City of Detroit

Section 108 Housing Loan Pool Guarantee Application

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Submitted by the Housing & Revitalization Department

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I. Statement of Need

Quality, stable, and affordable housing is a cornerstone of opportunity and a central part of Detroit's journey forward. Like in cities across the country, finding such housing is becoming increasingly difficult for many low- and middle-income Detroiters. Mirroring a national housing crisis, many Detroiters making up to $75,000 are housing cost-burdened, paying more than a third of their income on rent. Even with decent jobs, rising housing costs compared to wages affects everyone from social workers and pre-school teachers to police officers and construction workers.

In 2018, Detroit released a Multifamily Affordable Housing Strategy that called for the preservation of 10,000 units of affordable housing and creation of 2,000 new units. Detroit achieved and surpassed these goals, leveraging $87 million of City investment into over $1 billion invested in affordable housing in the last five years alone. The City's focus on affordable housing, through reuse of City land, tax incentives, direct investment, and strategic advocacy with other funders and stakeholders, has helped to create considerable momentum for housing development and a sizeable pipeline of deals.

Housing Affordability Challenges

Despite this progress, access to affordable, quality housing still remains a challenge for many Detroiters across the income spectrum. Some of the factors affecting residents' housing needs and the City's ability to meet them are longstanding; others have emerged in recent years. In 2024, the Census Bureau estimated that the city's population had grown by nearly 2,000 residents between 2022 and 2023, marking a reversal of decades of population loss. As Detroit begins a new chapter of growth, its housing stock and the housing market are evolving.

Housing prices in Detroit are increasing but remain low by regional and national standards. Rents have grown by an average of 4.5% annually in Detroit since 2019. Median gross rent was $1,043 in Detroit in 2023, compared to $1,183 in the Metro Detroit area and $1,406 nationally. While housing costs in Detroit are low compared to the surrounding region, housing affordability remains a major challenge due to the lower incomes of many Detroit households. Around 60% of households who rent earn $35,000 or less annually. At the same time, the number of moderate-income households has increased since 2010, with 14,000 more households with incomes up to $100,000 calling Detroit home as of 2021. Consistent with national trends, many residents across income levels are struggling with housing affordability, with a little more than half of Detroit renters in 2022 paying 30% or more of their income on housing costs. Rising housing costs impact household well-being by leaving fewer resources for other critical expenses such as food, transportation, and childcare.

Affordable Housing Development Climate

Detroit's development community is tackling these challenges with a growing pipeline of housing projects comprised of a variety of development types. A total of 68 projects containing 3,800 units are in pre-development, with anticipated construction start in the next year.

Unsubsidized Affordable Housing

Generally, market rents in Detroit are not high enough for developments to proceed without any government support. Limited revenue combined with Detroit's relatively high property tax rate means that nearly all projects rely on tax abatements. Generally, the abatements freeze or reduce taxable value for a period of 10-15 years, and include an affordability component of 20% expected through Detroit's Inclusionary Housing Ordinance. These deals may also utilize other state-level economic development tools such as Brownfield grants, Tax Increment Financing, Michigan Community Revitalization Program (MCRP) and the Revitalization and Placemaking Program (RAP). Post-COVID, only a small handful of Detroit development projects can count on gap resources from the State of Michigan, as those resource pools are dwindling and as they compete with other projects in municipalities facing the same issues.

One recent local change the City has made to support these deals is a stronger tax incentive. In 2024, Detroit expanded access to the Payment In Lieu of Taxes (PILOT) exemption that replaces ad valorem taxes based on property value with an annual service charge based on a percentage of rental revenue. Previously only available for projects with state or federal subsidy, like LIHTC or Section 8, PILOT can now apply to any rent-restricted housing, providing a deeper tax cut and a longer term than traditional tax abatements. Expansion of this program has created a new pipeline of non-LIHTC housing projects with 100% affordability – as of April 2025, the City has received applications for 78 projects totaling 3,904 affordable units. While the PILOT is a powerful tool, developers continue to face challenges assembling a complete capital stack.

There are a number of other tools available to non-LIHTC developments through local community development financial institutions (CDFIs). Notable are Invest Detroit's Strategic Neighborhood Fund (SNF), which focuses on revitalization of targeted commercial corridors in Detroit's neighborhoods, and Detroit Local Initiatives Support Coalition (Detroit LISC)'s Detroit Housing for the Future Fund (DHFF), which provides low-interest loans for pre-development and construction of affordable housing. DHFF has seen the greatest impact in acquisition/rehab transactions of existing vacant and occupied naturally occurring affordable housing (NOAH). Both funds were launched in partnership with the City and capitalized with support from philanthropy and local banks, and are dependent on ongoing fundraising activity.

Subsidized Affordable Housing

Detroit's development pipeline includes 34 Low Income Housing Tax Credit (LIHTC) deals totaling 1,900 affordable units, including 387 units of permanent supportive housing. Bringing these developments to bear, however, is a challenge in itself. Construction costs remain high while funding sources are limited and increasingly competitive. The City's "baseline" tools for funding affordable housing include HOME, CDBG, and a local Affordable Housing Development & Preservation Fund (AHDPF) that are offered through bi-annual competitive funding rounds and used as gap funding for LIHTC deals. Together, these sources combine for an estimated total of $8-9 million in gap funding available in a typical year. Since 2021, a suite of COVID-19 related recovery programs -- including American Rescue Plan Act (ARPA), CDBG-CV, and HOME-ARP – have helped address the dramatic cost increases by increasing the pool of gap funding and "un-sticking" the many deals that stalled during the early years of the pandemic. But now, with these tools nearly fully expended, costs remaining near record highs, and economic conditions looking increasingly uncertain, more developments are again stuck. In addition, softening in the tax credit market has reduced equity pricing for LIHTC deals and exacerbated the funding gaps.

