

ALFAH: Affordable Loans for Affordable Housing Section 108 Program

March 2026



TAKE PART
Opportunity Rising



Agenda

- Introduce Opportunity & Section 108 Program
- Loan Product Types
- Eligibility & Considerations
- Application and Review Process
- Timeline and Next Steps

The Opportunity

The City of Detroit is offering **new low-interest loan products for affordable housing** through HUD's Section 108 program to support acquisition, construction, bridge financing and permanent financing.



What is Section 108?

- A loan guarantee program administered by HUD for CDBG recipients
- Financing available to CDBG grantees for up to 20-year loans
- Low interest capital- 3 month Treasury Bill Rate plus 35 basis points:
 - **3.95% Treasury Rate vs. 6.75% *prime rate today***
- Can finance affordable housing, economic development and other eligible activities
- Repayment to HUD can come from multiple sources (project cash flow, reserves, guarantees, etc.) but must be secured by future CDBG allocation

Section 108 Flow of Funds



Secured by CDBG

*Secured by real property,
assignment of leases & rents,
developer guarantees, third
party guarantees, other
sources of capital*

City's Program Goals



Increase
affordable
housing
production

Invest in
projects
that can
support the
debt
service

Complement
existing tools
for LIHTC and
non-LIHTC
projects

Conserve and
increase
leverage of
limited gap
financing for
affordable
housing

Loan Product Types

- 1 Acquisition Short-Term Loan
- 2 Acquisition Mini-Perm Loan
- 3 Senior Construction-to-Permanent Loan
- 4 Tax Credit Equity Bridge Loan

1 Short term Acquisition Loan

Description	Short-term loan to support acquisition costs during predevelopment
Loan Sizing	Up to 80% LTV Estimated range: \$500,000 - \$2,000,000
Term	2 years, option to extend up to an additional 6 months
Amortization	Interest Only with principal due at maturity
Interest rate	Treasury Bill Rate + 35 bp; variable with periodic options to fix As of Feb 2026: 3.95%
Davis Bacon	Not triggered
Collateral and Guarantee Requirements	<u>Required</u> : First position mortgage on subject property <u>May be required</u> : Interest reserve; Personal Repayment Guarantee
Recommended project type	Vacant residential & mixed-use buildings with residential component

Acquisition Mini-Perm Loan

Description	Subordinate financing for acquisition and soft costs only; loan executed at time of closing with all funders (not available for predevelopment period)
Loan Sizing	Lesser of 1.15 DSCR or 80% LTV Estimated range: \$1-5M
Term	7 years
Amortization	15-20 years; Interest-only for construction period up to 2 years
Interest rate	Treasury Bill Rate + 35 bp; variable with periodic options to fix As of Feb 2026: 3.95%
Davis Bacon	Not triggered
Collateral and Guarantee Requirements	<u>Required</u> : First position/pari-passu or Subordinate mortgage on subject property, Assignment of Leases and Rents <u>May be required</u> : Interest reserve; Personal Repayment Guarantee
Recommended project type	Occupied rehabilitations of residential / mixed use properties with residential component

3 Senior Construction-to-Perm Loan

Description	Construction to permanent financing for residential and mixed use developments
Loan Sizing	Lesser of 1.15 DSCR or 80% LTV Estimated range: \$5M-\$15M construction; \$1M-\$5M post-conversion
Term	20 years
Amortization	40 years; Interest-only during construction period until conversion to permanent loan
Interest rate	Treasury Bill Rate + 35 bp; variable with periodic options to fix As of Feb 2026: 3.95%
Davis Bacon	Will apply
Collateral and Guarantee Requirements	<u>Required</u> : First position mortgage on subject property, Assignment of leases and rents ; Operating Reserve, Replacement reserve <u>May be required</u> : Interest Reserve, Personal Repayment Guarantee
Recommended project type	LIHTC projects with project-based assistance or other financing that requires compliance with Davis Bacon

4 Tax Credit Equity Bridge Loan

Description	Bridge financing for LIHTC Capital contribution for LIHTC projects to increase returns to investor and increase credit pricing
Loan Sizing	Up to 90% of LIHTC Equity Estimated range: \$5M to \$15M
Term	5 years
Amortization	Interest-only with principal due at maturity
Interest rate	Treasury Bill Rate + 35 bp; variable with periodic options to fix As of Feb 2026: 3.95%
Davis Bacon	Will apply
Collateral and Guarantee Requirements	<u>Required</u> : Subordinate mortgage on subject property; Assignment of leases and rents; Assignment of LIHTC equity <u>May be required</u> : Interest Reserve, Personal Repayment Guarantee
Recommended project type	LIHTC projects with project-based assistance or other financing that requires compliance with Davis Bacon



