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TO: The Honorable Detroit City Council

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: June 24, 2025

RE: **FOLLOW UP QUESTIONS TO MEMO REGARDING SECTION 108 LOANS**

On June 23, 2025, the Housing and Revitalization Department (HRD) produced a memo in response to Council Member Mary Waters' memo entitled "Questions on Section 108 Loan Usage." After reviewing the memo, the Legislative Policy Division sent follow-up questions to HRD asking for further information information on the following:

- HRD's underwriting analysis and findings from the analysis regarding which projects are most financially advantageous;
- The process by which the City will seek out applicants for Section 108 loans; and
- Whether the Section 108 loans will be intentionally targeted toward certain areas or projects and, if so, a summary of those projects.

HRD's response to this request is attached below.

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MEMORANDUM

DATE: June 23, 2025

TO: David Whittaker, Irv Corley & Phillip Keller, Legislative Policy Division

FROM: Rebecca Labov, Chief Development & Investment Officer, Housing & Revitalization

RE: Follow-up Questions on Section 108 Loan

Please see the information below in response to your questions received by the Housing & Revitalization Department on 6/23/2025.

Underwriting analysis & findings

The Housing & Revitalization Department ("HRD") identified external underwriting expertise to conduct a financial feasibility analysis, exploring the different loan products that could support affordable housing developments within the constraints of HUD's allowable uses of the funds. The primary question was: under what circumstances do the benefits of a lower interest rate achieved through Section 108 offset the additional costs that can be associated with using federal funds?

The analysis considered real projects in the development pipeline, to understand how Section 108 funds could have been used, if they had been available, and what loan structure would provide the greatest value to the project by reducing the need for gap financing. The analysis considered several factors, including:

- the size of the project
- affordability of units
- presence of project-based subsidy, i.e. vouchers
- eligible costs for reimbursement
- and cross-cutting federal requirements

This analysis revealed the "best fit" loan products for projects with different characteristics, and identified a "gap reduction ratio" ("GRR") for each loan when applied to the best-fit project type.[1] HUD guidelines, as well as our need for repayment, and our goals of providing housing led us to focus on income-producing rental properties as the target for these loan products. HRD vetted and fine-tuned the results of this analysis with internal and external parties, including developers, lenders, policy experts, and budget analysts.

[1] Section 108 loans would **not** be considered gap financing, but a low-interest loan can reduce the remaining gap by reducing the interest costs, and increasing the amount the project can borrow from a lender. As an example, a GRR of 20% would reduce a $1,000,000 financing gap by 20% to $800,000.

Table 1: Best fit and Gap Reduction Ratio for Loan Products

Loan product	Eligible Activities			Best fit project type	Gap Reduction Ratio (GRR)
	Acquisition	Soft Costs	Construction Costs		
1. Senior Construction-to-Permanent Loan	X	X	X	Deeply affordable with significant project-based subsidy	22%
2. Equity Bridge Loan	X	X	X		7.5%
3. Short-term Acquisition Loan	X			Vacant rehabilitation	7.5%
4. Acquisition Mini-Perm Loan	X	X		Occupied rehabilitation	35%

Two loan products (#1 and 2 in Table 1) were identified as best fit for projects with deep affordability and multiple layers of subsidy. These are projects where the costs associated with using federal funds for construction / rehabilitation, (including added labor, compliance and transaction costs) have already been assumed in the project's budget. The GRRs associated with these loans were 22% and 7.5%, respectively. These two loan products may be used individually or in tandem, depending on the role that other lenders or investors are motivated to play.

Two loan products (#3 and 4 in Table 1) were identified as best fit for projects with affordability averaging 80% of AMI or below that do not have other federal funds. These would be smaller loans with shorter repayment terms than #1 and 2, and would be used only for acquisition and/or soft costs. The GRR for the short-term acquisition loan (#3) is estimated at 7.5%, whereas the acquisition mini-perm loan (#4) is more significant at 35%.

Process by which the City will seek out applicants

If the Loan Pool authority is approved by HUD, HRD will design a Notice of Funding Availability (NOFA) aligned to HUD guidelines and underwriting standards, in the latter part of 2024.

In Q1 2026, applications will be opened for consideration. We will hold public meetings for developers to walk through program rules and guidelines and emphasize the differences between this program and other gap funding sources. We estimate that application period will be open for 30-45 days. The proposed process is as follows:

- Application threshold review and scoring
- Underwriting
- Investment committee review
- HUD review
- Council Approval
- Closing

HRD expects to open application windows at regular intervals, dependent on demand and funding availability, until the funds are expended, up to six years after the loan authority is granted.

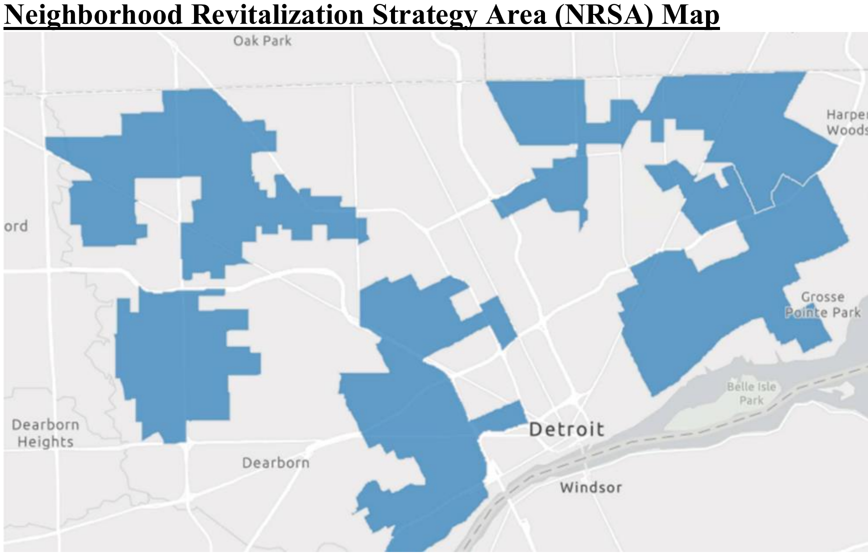
Geographic targeting

Projects across the City of Detroit will be eligible to apply for a loan within this loan pool, however we propose that applicants receive additional priority based on certain geographic features:

- Project ***outside of*** the Greater Downtown area
- Projects in the Neighborhood Revitalization Strategy Area (NRSA) *pictured below*

<u>Greater Downtown Area Map:</u>

<u>Neighborhood Revitalization Strategy Area (NRSA) Map</u>



Please do not hesitate to contact Rebecca Labov (labovr@detroitmi.gov) with any additional questions.