The City is tackling these problems with other local tools. The updated PILOT ordinance described above reduces the percentage of revenue paid for LIHTC projects from 4-10% to 0.5-1%, which allows projects to increase their net operating income and leverage additional permanent debt to reduce gaps.

Given these conditions and changes, it is critical that Detroit pursue new and creative approaches to financing the development of affordable housing, and that the City approaches this issue with the same level of urgency and dedication as it has shown since 2018. The charge is simple: create more affordable housing — quickly, at all income levels — so that the Detroiters who stayed do not get pushed out as the city continues to grow.

Looking towards the future

In 2025, the City is releasing an updated Detroit Affordable Housing Strategy. The strategy focuses on preserving and constructing affordable housing, reducing barriers to increasing housing supply, and simplifying processes that connect affordable housing to residents. A key element of the strategy is leveraging new federal funding sources that will improve housing quality and long-term viability of the City's housing stock.

New loan authority through the Section 108 Housing Loan Guarantee program is one such source that could be incredibly valuable to increase the supply of affordable housing. However, Detroit does not propose to use Section 108 as gap funding that will require reliance on future CDBG allocation for repayment; as a city with a poverty rate of over 30% still recovering from decades of disinvestment, Detroit already stretches its CDBG each year to address critical neighborhood and resident needs. The City's proposition for the Section 108 Housing Loan Pool is to use CDBG to leverage, rather than subsidize, our 108 program, bringing more low-cost capital to both subsidized and unsubsidized affordable housing to reduce the cost of borrowing, making deals more feasible and allowing Detroit to conserve its limited gap funding resources. These loans are designed to layer and complement existing tools, such as the expanded PILOT, Detroit Housing for the Future Fund, and Strategic Neighborhood Fund.

II. Program Overview

The City of Detroit wishes to establish a Section 108 Loan Pool of $75 million to address these market challenges. The program will advance the City's goals of affordable housing production and the creation and stabilization of healthy mixed-income communities with a rich array of amenities and strong local economies. These goals are aligned to both the City's 2025 Affordable Housing Strategy and the City's 2025-2029 Consolidated Plan. The program will also align with the overarching goals of the CDBG program to provide benefit to low- and moderate- income persons, aligned with the Low-Moderate Income (LMI) Benefit National Objective (24 CFR 570.208(a)(3), and aid in eliminating slum and blight, aligned with the Slum/Blight National Objective (24 CFR 570.208(b)(1)), outlined in further detail in Section VI.

The Loan Pool will provide a ready source of low-cost financing for development projects including affordable, mixed-income and mixed-use development. It will be available to projects Citywide, but will prioritize projects that fall into the City's Targeted Multifamily Housing Areas or designated Neighborhood Revitalization Strategy Areas (NRSA). The Loan Pool will support acquisition, eligible soft costs, rehabilitation, and new construction for qualified Community Based Development Organizations under the CDBG program regulations (24 CFR Part 570).

Detroit proposes to offer four different loan products to meet the needs of a variety of development stages, financial circumstances, and project types. Anticipated products include acquisition loans, senior and subordinate construction-to-permanent financing, and equity bridge loans, outlined in further detail in Section IV. The City's underwriting standards will focus on reducing risk to HUD and the City to minimize reliance on future CDBG as a repayment source. Underwriting standards will generally align to HUD's Section 108 Loan Underwriting Guidelines for Income Producing Properties, outlined in further detail in Section V.

The funds will be disbursed over a six-year period and will have terms ranging two to twenty years. The short-term nature of some of the loan products allows for reallocation of funds within the six-year disbursement period, allowing for an estimated total impact of up to $114 million dollars. The full pool amount, $75 million dollars, will be made available in the coming fiscal year but will be disbursed on an individual loan basis, following approval by City Council.

The different loan products will be targeted to a variety of development types, including both occupied and unoccupied structures. Projects involving occupied rehabilitations will provide Tenant Retention Plans to be approved by the City of Detroit Housing and Revitalization Department.

Per the core principle and requirements of the Section 108 program, the primary source of security for the Section 108 loans will be the City's current and future CDBG allocations. As it is a primary goal for Detroit to protect its future CDBG for other eligible programs, the City does not intend to pledge grants or CDBG funds to pay fees. Risk reduction will be achieved through strong additional collateral requirements for each loan issued. Acceptable sources of collateral will include liens on the subject property; liens on additional real property held by the project developer; personal guarantees by developers; third party guarantees; and established debt service reserves. Section V details the types of collateral the City will accept for different loan products and project types.

It is a priority for Detroit to maximize the value that the Section 108 loans bring to the developments by passing through the minimum interest rates set by HUD to the projects. In this way, the Section 108 loans will fill the need for low-cost capital in the housing funding ecosystem, and will reduce project gaps that in turn allow Detroit to make more efficient use of its gap funding sources, including its annual HOME and CDBG allocations and local Affordable Housing Development & Preservation Fund. In lieu of an additional interest spread, the City will include a closing fee set as a percentage of loan principal, with proceeds used to defray administrative costs of program implementation.

Detroit's Housing & Revitalization Department (HRD) will lead program implementation and establish a delivery system for each process component, including marketing, threshold review, underwriting, approving, closing, disbursement and asset management. HRD will directly manage marketing, release of funding availability, and threshold review for eligibility. Approved eligible projects will be moved to underwriting by a contracted third party who will underwrite the project according to the established underwriting standards, with costs billed to the project. Organizational structure and implementation process is detailed further in Section III.

