

Affordable Housing Financing Fund

May 26, 2026

Proposition 123: Concessionary Debt Program LIHTC Gap Finance Guidelines



COLORADO
Office of Economic Development
& International Trade



Proposition 123: Concessionary Debt Program Low Income Housing Tax Credit (LIHTC) Gap Finance Guidelines

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 05-26-2026

Eligible Projects	Developments that have received an award of federal Low Income Housing Tax Credits but have not yet converted to permanent financing
Program Benefits	<ul style="list-style-type: none"> • Subordinate gap financing • Below-market interest rates • Flexible repayment terms
Program Allocation	Program funding is 15% to 35% of total Affordable Housing Financing Fund allocation
Eligible Borrowers	For-profit, 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, 10% of the total project costs, or \$6,000,000, whichever is less.
Minimum Debt Financing	\$400,000
Loan Repayment	Amortizing and non-amortizing loan structures available based on underwriting
AMIs Served	<ul style="list-style-type: none"> • Not to exceed 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	<ul style="list-style-type: none"> Loans will be collateralized by the project assets
Interest Rates and Fees	<ul style="list-style-type: none"> 2.5% fixed rate (inclusive of CHFA servicing fee) Standard loan closing costs
Affordability Restrictions	A Regulatory Agreement requiring affordability for the greater of the loan term or 30 years will be required.
Priorities	<p>Statutory Priorities</p> <ul style="list-style-type: none"> High-density housing Mixed-income housing Environmental sustainability <p>Strategic Policy Priorities</p> <ul style="list-style-type: none"> Shovel-ready projects that result in new units Use of modular/offsite building technology produced in Colorado Inclusion of home-based or commercial child care facilities Geographic diversity

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.



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Program Description and Eligible Projects

The Proposition 123 Concessionary Debt LIHTC Gap Program (Program) 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 prioritized. LIHTC Gap loans will be funded either at the construction loan closing or permanent loan closing. **If a project is already under construction or has already closed on the project's senior construction financing at the time of the Program award or prior to the approval of the Program award, the Program loan will fund at permanent loan closing.**

Program Benefits and Funding Allocation

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

The total amount allocated to Concessionary Debt from Proposition 123 funding is limited annually to between 15% and 35% of the State's 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, government entities including housing authorities, and tribal governments with prior experience in developing affordable housing are eligible to apply.

Governmental entities should consider TABOR compliance issues before applying for Program funds, as evidence of TABOR compliance will be required if a Program award is made to a governmental entity. Given the complexities navigating TABOR requirements, governmental entities seeking Proposition 123 Concessionary Debt may want to consider partnering with a local nonprofit or housing authority to own and operate the property.

Loan Terms and Conditions

Loans from the Program may be structured as construction-to-permanent or permanent financing. Construction loans will only be funded in full at the close of the senior construction financing. If the project has already closed on the project's senior construction financing, the Program loan may only fund at permanent conversion. 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), 10% of total project costs, or \$6,000,000, whichever is less.

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 refinance, sale, or maturity.

Projects must maintain a financing structure that is consistent with Program requirements and the transaction as presented in the application and underwriting materials. Substantive changes to the project after application, award, or loan approval - including changes to the borrower, ownership structure, capital stack, financing terms, collateral, project scope, or timeline - may require additional review and approval and may jeopardize the award or financing commitment.

Interest Rate and Fees

Loans from the Program will have a fixed interest rate of 2.5% (inclusive of CHFA servicing fee).

Standard closing costs, including but not limited to 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 determined by the U.S. Department of Housing and Urban Development (HUD) and published by CHFA. Up to 25% of units in a project may be unrestricted but would be excluded from project financing. Rents will be underwritten to at least a 3 percent discount to local market rents as determined by the senior construction lender's appraisal.

Affordability Covenants

All projects will be subject to a Regulatory Agreement which will require the units to be maintained and rented as income-qualified units for the longer of the loan term or 30 years. The agreement will designate the property as a "qualified property" according to C.R.S. 29-4-1202 and establish a right of first refusal with the local government prior to the expiration of the agreement.

Reporting

Projects will be subject to ongoing compliance including audits of new resident income verification, annual financial reports, and periodic physical inspections.

Statutory Priorities

1. High Density - Project is high density and/or meets the maximum allowable density as informed by local definitions of high density, and what is feasible based on local conditions.
2. Mixed Income - Project serves three or more income levels within the program-specific funding guidelines.
3. Environmental sustainability - Project meets the environmental criteria below:*)
 - a. Certification from one of the following:
 - i. Enterprise Green Communities Certification Plus
 - ii. Enterprise Green Communities
 - iii. Zero Energy Ready Homes
 - iv. Energy Star NextGen Certification
 - v. National Green Building Standards
 - b. Projects located in jurisdictions that have not adopted the 2021 or higher International Energy Conservation Code may opt out of the certification if they commit to using the 2021 or higher IEC and State Model Energy and Solar Ready codes when they develop the units. **Note:** Per C.R.S. §6-7.7-101, on or after January 1, 2025, all state-funded projects with new units are required to use Energy Star appliances.

