



STATE OF COLORADO

John W. Hickenlooper, Governor

Department of Local Affairs

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Division of Housing

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COLORADO HOUSING INVESTMENT FUND

draft for comment

TERM SHEET	Proposed Housing Investment Fund
Eligible Borrower	<ul style="list-style-type: none"> Private non-profits and for-profits with experience developing affordable housing Public Housing Authorities
Eligible Developments	<ul style="list-style-type: none"> Rental properties serving households below 60% AMI Mixed income developments including housing for persons with disabilities, veterans and/or homeless are eligible for funding although loans will be sized proportionately by unit mix.
Long Term Affordability	Minimum of 30 years
Eligible Uses	<ul style="list-style-type: none"> Acquisition Bridge Loans New Construction Rehabilitation
Loan Amount	<\$2 million
Term	<5 years (20% of fund/loan may be converted to long term perm debt <= 15 years)
Interest Rate	1% - 3%
Security	Deed of Trust
Lessor of Maximum Loan-to-Value or Loan-to-Cost	95%
Debt Coverage Ratio range	1.05 – 1.20
Prepayment	Encouraged when possible; no penalties
Reserve Requirements	Replacement, Operating and Debt Service
Fees	\$500 Application Fee 0.50% Origination Fee



PURPOSE:

The state of Colorado has only one home for every two families needing affordable housing. As of 2010, 39 percent of all renter households paid 35 percent or more of their income toward housing. Furthermore, 24 percent of all renter households paid 50 percent or more of income toward housing.

Exacerbating this, the median household income continues to decline. Since 2007, median household income has declined seven percent, and the renter median income has declined nine percent in Colorado. (These figures are adjusted for inflation and reflect pre-tax incomes.)

The Colorado Housing Investment Fund (CHIF) is proposed to stimulate affordable rental housing development.

FUND STRUCTURE:

Revolving Loan Pool - The CHIF, as proposed, is structured to revolve continuing the Fund's impact on affordable housing in Colorado into the future. The CHIF is not meant to take the place of market resources, but rather, the CHIF is intended to enhance the financial structure of more deals to attract competitive pricing from conventional lenders in a greater number of affordable housing projects than are currently being done.

The CHIF is structured to provide low interest short-term (primarily construction-type loans) up to five years to help save money during the construction of affordable housing. We expect the CHIF interest rates to be between 2% and 5% below a conventional construction loan. With current conventional construction loans having an interest rate floor around 4%, a \$2 million CHIF loan can save about \$150,000 over five years.

Permanent Soft Debt - Additionally, up to 20% of a CHIF project loan (up to \$400,000) can be converted to a long term cash flow loan (i.e. soft long-term debt). These loans may be deferred until the property is sold or refinanced.

Bottom Line Project Benefits - We expect, between interest savings from the construction-type loan and the soft long term debt, the CHIF will contribute approximately \$550,000 of resources to the bottom line of an affordable housing project. Applicants will use the same DOH application and monthly process currently administered by DOH. DOH will underwrite all applications for funding to assess capacity, project goals and financial need. CHIF funded projects may also be eligible and apply for other Division of Housing federal and state resources within their CHIF application. Other DOH funding sources include HDG, HDLF, HOME, CDBG and Section 8. Please see the DOH website for information on these programs.

Eligible Developments – Generally speaking throughout the state, market rents are comparable to rents at 60% of the Area Median Income. To have an impact on the rental affordable housing shortage, CHIF funds are proposed to fund developments serving households below 60% of the AMI.

Additionally, mixed income developments serving residents above and below 60% AMI will be eligible for funding although funding will be sized based on financial need proportionately for the number of units serving households below 60% AMI. Furthermore, a portion of the tenants in mixed income developments should also serve at risk populations such as persons with disabilities, veterans and/or persons coming from homelessness.

Debt Coverage Ratio – The expected DCR for a CHIF project is between 1.05 and 1.2. We anticipate the CHIF loans will be in a second position and payments will be subject to the primary lenders payment standards. Likewise, DOH will underwrite each deal to assess a project's ability to pay debt whether through traditional mortgage payments or through cash flow. DOH may require payment from cash flow to a 1.05 coverage depending on the size of the project and available cash for distribution.

Administration – The Division of Housing anticipates administering the CHIF using applications fees and the 0.5% origination fees. In addition, DOH anticipates utilizing \$50,000 of the funds for start-up costs.

MEASURE OF SUCCESS:

The impact of the Colorado Housing Investment Fund will be seen throughout Colorado in rural and metropolitan areas. Not only will new affordable housing be created, but the CHIF will stimulate the real estate construction market to create jobs and work toward stabilizing the construction industry in Colorado.

With the first use of the \$13.2 million CHIF, the measurable outcomes are expected to be:

- Leverage more than \$150 million in funds to finance affordable housing throughout Colorado;
- Create more than 750 new and rehabilitated units of affordable housing; and
- Create and/or sustain 1,050 jobs in Colorado.

The Colorado State Housing Board will review all funding requests as needed, the overall success of the CHIF annually and report to the Attorney General's office.

QUESTIONS:

In addition to general comments about the proposed Colorado Housing Investment Fund, please consider the following:

As proposed, the CHIF is intended to revolve. With 20% of the funds potentially staying in projects for 15 years, within five to ten years the Fund will run out of money. Please provide suggestions for sustaining the fund.

What impact will the CHIF have on projects funded with Private Activity Bonds? What ideas do you have to stimulate the PAB market in Colorado?

SUBMIT COMMENTS TO:

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