III. Organizational Structure and Process

Detroit's Housing & Revitalization Department (HRD) will lead program implementation. HRD will directly manage marketing and release of funding availability. After the City receives HUD approval for the loan pool, HRD will prepare and release a Notice of Funding Availability (NOFA) that will accept applications on a rolling basis.

Applications & Threshold Review

The application form for the City's Section 108 Housing Loan Pool will be created in the City's data and application management portal (currently *Neighborly*). When applications are received, HRD's Housing Underwriting (HU) team will screen the projects for initial eligibility and develop Threshold Memos that summarize the proposed project, alignment with program goals, eligibility per CDBG and Section 108 standards, and project viability. These memos will be presented at a Section 108 Review Committee. This committee will consist of 3 representatives from the City of Detroit; 1 representative from the Detroit Economic Growth Corporation, the City's quasi-governmental economic development agency; and 3 external stakeholders from local community development financial institutions (CDFIs) and philanthropic organizations. Committee meetings will be held bi-monthly to review Threshold Memos followed by a vote by committee members on whether to move projects into underwriting. A Letter of Interest will be issued to projects that pass threshold review. The letter will notify the developer of their responsibilities during underwriting, including the next stage of documents required for submission. It will detail an "up to" award amount, eligible uses of Section 108 funds, standard terms, and clarification that the project will also need to obtain final approval of the award by the Section 108 Investment Committee and Detroit City Council. Denial letters are issued for projects that do not pass threshold review.

Underwriting Stage

Projects that have been approved through the Section 108 Review Committee will be moved to the underwriting stage. Underwriting will be assigned to a third-party contractor selected competitively by the City, who will work directly with the project applicant to collect additional information and underwrite the project according to the established and HUD-approved program standards. Additional detail on underwriting standards can be found in Section V.

At the onset of underwriting, applicants will meet with HRD's Environmental Review team for a project kickoff. An Environmental Review Memo will be provided, outlining the next steps required in order to obtain environmental clearance. Applicants will also meet with other key compliance teams, including Labor Standards, Construction Management, and Preservation Team to ensure they are prepared to comply with all cross-cutting standards including NEPA, Davis-Bacon and Related Acts, Build America Buy America (BABA), and the Uniform Relocation Act (URA) where applicable.

Underwriters will review the project against criteria described in Section V, including eligibility, project readiness, borrower experience & capacity, borrower financial capacity, detailed project financial analysis, and collateral / security. The project underwriter will prepare a final term sheet and credit memo to be presented at Investment Committee for approval. The credit memo will include a summary of the project and information on proposed eligible activities; summary of capacity of project team; detailed sources and uses; analysis of financial viability; analysis of proposed scope of work; proposed loan terms; proposed collateral structure; compliance information related to all applicable local and federal requirements; and other relevant details.

Investment Committee

The City will assemble a Section 108 Investment Committee, including representatives from HRD, Office of the Treasury, Office of Development & Grants, and external stakeholders with experience in underwriting housing development projects. The project underwriter will bring prepared Credit Memos to the Section 108 Investment Committee for review and vote to determine recommendation for approval to move projects forward to City Council.

City Council

Projects that are recommended for approval by the Section 108 Investment Committee will be moved forward to City Council. HRD staff will prepare a resolution that details the project activities and source of funds so that the project may be placed on the Council agenda. Development projects are referred by the Council of the Whole to the Planning & Economic Development Committee, and must then be referred out of committee for a formal vote.

If there are significant updates to the project's capital stack or other project details between the credit memo and project financial closing, contracted underwriters may produce an optional closing memo to be presented at Investment Committee.

HUD Review

Projects approved by City Council will be presented to the HUD Detroit Field Office for approval prior to being packaged for closing.

Closing

Following City Council and HUD approval, an HRD underwriter will be assigned to assemble a closing checklist and move the project to financial closing. HRD Underwriting staff will engage the City Law

Department, and/or outside counsel where limits on internal capacity require, to prepare loan documents. Where outside counsel is engaged, legal costs will be absorbed by the project.

Disbursement

After closing, HRD will manage the disbursement of funds per the terms of the loan and payout schedule. If Section 108 funds are used for construction, HRD's Construction Team will perform regular inspections, review hard cost draws, and review reimbursement requests in coordination with third party underwriter and HRD compliance staff.

Closeout

Following project completion, HRD staff will collect necessary data to close out all Section 108 activities associated with the project in IDIS and assemble a final closeout file.

Asset Management and Loan Servicing

After loan closing, responsibility will be transferred to HRD's Asset Managment team. This team oversees housing projects with City investment through a system of regular project reviews that examine how projects sustain provision of quality affordable housing and amenities over time. Reviews consider physical and financial condition, as well as how and whether borrowers are continuing to meet ongoing eligibility requirements. This team has existing internal structures and manages external contractor capacity to support these functions.

After Section 108 loan activities are closed out in IDIS, assigned Asset Managers will onboard the loans to the City's internal tracking system and its third party loan servicer for invoicing and payment management. Repayments will be receipted as Section 108 Income and used for repayment of HUD loans. Asset Managers will conduct regular reviews of Section 108 projects with active loans including information on project conditions, to be presented at Asset Review Committee. The Asset Management team will develop a tiered system of interventions to address underperformance of any Section 108 loans and will work with borrowers early and often to correct any identified cash flow issues.

IV. Loan Products

Detroit will consider for its Section 108 Housing Loan Pool any development projects that address the City's residential and economic development needs, and can meet CDBG National Objectives and Eligible Activities. Within that Loan Pool, Detroit proposes using four distinct loan products designed to address needs of different segments of the City's housing market and development pipeline.

