local density definitions and/or maximum allowable density when feasible based on local conditions
- Mixed-income defined as serving a broad range of income levels within the 60% average AMI.
- Environmental sustainability as defined below.

Application Submission

Projects must meet the three statutory priorities listed above in order to apply. Projects located in jurisdictions classified by the Division of Local Government as Rural are exempt from the Environmental Sustainability standards below. Projects in Rural Resort jurisdictions with fewer than 20 units, or Urban jurisdictions with fewer than 30 units are exempt from the Environmental Sustainability standards detailed below.

However, the exempted projects that do meet one or more of the following criteria will be considered more competitive and those achieving the most criteria will be most competitive compared to other projects that are exempt from the Environment Sustainability standards below.

1. Each of the following is required to meet the Environmental Sustainability standard.
    1. Certification from one of the following:
        - i. 2020 Enterprise Green Communities (EGC)
        - ii. Leadership in Energy and Environmental Design LEED v.4.1 (LEED)
        - iii. National Green Building Standards NGBS ICC-700-2020 (NGBS)
        - iv. Zero Energy Ready Homes standard (US DOE)

2. All-electric building using high efficiency electric appliances such as heat pumps and heat pump water heaters, or a mixed-fuel building that includes pre-wiring for efficient electric heating and appliances and includes pre-wiring to enable future installation of EV charging station(s) for at least 10% of parking spots or greater if required under local codes.
3. Utilize water efficient design inside and outside. Full guidance can be found at coloradowaterwise.org.
4. Locate developments within a half-mile of existing or planned transit corridors.

5. Applicants will need to detail plans to monetize federal tax credits (179D and 45L) through the Inflation Reduction Act and state incentives/tax credits such as the 10% state tax credit for heat pumps in their plans. Applicants that fail to demonstrate their use or evaluation of these public incentives will not be prioritized for funding.
6. Optional: If applicant has information regarding utility bills and the associated code and energy efficiency measures to achieve lower utility bills, including a commitment to estimated utility bill disclosure to prospective residents, please provide. Otherwise, this is not required.

2. Applications for funding will be accepted beginning September 18th through October 9th, 2023. Application requirements are outlined on the Proposition 123 website, coloradoaffordablehousingfinancingfund.com. Applications will be reviewed based on the following:
   1. Achievement of Proposition 123 priorities
   2. Readiness to proceed
   3. Financial feasibility
   4. Funding availability
   5. Geographic distribution
   6. Number of units created relative to local demand
   7. Leveraging private capital
3. Given funding limitations, it is possible the proposed funding is less than requested.
4. Following the application round, an additional round may be offered if funding is available.