Summary: Project Loan Size and Terms by Product

Loan	Eligible Use	Suggested Project Type	Loan Size	Term & Amortization
Short-Term Acquisition	Acquisition	Vacant residential & mixed-use buildings	<u>Proportion:</u> Up to 80% LTV <u>Est. Size:</u> \$500k - \$2.5M	<u>Term:</u> 2 yr, option to extend up to an additional 6 mo <u>Amortization:</u> Interest-only Payments, Principal due upon maturity
Mini-Perm Acquisition	Acquisition & other soft costs	Occupied rehabilitations of residential / mixed use properties	<u>Proportion:</u> Lesser of 1.15 DSCR or 80% LTV <u>Est. Size:</u> \$1M - \$5M	<u>Term:</u> 7yr <u>Amortization:</u> 15-20 yr; Interest-only for construction period up to 2 yr
Senior Construction Permanent	Acquisition, hard and soft costs ; New construction if CBDO	LIHTC projects with project-based assistance other financing that requires compliance with Davis Bacon	<u>Proportion:</u> Lesser of 1.15 DSCR or 80% LTV <u>Est. Size:</u> \$5M - \$15M construction; \$1M-5M post-conversion	<u>Term:</u> 20-yr <u>Amortization:</u> 40 yr; Interest-only during construction with conversion to permanent loan
Equity Bridge			<u>Proportion:</u> Up to 90% of LIHTC equity <u>Est. Size:</u> \$5M - \$15M	<u>Term:</u> 5-yr <u>Amortization:</u> Interest-only, Principal due upon maturity



Summary: Project Loan Size and Terms by Product

Loan	Interest Rate	Davis Bacon	Collateral & Guarantee Requirements
Short-Term Acquisition	Treasury Bill Rate + 35 bp; variable with periodic options to fix	Not Triggered	<u>Required:</u> First position mortgage on subject property <u>May be required:</u> Interest reserve; Personal Repayment Guarantee
Mini-Perm Acquisition			<u>Required:</u> First position/pari-passu or Subordinate mortgage on subject property, Assignment of Leases and Rents <u>May be required:</u> Interest reserve; Personal Repayment Guarantee
Senior Construction Permanent		Triggered	<u>Required:</u> First position mortgage on subject property, Assignment of leases and rents, Operating Reserve, Replacement reserve <u>May be required:</u> Interest reserve, Personal Repayment Guarantee
Equity Bridge			<u>Required:</u> Subordinate mortgage on subject property, Assignment of leases and rents, Assignment of LIHTC equity <u>May be required:</u> Interest reserve; Personal Repayment Guarantee

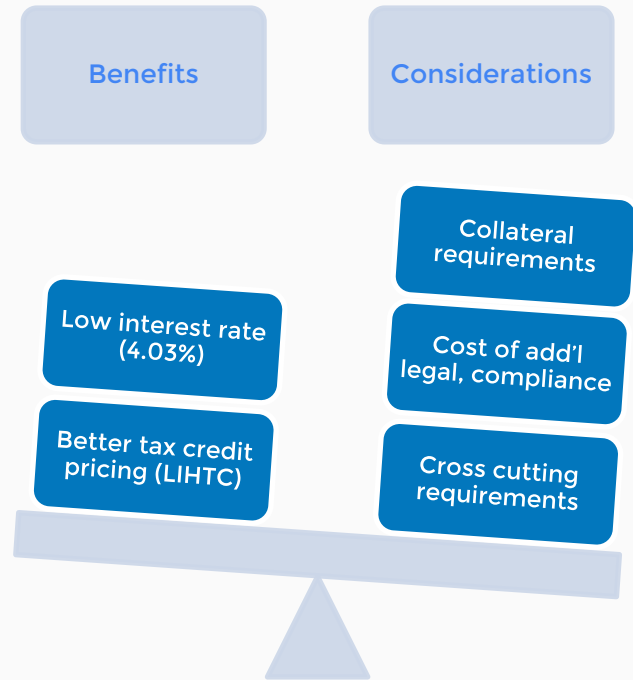
Basic Eligibility Requirements

- Property type: Residential or Mixed-Use (4 unit minimum)
- Affordability: at least 50% units \leq 80% AMI
- CDBG Eligibility Activity Type: acquisition; rehab of housing costs (eligible hard and soft costs); new construction for CBDOs only.
- Financial viability: Ability to repay loan
- Federal requirements, as applicable