1. Aquisition Short-Term Loan
2. Aquisition Mini-Perm Loan
3. Senior Construction-to-Permanent Loan
4. Equity Bridge

To support Detroit's goals for the program, several key loan terms will be applicable to all four loan products:

- In the interest of translating the maximum value to projects of the Section 108 program as a low-interest loan program, the variable and fixed interest rates set by HUD will be passed through to the project loans. No additional spread is proposed over the HUD loan interest rates
- To defray costs of program administration, in addition to closing fees required and issued by HUD, the City will charge an additional 0.80% at the point of closing.
- Projects involving occupied rehabilitations will provide Tenant Retention Plans to be approved by the HRD.

The sections that follow provide additional detail about each of the four proposed loan products including a "target" development type. Note that products will not be restricted to any particular projects based on their financial structure or other characteristics; the "targets" simply describe the development type that will see the greatest value-add through utilization of the respective products.

Acquisition Short-term Loan

To increase access to capital in targeted investment areas, acquisition loans will be available to both for-profit and non-profit developers to acquire properties for development. These loans will provide critical early-stage capital at low-cost, allowing developers to conserve resources for other pre-development needs. The standard term will be 24 months, though at the City's option, up to two extensions may be granted for up to 3 months each. Payments will be interest only with principal due at maturity. A loan interest reserve will be required for the full term of the loan. Loans will be collateralized by the subject property, other real property held by the borrower, and in some cases a guarantee or debt service reserve held by a third party. Borrowers will be required to demonstrate an achievable path towards closing on construction financing within 24 months of closing. Short-term Acquisition Loans will be marketed for unoccupied structures where acquisition presents a barrier but does not represent an outsized portion of the total development cost, with loan sizes from $500,000 - $2,000,000. The total proposed for this product within the loan pool is $5,000,000. The combination of 24-month term allowing for recycling of funds and relatively small loan sizes will allow for an estimated disbursement of up to $12,000,000 for 12 projects within a 6-year period.

Acquisition Mini-Perm Loan

Longer-term financing inclusive of other eligible soft costs will be available as an acquisition mini-perm loan. Borrowers must demonstrate other committed sources to cover the cost of any needed renovations as demonstrated by a Capital Needs Assessment. These loans will be offered as subordinate or Pari-Passu loan structures to maximize the amount of debt serviceable by the property. Loans will be based on the appraised value of the building with a maximum LTV of 80% (or up to 90% on a case-by-case basis as approved by the Investment Committee). The lower interest rate as compared to conventional sources will help to reduce reliance on gap financing sources. The debt may be collateralized by a 1st or 2nd position mortgage, an assignment of leases and rents (ALR), and developer personal guarantees. Repayment will be based on a 15–20-year amortization and 7-year term, with up to 24 months of interest only payments. Reimbursement of eligible soft costs may occur at closing and construction start; in other words, this is not a loan to cover pre-development costs beyond acquisition. Loans may range from $1,000,000 to $5,000,000, with total $25,000,000 of the Loan Pool anticipated for this product type. This loan product is targeted for occupied mixed-use and residential buildings undergoing renovations, where acquisition and soft costs represent a larger portion of the total project cost in order to translate to significant interest savings across the project.

Senior Construction-to-Permanent Loan

Detroit will provide first position construction-to-permanent loans that reduce gaps by using low-cost senior loans to maximize the debt. This loan product is expected to work most effectively with Low Income Housing Tax Credit (LIHTC) projects that are leveraging other federal sources, including permanent supportive housing and/or other deals with project-based rental assistance. This benefits Detroit and its residents by helping to spread City resources further to expand income-based affordable housing options. Rehab/construction work must comply with Davis-Bacon labor standards requirements. New construction will only be allowed if the borrower qualifies as a Community-Based Development Organization (CBDO). The term will be up to 20 years, with up to a 40-year amortization, and up to 24 months of interest only payments. Loans will be secured with a 1st position mortgage, ALR, and certain guarantees that will not jeopardize the syndication of Low-Income Housing Tax Credits. Construction loans may range from $5,000,000 to $15,000,000, with permanent loans post-conversion estimated to range from $1,000,000 to $5,000,000. A total of $25,000,000 of the Loan Pool anticipated for this product type.

Equity Bridge Loan

With the intent of increasing the amount of tax credit equity generated by Detroit projects, the City will use S108 funds to bridge up to 90% of capital contributions derived from the syndication of LIHTC (and potentially other types of tax credits) for up to 60 months. By delaying the infusion of capital, the City anticipates that equity pricing could increase by as much as 12 – 15%, enough to defray the added cost of the loan and reduce need for soft gap financing sources. These loans will be secured by a mortgage, an assignment of the borrower's interest in the tax credits, an ALR, and certain guarantees. The City loan origination fee will apply. The equity bridge loan is designed to pair with the senior permanent construction loan. Loan size may range from $5,000,000 - $15,000,000, with a total of $20,000,000 available within the Loan Pool. While these loans will represent the largest within the Loan Pool, the five-year term will allow them to recycle multiple times within the maximum 20-year term of the Section 108 program.

A summary of the key terms, estimated loan sizes, total amount available within the Loan Pool, and disbursements for each product type are included in Attachment C.

V. Underwriting Standards

The City of Detroit is proposing strict underwriting criteria to ensure: that projects are financially viable, projecting sufficient cash flow to support repayment; that development teams have the capacity and experience necessary to deliver them; that projects are sufficiently collateralized to reduce risk to the City and HUD. These criteria are closely aligned to HUD's Section 108 Underwriting Guidelines for Income Producing Properties (2017). The sections that follow provide additional detail on how applications will be evaluated at both threshold stage and underwriting stage.

