

## **Duluth Housing Trust Fund (“HTF”) Program**

The Housing Trust Fund Program (the "Program") was created through the cooperative efforts of the City of Duluth (the "City") and the Local Initiative Support Corporation ("LISC"). The Program shall have the goals and objectives as set forth below and shall have a shared application process. Within the Program, there shall be a "City Program" and a "LISC Program", each with distinct funding accounts and varying criteria, terms and rates. The City Program shall be funded pursuant to Section 20-32.1 of the City Code. LISC shall be responsible for developing the criteria, terms and rates applicable to the LISC Program and its funding.

### **I. The Program**

The Program will be implemented through three distinct Sub-programs. The Sub-programs are designed to fill existing gaps in the housing financing market and to achieve the following goals:

- Increase housing stock in Duluth, particularly affordable\* units.
- Invest in Duluth neighborhoods, making affordable units available citywide.
- Remove blight, improve safety and encourage pride in our neighborhoods.
- Leverage existing municipal infrastructure.
- Promote density wherever possible.

Program and application costs and fees will include:

- Application fees (if applicable)
- Applicant title fees and closing and recording costs
- Loan interest, as applicable

Program funds will be committed to each project only when it has received final loan approval from the Housing and Redevelopment Authority of Duluth (the "HRA") in the case of the City Program, or from LISC in the case of the LISC Program. Projects will be funded in the order they receive final approval from the appropriate entity. Projects must commence within nine (9) months of final approval or application is terminated and applicants must reapply.

### **II. Program Process**

A pre-application for Program assistance shall be submitted to the City for review of program eligibility. If deemed eligible, application shall be referred for further processing under the City Program or the LISC Program. The HTF Review Committee (the “Committee”), created pursuant to Section 2-171 of the City Code, will provide review and recommendation of applications in the following cases:

- Requests that do not clearly fall under either the City Program or the LISC Program
- Requests of \$500,000 or more
- Requests that present extraordinary circumstances not addressed in the Program guidelines but are recommended by staff
- Requests for funding under the Flexible Multifamily Fund Sub-program

The City and HRA reserve the right to prioritize funding based on affordability benefits for eligible projects that have not yet received final loan approval.

### III. Ineligible Costs

The following are uses that are not eligible for payment of HTF funds:

- Expenses for pre-development activities, studies, promotions, evaluations;
- General operating costs of projects such as salaries, benefits, supplies, utilities, insurance;
- Administrative or other overhead costs of projects;
- Furnishings, fixtures, and equipment and non-architectural decorations;
- Soft costs related to or incidental to projects, including legal, architectural, engineering, market assessment, appraisal or other services;
- Public infrastructure costs such as streets, sidewalks, lights, sewers, utilities that do not directly serve the project property;
- Property acquisition costs

### IV. Comprehensive Rehab & Conversion Sub-Program (CRCP)

The purpose of this sub-program is to provide low or no-interest construction loan for projects needing substantial rehabilitation for which the existing limitations of HRA rehab programs prohibited complete renovation. Affordable projects will be eligible for loan forgiveness as set forth below.

- Rehab projects would include any single family or multifamily property up to 20 units
- Conversion projects would include change of use projects that would create up to 20 new units of residential housing
- Maximum loan amount = \$100,000/unit (\$150,000/unit if property has been condemned for habitation or demolition) \$1,000,000\*\* = Maximum total loan amount.
- Loan will be for hard construction costs and repaid at time of permanent refinance.

The loan refinance (takeout financing) must be pre-approved by a lender or other credible funding source prior to CRCP loan closing and must occur within three months of issuance of the certificate of occupancy.

- Loan Terms:
  - Interest rates (see \*\*\*\* for rate breakdown):
  - Market rate project: 5% or current local private financing rate
  - Mixed income project: 2-5%
  - Completely Affordable project: 0-3%
- Interest only payments until closing.
- Maximum term is 18 months.
- Term may be extended with Committee recommendation.
- Forgivable component\*\*\*
  - Projects that include affordable units are eligible to have a portion of their loan proceeds forgiven at final closing. The amount of loan forgiveness is limited to:
    - Maximum of \$50,000 per project for rental units
    - Flat rate of \$10,000 for for-sale units
  - Forgiveness is determined at the time of full application to the HRA by the following factors:
    - Number of affordable units

- Level of affordability
- Any forgiveness requires a recorded Agreement, and mortgage between the Applicant and the City or LISC.
- Annual reporting evidencing affordable unit rents to income qualified tenants will be required; income of qualified buyers must be verified before closing.
- Loans requiring a variance will not be considered.