- c. Projects within Transit-oriented Communities (TOC) as defined by C.R.S. §29-35-210 must be within the Transit Area or Optional Transit Area as designated on the TOC Map found at dlg.colorado.gov/transit-oriented-communities. Projects not located in a TOC but located within one half mile of a regularly scheduled transit stop or a community center where jobs and services are located may also be prioritized.
- d. All projects must have water efficient design inside and outside. Full guidance can be found at coloradowaterwise.org.
- e. All projects must monetize eligible federal or state energy efficiency tax credits and rebates to the extent such credits are available when the project commences. Visit chfainfo.com/rental-housing/colorado-multifamily-electrification-hub to determine which funding source fits your project.
- f. Projects must report utility costs and performance to the Energy Star Portfolio Manager system at portfoliomanager.energystar.gov.

*Waiver: If a project cannot meet one or more of the Environmental Sustainability requirements described above, it may present an alternative standard or request a waiver. The waiver will need to be justified with documentation demonstrating the following: increased cost, lack of contractor knowledge (rural), limited location options (rural), or other barriers.

Strategic Policy Priorities

Priorities are subject to change based on the direction of the Governor of Colorado.

1. Shovel Ready - Projects that demonstrate they will begin construction quickly based on their status in the project timeline and factors such as compliance with zoning, entitlements, and construction plans, among other factors.
 - a. All underwriting diligence must be submitted within 4 months of the term sheet issuance date.
 - b. To determine shovel readiness, each project will be evaluated based on the number of due diligence items from the list in the appendix submitted with the application, especially those with long lead times.
2. Use of off-site building technology - Projects that use manufactured modular/off-site building technology that is reasonably cost-competitive compared to traditional construction methods. Colorado based production will be prioritized over out of state produced units.
3. Inclusion of child care - Projects that include home-based childcare units or commercial childcare facilities.* Visit <https://cdola.colorado.gov/child-care-facility-development-toolkit> for resources.
4. Geographic diversity - Projects across the state that present geographically diverse funding opportunities, enabling the AHFF to fund a wide variety of projects located in larger urban areas, smaller cities and towns, and rural, rural resort, and tribal areas.

*Please note that commercial facilities are not eligible for AHFF financing, although limited exceptions exist for commercial and mixed-use development within affordable housing projects that meet program-specific criteria. Please contact CHFA for additional information.

Application Submission

Projects must meet the three statutory priorities listed above to apply and will be prioritized based on compliance with the Strategic Policy Priorities listed above.

Application requirements are outlined on the Affordable Housing Finance Fund website at coloradoaffordablehousingfinancingfund.com/concessionary-debt/lihtc-gap-finance.

Applications will be reviewed based on the following:

- a. achievement of the Statutory and Strategic Policy Priorities listed above
- b. geographic distribution
- c. financial feasibility
- d. readiness to proceed
- e. number of units created relative to local need/demand
- f. leveraging private capital

Applicants are expected to provide sufficient information for the application reviewer to understand the full structure of the proposed transaction, including the borrower, sponsor, ownership structure, development phases, funding sources, expected closing sequence, and any unusual legal, financial, or organizational features. Incomplete or unclear information may delay review, require additional conditions, or affect the ability to proceed with an award or loan approval.

Applicants should present realistic development and closing timelines that account for underwriting, legal review, third-party reports, and coordination with other funding sources. The ability to close on a borrower's preferred timeline depends on timely receipt of complete and satisfactory due diligence materials. Delays in third-party reports, approvals, transaction structure, or material deal changes may affect the anticipated closing schedule.

Due Diligence List

- Project Narrative, including a description of each financing source, anticipated collateral, borrower ownership structure, anticipated project timeline, legal description, and any other unique circumstances regarding the project, such as existing affordability restrictions.
- As-Complete Property Appraisal - preferably from the construction lender
- Third-Party Market Study
- Location Map, including Flood Plain Information
- Evidence of Zoning
- Land/Topographic Survey (ALTA)
- Initial Title Work with ALL Exceptions
- Final Site Plan with approval from Local Authority
- Sponsoring Entity Financials
- Evidence of Site Control or Ground Lease
- Funding Commitments, Equity Commitments, Pledges, TC Investor, etc.
- Property Insurance Quote
- Entity Organizational Docs: Articles of Inc. and Bylaws for Sponsor; Partnership Agreement and/or Operating Agreements for the Borrowing Entity
- Lender/Funder Certification and Acknowledgement Form from each funder providing resources to the project's capital stack
- Final Organizational Chart for Recipient Entity, including the individual Principals, Property Manager and GC
- Development Team Profiles
- Property Management Contract
- Property Management Plan
- Standard Lease Agreement
- Utility Allowance Schedule
- Phase I Environmental Assessment (and Phase II if necessary)
- Soils/Geotechnical Report
- Plans and Specs/Complete Scope of Work with Cost Detail (Due to large file sizes - Do not submit plans and specs with your application)
- Construction Schedule
- AHFF Cost Summary
- Initial Draw Schedule
- Draft GC Contract