Threshold Review

At threshold review stage, projects will be evaluated to determine if they satisfy the feasibility and readiness considerations and are eligible to continue to underwriting. Threshold review will include the following components:

Eligibility Review

- Project's alignment with CDBG national objectives, eligible activities, and public benefit standard if applicable
- Allowability of loan amount requested based on loan product type and loan amount range
- Eligibility within a Targeted Multifamily Housing Area (TMHA) and/or Neighborhood Revitalization Strategy Area (NRSA)

Project Feasibility & Readiness

- Project and site readiness, based on zoning designation and any land use regulations; whether or not the proposed project will require hearings or approvals
- Presence of site control by the borrower in the form of either recorded ownership information, sales or purchase agreement and lease or ground lease
- Summary of findings from Phase I Environmental Site Assessment, including whether Phase II is required
- A Property Condition Assessment (for acquisition short-term and acquisition mini-perm loan products)
- Confirmation of Trade Payment Breakdown prepared by licensed general contractor and alignment with proposed scope of work

Borrower Experience & Capacity

- Overview of the history and management capacity of the borrower, demonstrating experience with at least one like-project of similar
- The organization structure of the borrower (must be one of the ownership structures considered by HUD to be acceptable for 108-funded projects) and confirmation that key principal(s) are legally authorized to do business in the United States
- Review of Debarment, Suspension, Ineligibility and Voluntary Exclusion Certification and search for eligible status of the members of the development team in the federal System for Award Management (SAM).

Borrower Financial Capacity and Creditworthiness

- Initial review of financial capacity of the borrower and/or its key principals, demonstrated through financial statements, schedules of holdings, tax returns, bank statements, and/or other documentation
- Initial assessment of borrower creditworthiness based on project financials and may be supported by credit reports, credit scores, verification of employment and past bankruptcies, if any, for the key principal(s).

Project Financial Viability

- Analysis of project development pro forma, including:
  - Sources and uses
  - Rent roll (current and/or projected)
  - Project capital development budget
  - Operating income and expense budget with 20-year NOI projection
  - Replacement reserves at $300 per unit per year
  - Cash flow analysis, including NOI to debt-service
  - Actual Income and Expense statements for previous two years, if existing development
  - Loan sizing analysis:
    - Short-term acquisition loan: LTV ratio of 80% (exceptions may be granted with provision of additional collateral and based on seniority of loan, and other relevant terms)
    - Acquisition mini-perm loan and senior permanent construction loan: lesser of debt coverage ratio of 1.15 or LTV of 80%
    - Equity bridge loan: Maximum loan size of 90% of credit equity (may later be adjusted downward due to tax credit adjusters in partnership agreement)
  - Construction loan draw schedule (for senior construction loan and equity bridge loan) and confirmation of sufficient construction loan interest reserve
  - Loan amortization schedule consistent with City's established loan terms:
    - Senior construction loans: up to 20 year term, up to 40-year amortization, up to 24 month interest only period
    - Acquisition mini-perm loans: up to 7 year term, up to 15 year amortization
    - Short-term acquisition and equity bridge loan: Wil require Interest reserve will be used to cover the interest payments over projected term
  - Equity contribution – up to 10% equity contribution may be required for acquisition short-term loans if the loan amount exceeds 80% Loan to value ratio
- Letters of Intent committed by other lenders/investors into the project
- Initial review of cost reasonableness by HRD Construction Team

Collateral and Loan Repayment Guarantees

- Sufficient collateral proposed to secure the loan, including but not limited to real estate, cash, equity, letters of credit, and personal guarantees
- Borrower's willingness to fulfill all current and previous obligations and review of any past performance requiring legal action

Table 1: Preferred Collateral and Guarantees by Loan Type

Loan Type	Collateral	Guarantees required	Type?
Short term acquisition Loan	1st position mortgage, Repayment Guarantees	Repayment, interest reserve	Recourse
Acquisition mini-perm loan	Subordinate mortgage, Repayment Guarantees, Assignment of Leases and Rents	Repayment, completion, replacement reserve	Recourse
Senior construction-to-permanent loan	1st Position mortgage, Assignment of Leases and Rents	Completion, replacement reserve, conditional repayment	Non-Recourse
Equity bridge loan	1st position or subordinate mortgage, Assignment of Leases and Rents, Assignment of Tax benefits	(Add-on to senior financing)	Non-Recourse

Underwriting process

For projects that are moved to the underwriting phase, projects will be subject to a deeper and more detailed review of the same key criteria. This review will be conducted by third party contracted underwriter(s) selected based on expertise in underwriting for affordable housing development.

Eligibility Review

Review and confirm all components of eligibility within threshold review.

Project Feasibility & Readiness

Review and confirm all components of project feasibility & readiness within threshold review; and:

- Assess market readiness to determine the likely demand for the unit type being offered, expected occupancy rates, cost burdens, which may include consideration for the use of other local incentives
- Commission a property appraisal and evaluate the as-is and/or as-completed market value of the property
- Coordinate signed completion of environmental review with HRD Environmental Review team and Authority to Use Grant Funds
- Confirm a professional ALTA/ASCM survey including legal description of the property
- Confirm title insurance policy is in place meeting the Minimum Standard Detail Requirements for American Land Title Association (ALTA) or the American Congress on Survey and Mapping (ASCM). Note that additional requirements apply to projects where the property is pledged as collateral.

Borrower Experience and Management Capacity

Review and confirm all components of borrower experience and management capacity within threshold review; and:

- Prepares a signed and dated certification that a SAM.gov search was conducted and borrower and key principal team member(s) were cleared.