Cross-Cutting Federal Requirements

- ✓ Part 58 Environmental Review (ALL activities)
- ✓ Davis Bacon Prevailing Wage (for rehab activities)
- ✓ Build America, Buy America (BABA)
- ✓ Section 3: Employment opportunities
- ✓ Section 504: Accessibility
- ✓ City of Detroit Executive Order 2024-02
- ✓ City of Detroit Tenant Retention Requirements for Occupied Rehab
- ✓ Marketing requirements: Detroit Home Connect, Acceptance of HCVs, Inclusive marketing plan

What projects are a good fit?

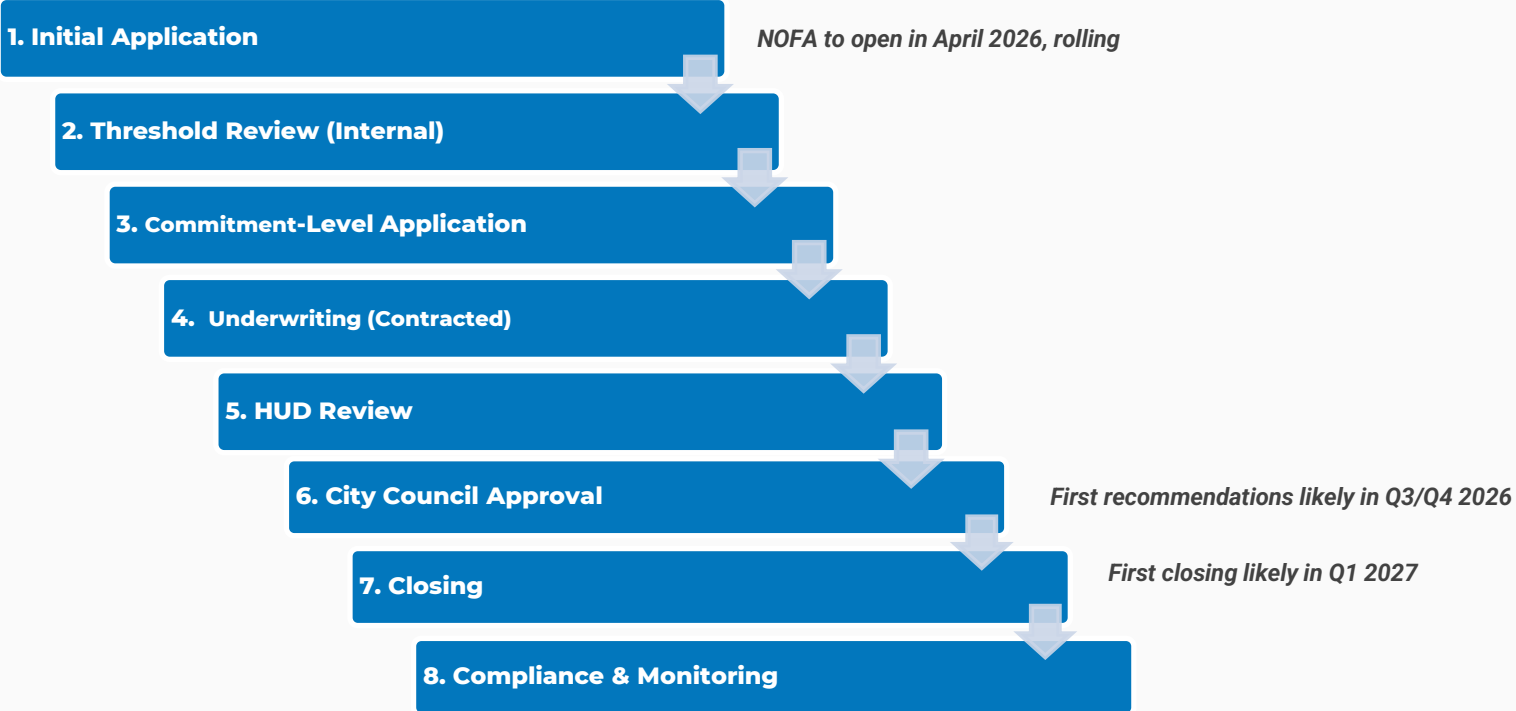


- Led by experienced developers experienced with HUD
- Big enough to support added transaction costs (~20+ units)
- LIHTC Projects:
 - Already subsidized with vouchers or lots of federal subsidy (ie, PSH)
 - Looking for low-cost construction and permanent financing
- Non-LIHTC Projects:
 - Looking to reduce the cost of financing by layering with other loans, like DHFF
 - Committed to affordability through PILOT
 - Healthy income mix to support debt payments