## V. Infill Development Sub-Program

The purpose of this program is to provide low or no-interest loan for new single family, accessory dwelling unit (ADU) and multifamily projects up to 10 units on infill sites citywide. Affordable projects may be eligible for loan forgiveness.

- For single or multifamily projects:
  - The loan will cover construction only and must be refinanced or paid off within 45 days of the certificate of occupancy is issued.
  - The loan is based on costs provided by a licensed general contractor.
  - Applicant must show proof of permanent financing prior to closing.
    - Maximum loan amount is \$300,000/unit up to \$700,000 unless special approval is granted by the Committee.
- Loan Terms:
  - Interest rates (see \*\*\*\* for rate breakdown):
  - Market rate project: 5% or current local private financing rate
  - Mixed income project: 2-5%
  - Completely Affordable project: 0-3%
- Interest only payments until closing.
- Maximum term is 18 months.
- Term may be extended with Committee recommendation.
- Forgivable component\*\*\*
  - Projects that include affordable units are eligible to have a portion of their loan proceeds forgiven at final closing. The amount of loan forgiveness is limited to:
    - Maximum of \$50,000 per project for rental units
    - Flat rate of \$10,000 for for-sale units
  - Forgiveness is determined at the time of full application to the HRA by the following factors:
    - Number of affordable units
    - Level of affordability
  - Any forgiveness requires a recorded Agreement, and mortgage between the Applicant and the City or LISC.
  - Annual reporting evidencing affordable unit rents to income qualified tenants will be required; income of qualified buyers must be verified before closing.
  - Loans requiring a variance will not be considered.
- For ADU projects:
  - Program funds can be used to provide low-interest loan to purchase and install State approved, modular homes that comply with City of Duluth zoning and building codes.
  - The loan amount is based on costs provided by a builder and licensed

contractor and must include installation of the unit.

- Maximum loan amount is \$150,000
- Loan Terms:
  - Interest rates (see \*\*\*\* for rate breakdown):
  - Market rate project: 5% or current local private financing rate
  - Mixed income project: 2-5%
  - Completely Affordable project: 0-3%
- A lien will be placed against the modular unit, which can be detached and removed from foundation in event of loan default.
- Applicant must have lender approval to refinance loan once unit receives certificate of occupancy.
- There is no loan forgiveness for loans for ADU's.

## VI. Flexible Multifamily Fund Sub-Program

The purpose of this sub-Program is to assist larger, more deeply affordable (at least 20% of the units 60% AMI) multifamily projects with 10+units with final financing gaps. Eligible uses of the Flexible Multifamily Fund include no-interest construction financing, utility infrastructure costs, and blight removal and may include partial loan forgiveness if deemed appropriate by the Committee. Additionally, LISC may offer other loan products or programs in connection with the LISC Program.

Projects must request at least \$250,000 to be considered for this fund. The maximum request is \$1,000,000\*\*.

## VII. General HTF Program Notes

\*For the purposes of all sub-programs other than the Flexible Multifamily Fund, "affordable" means units that are rented to those earning 80% or less of the area median income and homes sold to those earning 100% or less of the area median income (AMI), as published annually by Minnesota Housing Finance Agency. All affordable rental projects must agree to minimum of 15 years of affordability.

\*\*A single entity/builder may not be in receipt of more than \$1,000,000 of HTF funds at any given time, regardless of the number of applications submitted, unless otherwise recommended by the Committee.

\*\*\*The availability of a loan forgiveness for a project is subject to the HTF fund balances and ability of the HTF to provide grants. Both loans and grants will be available on a first-come, first-serve basis. Contact the HRA for specific forgiveness options.

\*\*\*\*Market rate projects funded by the City must be in low to moderate income (LMI) neighborhoods, as established by the Department of Housing and Urban Development, to receive 5% interest. Market rate projects in non-LMI neighborhoods will receive rates commensurate with local private lender financing rates.

Mixed/Affordable rental income tiers:

-	Average rent < 100% AMI =	4%
-	Average rent = 80% AMI =	3.5%
-	Average rent = 70-80% AMI	3%
=		
-	Average rent = 70% AMI =	2.5%
-	Average rent = 60-70% AMI	2%
=		
-	Average rent = 60% AMI =	1%
-	Average rent < 60% AMI =	0%

For sale properties sold to buyers earning 100% of the AMI or less will receive a rate of 2%.

\*\*\*\*\*Loan recipients who earn a rebate through their participation in one of Minnesota Power's Energy Efficiency Programs will be eligible for a reduced interest rate retroactively applied to their loan at the time of repayment. Applicants must consult with Minnesota Power to be eligible for a 0% interest rate.