Borrower Financial Capacity and Creditworthiness

Review and confirm all components of borrower financial capacity & credit worthiness within threshold review; and:

- Complete detailed review of financial capacity of the borrower and/or its key principals, demonstrated through financial statements, schedules of holdings, tax returns, bank statements, and/or other documentation
- Complete detailed assessment of borrower creditworthiness based on project financials and may be supported by credit reports, credit scores, verification of employment and past bankruptcies, if any, for the key principal(s) and provide recommendation
    - Note: The individual minimum credit score accepted for the borrow and key principals is 700, exceptions may be considered on a case-by-case basis and may result in adjustment to loan terms to account for added risk.
- Provide determination of whether or not a borrow is a “good credit risk”. Projects that do not satisfy this designation will not continue.

Project Financial Analysis

Perform a detailed review and analysis of all project financials in standardized proforma format acceptable to the City and its contractors, for all criteria described at threshold review stage, and:

- Confirm inclusion of Section 108 financing fees
- Firm proof of all funds committed by other lenders/investors into the project, in the form of term sheets and legal documents

Collateral and Loan Repayment Guarantees

Perform a detailed review and analysis of all collateral & loan repayment guarantee criteria described at threshold review stage, ***and***:

- Confirm collateral is in place to secure the loan, including but not limited to real estate, cash, equity, letters of credit, and personal guarantees
- Confirm performance bond or completion guarantee
- Confirm engagement of qualified general contractor
- Review inter-creditor agreements, if applicable in any loans which are not senior loans

As described in further detail in Section III above, final Credit Memos (and/or Closing Memos where applicable) will be presented at Investment Committee for approval before sending to City Council.

VI. Eligibility and Program Requirements

The City of Detroit has included the proposed Loan Pool in its Consolidated Plan and Action Plan. Accordingly, the national objectives and eligible uses conform to those at 24 CFR 570.203, 570.204, 570. 207, 570.208 and 570.703. This section details how Detroit will evaluate projects to demonstrate adherence to these requirements.

The City will comply with the primary objective of the Housing and Community Development Act as specified at 24 CFR 570.200(a)(3). It will ensure that, over a period of time specified in its certification not to exceed three years, not less than 70 percent of the aggregate of CDBG fund expenditures shall be for activities meeting the criteria under § 570.208(a) or under § 570.208(d)(5) or (6) for benefiting low- and moderate-income persons.

Eligibility

In administering the Section 108 Housing Loan Pool, Detroit intends to use several different activities that are eligible under the CDBG regulations. The following list includes a broad range of potential uses, not all of which will apply to a specific development. Some projects, like those containing mixed uses, may qualify under more than one category of eligible expenses. The City wishes to establish a broad range of options to allow flexibility in structuring deals and will consult with HUD to ensure compliance.

Detroit's 108 Loan Pool projects will qualify under the following eligible uses:

24 CFR 570.703:

(a) Acquisition of improved or unimproved real property in fee or by long-term lease, including acquisition for economic development purposes.

(b) Rehabilitation of real property owned or acquired by the public entity or its designated public agency.

(c) Payment of interest on obligations guaranteed under this subpart.

(h) Housing rehabilitation eligible under § 570.202. and

(i) The following economic development activities:

> (1) Activities eligible under § 570.203; and
>
> (2) Community economic development projects eligible under § 570.204.

[This section authorizes new housing construction by a CBDO]

(k) A debt service reserve to be used in accordance with requirements specified in the contract entered into pursuant to [§ 570.705(b)(1)].

(n) Payment of fees charged by HUD pursuant to [§ 570.712].

Note that Section 703 (h) references Section 570.202 of the CDBG regulations. The city will primarily utilize the following eligible building types and forms of assistance but may employ any other type or use as circumstances require.

24 CFR 570.202

Types of buildings and improvements eligible for rehabilitation assistance:

Privately owned buildings and improvements for residential purposes; and

Low-income public housing and other publicly owned residential buildings and improvements;

(b) Types of assistance:

(1) Assistance to private individuals and entities, including profit making and nonprofit organizations, to acquire for the purpose of rehabilitation, and to rehabilitate properties, for use or resale for residential purposes;

(2) Labor, materials, and other costs of rehabilitation of properties, including repair directed toward an accumulation of deferred maintenance, replacement of principal fixtures and components of existing structures, installation of security devices, including smoke detectors and dead bolt locks, and renovation through alterations, additions to, or enhancement of existing structures and improvements, abatement of asbestos hazards (and other contaminants) in buildings and improvements that may be undertaken singly, or in combination;

(3) Loans for refinancing existing indebtedness secured by a property being rehabilitated with CDBG funds if such financing is determined by the recipient to be necessary or appropriate to achieve the locality's community development objectives;

(4) Improvements to increase the efficient use of energy in structures through such means as installation of storm windows and doors, siding, wall and attic insulation, and conversion, modification, or replacement of heating and cooling equipment, including the use of solar energy equipment;

(5) Improvements to increase the efficient use of water through such means as water savings faucets and shower heads and repair of water leaks;

National Objectives

The Detroit 108 Loan Pool will meet the CDBG national objectives primarily through the provision of housing for low- and moderate-income persons, as described at 24 CFR 570.208(a)(3):

> Housing activities. An eligible activity carried out for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by low and moderate income households.

The City will ensure that all housing rehabilitation (or new construction by a CBDO) meets the standards of this section.

For certain projects, the City may avail itself of the provisions at 24 CFR 570.208(a)(3)(i):

> When less than 51 percent of the units in a structure will be occupied by low and moderate income households, CDBG assistance may be provided in the following limited circumstances:
>
> > (A) The assistance is for an eligible activity to reduce the development cost of the new construction of a multifamily, non-elderly rental housing project;
> >
> > (B) Not less than 20 percent of the units will be occupied by low and moderate income households at affordable rents; and
> >
> > (C) The proportion of the total cost of developing the project to be borne by CDBG funds is no greater than the proportion of units in the project that will be occupied by low and moderate income households.