Application and Review Process

- Loan approval is a multi-step process, involving the prospective borrower, the City of Detroit, designated underwriter, an investment committee, HUD, and City Council.
- All applications are submitted and processed via the City's Neighborly software

Section 108 Process & Timeline



1. Initial Application

Completed by Borrower

First part of Neighborly application will include:

- Borrower and developer information
- Details on Loan being sought
- Project Capacity
- Construction Timeline
- Unit Affordability
- Project/Developer financials
- Readiness to proceed
- Goals and City Requirements
- Project Financing details

2. Threshold Review

Completed by HRD Housing Underwriting team and Investment Review Team

Review of:

- Project eligibility
- Financial capacity of borrower
- Creditworthiness
- Alignment with City requirements
- Alignment with HUD requirements

Projects passing Threshold Review will be provided with a Threshold Approval Letter

3. Commitment-Level Application

Completed by Borrower

Second part of Neighborly application will include:

- Market study
- Environmental Site Assessment (ESA)
- Capital Needs Assessment (CNA)
- Preliminary Plan Review (PPR)
- Executed Partnership Agreement
- BABA Compliance Certification
- Tenant Relocation Plan (TRP), if applicable
- Voucher Commitment (if applicable)

4. Underwriting

Completed by HRD, 3rd party Underwriter, and Investment Review Team.

HRD will ensure compliance with NEPA, Davis-Bacon, Build America, Buy America (BABA), and Uniform Relocation Act (URA).

3rd party Underwriter will review and will issue a credit memo:

- Eligibility
- Project Feasibility and Readiness
- Borrower Experience and Management capacity
- Borrower financial capacity and creditworthiness
- Project Financial Analysis
- Collateral and Loan Replacement Guarantees

Investment Committee will review Underwriter's credit memo and issue a Letter of Interest to satisfactory applications

Note: Underwriting cost is paid for by borrower and is an eligible cost.

5. HUD Review

Completed by HUD Field Office and HUD National Office

HUD Field Office will review the letter of interest and credit memo for:

- Project details,
- National objective,
- Eligible activities, and
- If benefit standard applies

A Letter of Determination will be issued to satisfactory applications.

HUD National Office will prepare loan closing documents.

6. City Council Approval

Completed by City Council

HUD-approved projects will proceed to City Council for authorization to prepare and execute the loan:

- HRD prepares resolution including project details and funding source
- Planning and Economic Development (PED) committee vote
- Approved resolutions proceed to Council of the Whole
- Approved resolutions proceed to loan closing

7. Closing

Completed by Borrower, HRD, Law Department, and HUD

Council-Approved projects will proceed to closing.

- HRD underwriting team assembles closing checklist
- Law Department will issue an opinion referencing council approval
- Loan documents will be drafted
- The City will close with HUD
- The City will close with the Borrower and fund will be disbursed through a draw request process

8. Compliance and Monitoring

Completed by HRD, 3rd party Loan Servicer; BSEED, borrower

3rd party Loan Servicer will monitor:

- Repayment schedule compliance

HRD will monitor:

- Construction:
 - Construction inspection to monitor progress
 - Review of all draw packages
- IDIS Compliance/Closeout after program completion:
 - Initial beneficiary data for households
 - As applicable: Affordability breakdown, job creation, etc.
- Loan Duration:
 - Financial condition (Audited Financial statements)
 - Physical condition (BSEED or other inspection)
 - Eligibility requirements (Lease agreements, income verification)
 - Status of repayment in coordination with Loan Servicer

Timeline & Next Steps

- NOFA anticipated to open April 2026 and open on rolling basis
- Required Program Compliance Information Meeting will be held and recorded
- Applications must be submitted per the instructions included in the NOFA via the City's Neighborly software
- Register for HRD email notifications at the detroitmi.gov (bottom of page)

Questions?

- Contact: HRD108NOFA@detroitmi.gov