



Supportive Housing Financing Guide: An Introduction to Capital Financing Sources

DEFINITIONS

Capital (or development) financing sources are those sources that may be used to fund the costs associated with acquiring, creating, and/or rehabilitating housing units, costs sometimes referred to as “bricks and mortar” costs. Eligible uses of these sources generally fall into two broad categories: hard costs and soft costs:

- Hard costs include such terms as land acquisition, construction and rehabilitation work, and offsite improvements (such as sewers or utilities).
- Soft costs include such items as architectural services, appraisals, engineering, legal costs, fees and permits, rent-up costs, and other costs.

SOURCES OF CAPITAL FINANCING

A significant portion of capital financing originates at the level of the federal government, including funding administered by the U.S. Department of Housing and Urban Development (HUD). HUD sources generally flow to project sponsors in one of two ways:

- 1) Through formula grants (including block grants) providing funds that flow from HUD to a local government entity (usually a county or city, and sometimes a state) and from there to individual project sponsors; or
- 2) Through competitive grants, which are awarded directly by HUD to project sponsors.

Other significant sources of financing for housing development that originate at the federal level include the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP), administered by FHLB District Banks, and Low Income Housing Tax Credits (LIHTC), primarily administered by state housing finance agencies, both of which are competitive programs.

In addition to administering federal block grant funds for housing development, most states have developed their own locally generated housing sources. Typically, state governments attempt to develop dedicated revenue streams to fund housing programs, rather than tapping into state general funds. The majority of state programs for housing development are accessed by developers for a specific project through competitive application processes, announced through Request for Proposals (RFPs). At city and county levels, government agencies also administer a variety of capital financing programs, many of which use funding that originated at either the federal or state level. A significant number of local governments have also created local Housing Trust Funds or identified other funding streams to support housing development activities.

FORMS OF CAPITAL FINANCING

As detailed in the tables on the following pages, capital financing is generally provided in the form of either “hard” loans (requiring repayment of principle plus interest), “soft” loans (usually with deferred repayment interest, or payments based on residual receipts), grants, or equity.

"HARD" LOANS TO PAY FOR DEVELOPMENT COSTS		
FIXED PAYMENT LOANS		
<i>Type</i>	<i>Typical Terms</i>	<i>Sources</i>
<i>Below Market Rate Interest Fully Amortized Loans</i>	Loan payments are required on loan principal and interest, at low simple interest rate (1-3%) for long terms (30 - 55 years).	<i>Government</i>
<i>Below Market Interest Rate Bridge Loans</i>	Loan terms are generally flexible, may allow for interest only payments. Interest rates vary from 3% to 7.5%. Typically are for short terms (2-5 yrs.) and used for acquisition or predevelopment costs.	Government, Intermediary Lenders, some Bank Consortia
<i>Conventional Fully Amortized Loans</i>	Loan payments are required on principal and interest at interest rates that are slightly below market for long terms (30 years)	<i>Banks, Bank Consortia</i>
<i>Construction Loans</i>	Short term loan for the construction period. Loan payments are interest only during term; principal repaid at completion of construction (typically paid off, or "taken out" by a permanent lender or tax credit equity). Interest rates are typically at, or slightly below, market.	<i>Banks, Bank Consortia, Government</i>

"SOFT" DEBT TO PAY FOR DEVELOPMENT COSTS (continued)		
DEFERRED PAYMENT LOANS		
<i>Type</i>	<i>Typical Terms</i>	<i>Sources</i>
<i>Deferred Payment Loan</i>	Principal/Interest accrues and is deferred until a required date in the future, either a fixed date, or at resale. Interest rate is usually low (0-3%) and, in some cases, administrative fees are collected until the deferred payment date.	Government and Federal Home Loan Bank AHP Loans
<i>Residual Receipts Loans</i>	Principal/Interest accrues and is deferred until a required date in the future, either a fixed date, or at resale. Interest rate is usually low (0-3%), and some % or all of the residual receipts (cash flow after operating expenses and all hard debt service is paid) is collected until the deferred payment date. In some cases, administrative fees are also collected.	Government
<i>Deferred Developer Fees</i>	Developer may defer taking a portion of its developer fee, and structure it as a loan to be repaid out of net cash flow.	Project Sponsor

EQUITY AND GRANTS TO PAY FOR DEVELOPMENT COSTS:		
<i>Type</i>	<i>Typical Terms</i>	<i>Sources</i>
<i>Low Income Housing Tax Credits</i>	Corporate investment given to the project in exchange for an ownership interest (99.99%) & delivery of tax benefits.	Tax Credit Investors
<i>General Partner Contribution</i>	Sponsor contributes capital funds and "may" receive a return from net cash flow over a period of time (in accordance with terms of limited partnership agreement)	Project sponsor
<i>Grants</i>	Funding from sources that do not require repayment	Some Government sources such as CDBG; foundations; charitable contributions

CSH'S SUPPORTIVE HOUSING FINANCING GUIDE

CSH's Supportive Housing Financing Guide includes detailed descriptions, and links to regulatory information and additional resources, for the following capital financing sources:

- [Corporation for Supportive Housing Financial Products](#)
- [Home Investment Partnerships Program \(HOME\)](#)
- [Housing Opportunities for Persons with AIDS \(HOPWA\)](#)
- [Community Development Block Grant \(CDBG\)](#)
- [Supportive Housing Program \(SHP\)](#)
- [Supportive Housing for Persons with Disabilities \(Section 811\)](#)
- [Supportive Housing for the Elderly \(Section 202\)](#)
- [Low-Income Housing Tax Credits](#)
- [Federal Home Loan Bank \(FHLB\) Affordable Housing Program \(AHP\)](#)
- [Veterans Programs](#)

Note: This document is included within CSH's *Financing Supportive Housing Guide*, which is available at www.csh.org/financing. The *Assembling the Financing* section of CSH's *Toolkit for Developing and Operating Supportive Housing* also includes many useful materials addressing capital financing issues, available at www.csh.org/toolkit2financing.