The Loan Pool may fund bridge loans and land acquisition activities that have shorter terms and are repaid prior to the actual rehabilitation or construction of the affordable housing. HUD staff have confirmed that, in accordance with 24 CFR 570.208(d)(1), the city will establish compliance with the national objective of benefitting low and moderate income persons at the time of occupancy.

The Loan Pool may on occasion invest in projects which aid in the prevention or elimination of slums or blight on an area basis. In such cases, the city will ensure that the project complies with the rules at 24 CFR 570.208(b)(1). This section specifies standards for designating an eligible area, maintaining documentation on this designation and demonstrating that the assisted activity addresses one or more of the conditions which contributed to the deterioration of the area.

In any use of the slum/blight national objective, the City will comply with 24 CRR 570.200(a)(2) to ensure that not less than 70 percent of the aggregate of CDBG fund expenditures shall be for activities meeting the criteria for benefiting low- and moderate-income persons.

Additionally, the City may fund a project with uses which include economic development activities, such as ground-floor retail. In such cases, it is likely that the goods and services provided will primarily benefit a low and moderate income area, as permitted under 24 CFR 570.208(a)(1)(i):

> Area benefit activities.
>
> (i) An activity, the benefits of which are available to all the residents in a particular area, where at least 51 percent of the residents are low and moderate income persons.

Certain projects may include economic development components that create jobs. In such instances, the City will rely on 24 CFR 570.208(a)(4):

> Job creation or retention activities. An activity designed to create or retain permanent jobs where at least 51 percent of the jobs, computed on a full time equivalent basis, involve the employment of low- and moderate-income persons.

Neighborhood Revitalization Strategy Area Incentives

Detroit has several HUD-approved Neighborhood Revitalization Strategy Areas (NRSA). Loan Pool projects in NRSAs may use the provisions in HUD Policy Notice CPD-16-16 which provides incentives for the development of revitalization strategies by offering regulatory relief from a variety of requirements applicable to the use of CDBG funds by Entitlement communities. These include special provisions for meeting the national objectives.

The flexibilities afforded by the NRSA Policy Notice include:

- Aggregation of housing units
- Job Creation/Retention as Low/Moderate Income Area Benefit
- Aggregate Public Benefit Standard Exemption

The City will consult with HUD to ensure that its planned use of these incentives meets all policy and regulatory requirements.

Public Benefit Standards

As part of the CDBG Program, any economic development element in a Loan Pool project must comply with the Public Benefit Standards at 24 CFR 570.209. This section establishes limits on costs per job created/retained or provision of goods and services in low and moderate income areas. The standards are applied at the individual project level as well as in the aggregate for the CDBG program overall.

Detroit will ensure that at least a minimum level of public benefit is obtained from the expenditure of CDBG funds under the categories of eligibility governed by these guidelines. As noted above, economic development projects in NRSAs may qualify for exemption from the aggregate standard.

VII. Public Participation Plan

The City of Detroit has included the proposed Loan Pool in its Consolidated Plan and Action Plan. Accordingly, the activity conforms to the public notices, public hearings, the Citizen Participation Plan and other provisions enumerates in 24 CFR 570.704(a).

Specifically, the Loan Pool application will be included in the Citizen Participation Plan beginning May 2025 and will be part of two public hearings in June 2025.

VIII. Attachments

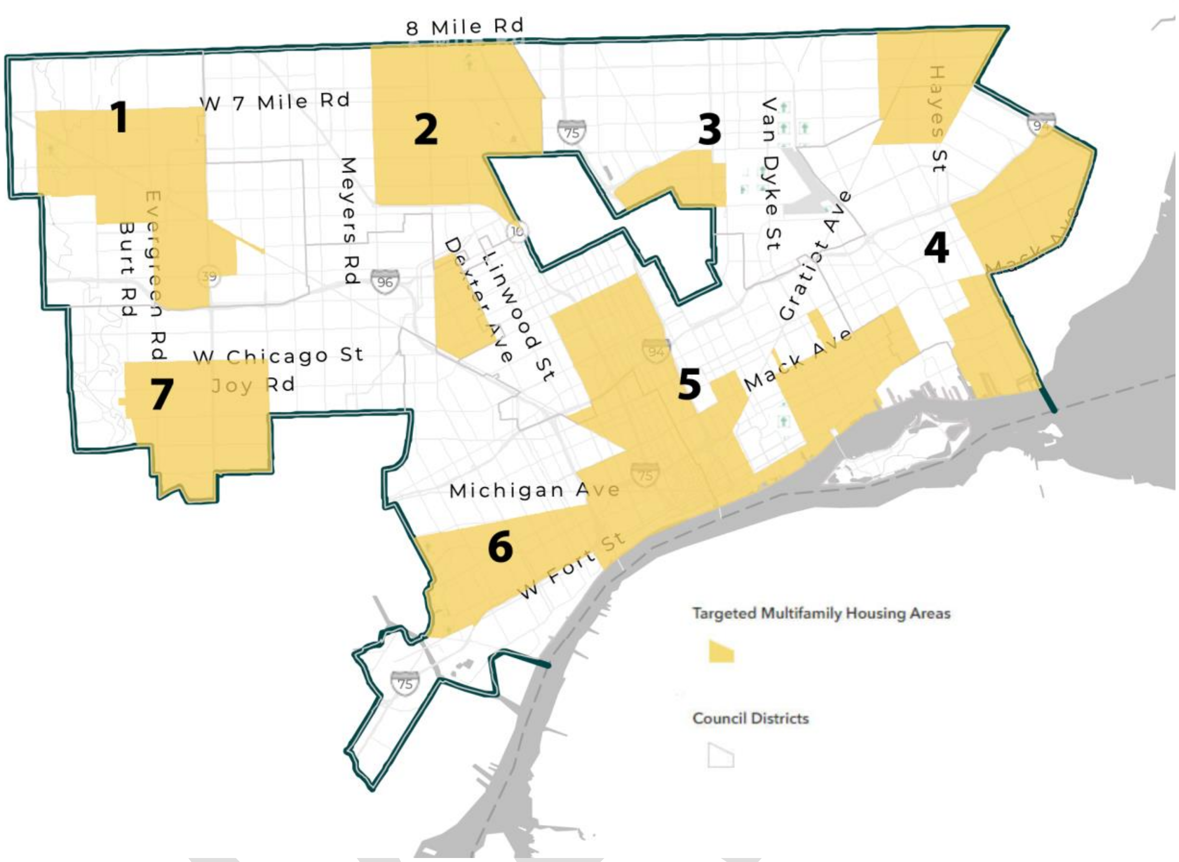
Attachment A: Targeted Multifamily Housing Area Map

Attachment B: Neighborhood Revitalization Strategy Area Map

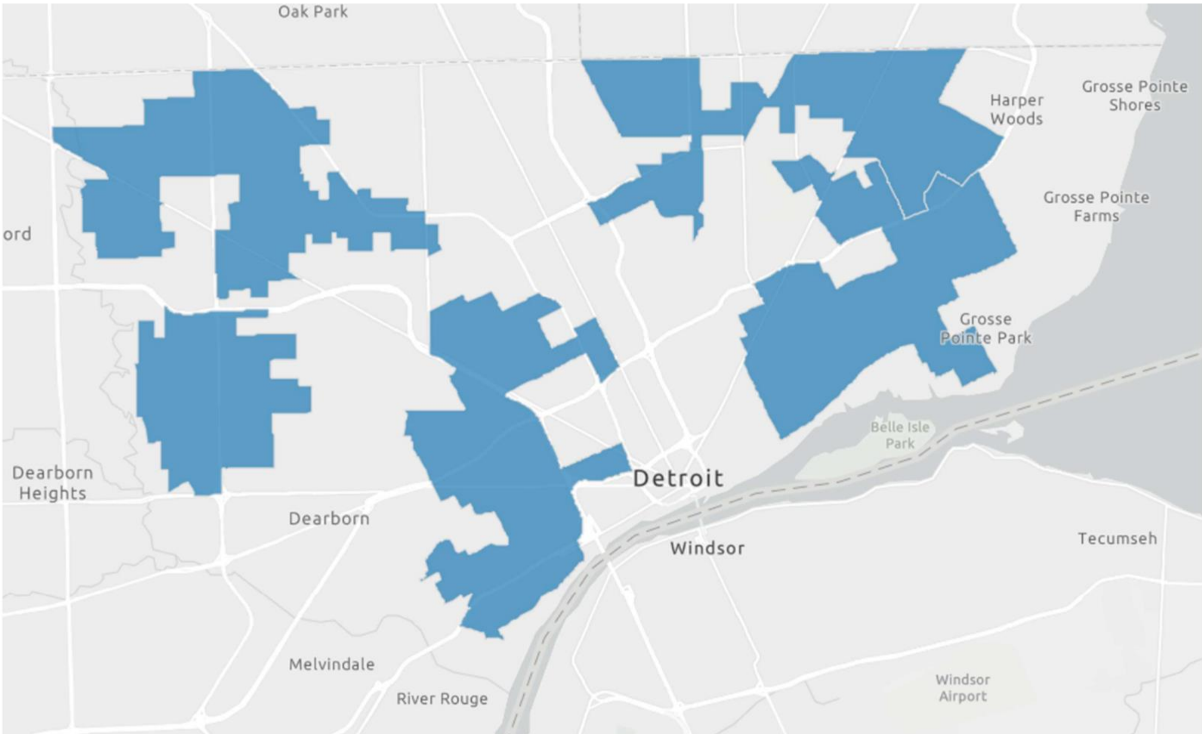
Attachment C: Loan Sizing & Issuance by Loan Type

Attachment A: Targeted Multifamily Housing Area Map

Targeted Multifamily Housing Areas



Attachment B: Neighborhood Revitalization Strategy Area Map



Attachment C: Loan Sizing & Issuance by Loan Type

						Over 6 year period		
Loan Type	Term (yr)	Loan Range	Typical Loan Size	Est. Loans issued (initial pool)	Pool Amount	Est Loans Reissued	Total reissue	Total Loans Issued
Acquisition Short-Term Loan	2	$500,000- $2,000,000	$ 1,000,000	5	$5,000,000	7	$ 7,000,000	12
Aquisition Mini-Perm Loan	7	$1,000,000- $5,000,000	$ 2,500,000	7	$25,000,000	0	$ -	7
Senior Constr-to-Perm Loan (construction period)*	2	$5,000,000 - $15,000,000	$ 12,000,000	2	$25,000,000	1	$ 12,000,000	3
Senior Perm Loan post-conversion	*20*	*$1,000,000- $5,000,000*	*$ 2,500,000*				$ -	0
Equity Bridge Loan	5	$5,000,000- $15,000,000	$ 10,000,000	2	$20,000,000	2	$ 20,000,000	4
TOTAL				**16**	**$ 75,000,000**	**10**	**$ 39,000,000**	**26**

**Portion of construction loan that does not convert to perm loan expected to recycle at end of 2 year term, and may be reissued as another construction-to-perm loan.*