Oregon

Tina Kotek, Governor

HPAC Finance Work Group Recommendation

Work Group

- ☐ Availability of land
- ☐ Land development permit applications
- ☐ Codes and design
- ☐ Workforce shortages
- **X Financing**

Recommendation

Create a new revolving loan fund with below-market interest rates to lower borrowing costs on needed housing development up to 120% AMI and soften the impact of rising interest rates charged by traditional private sector lenders.

The fund should also be structured with slightly less stringent underwriting standards than regulated banks to counter the impact of tightening private sector credit availability.

Financial Feasibility of affordable and middle-income housing developments.

Equity: Access to low-cost capital creates opportunity for developers and buyers from Communities of Color and Tribal partners

Governance and structural changes within state government

Middle income housing

Quasi-independent HFA

Adoption Date

October 11, 2023

Method of Adoption

Adopted by unanimous vote at HPAC Finance Workgroup

Co-chairs Guidance: Standards for Analysis

1. Clearly describe the housing production issue that the recommended action(s) will address.

   When market interest rates increase housing production decrease.

2. Provide a quantitative, if possible, and qualitative overview of the housing production issue.

Interest rate increases over the last year have threatened the viability of new housing developments that rely on banks and other traditional lending sources. A source of lower-cost public capital would offset the impacts of the current rate environment and allow more projects to proceed. The problem impacts development feasibility of all housing products, including Accessory Dwelling Units, single-family, small -plexes, modular, manufactured, and multifamily.

For publicly supported affordable housing, the lower debt capacity resulting from higher interest rates also require greater investment of competitive public capital gap funds in each project, thereby further lowering production of affordable.

In addition, some regulated lenders are tightening their commercial real estate lending standards in the face of changing market conditions and declining asset quality, including for affordable housing. While the proposed below-market loan fund should adopt basic underwriting standards to protect repayment of the capital, those standards should be based on a moderately higher risk tolerance than private lenders typically hold.

By developing below-market financing with targeted risk tolerance, various communities including low-income and communities of color would have increased access to financing. These groups traditionally face greater challenges accessing traditional financing options due to systemic barriers, historical inequities, and limited wealth accumulation. Developing dedicated capital sources for affordable housing can provide targeted financial assistance and increase access to loans for developers and organizations serving these communitie

The proposal for Below Market Financing would impact production in the following ways:
1-Housing unit affordability
2-Housing supply increase
3-Investment stimulation
4-Leverage public resources
5-Project financial viability

Other issues will still need to be addressed to assure affordability including the items listed above.

3. To assess the issue and potential action(s), including subject matter experts representing all sides of the issue in workgroup meetings, including major government, industry, and stakeholder associations.

Catherine Such, Regions Bank Jill Chen, City of Portland HPAC Finance Workgroup members

4. Provide a quantitative, if possible, and qualitative overview of the outcome of the recommended action(s).

If implemented, the following outcomes may be achieved: 1-Increased affordable housing supply 2-Improved housing affordability 3-Enhanced housing stability 4-Community development 5-Racial and Social equity 6-Levarging private investment 7- Communities of Color and Tribal partners access to capital 8- Stabilize housing production If coupled with additional supportive policies such as addressing regulation and robust community engagement, below-market financing can be further leveraged.

5. Provide an estimate of the time frame *(immediate, short, medium, long-term)*, feasibility *(low, medium, high)*, and cost *(low, medium, high)* for implementation of the recommended action(s).

The lending institutions already exist. The Workgroup believes that once the State identifies funding source(s) a program could be up and running in a year's time. The impact would be immediate and long term.

6. Provide a general overview of implementation, the who and how for the recommended action(s).

The State will need to supply initial capital toward the revolving loan fund, sourced from existing State government agencies that will benefit from increased housing production. Sustainable state sources can be developed in the next budget cycle. The program should also solicit funds from outside industries, such as the healthcare where service efficacy can be enhanced by access to stable and sustainable housing, as well as technology firms expected to grow thanks in part to federal investment.

When market interests rise above 5%, the State would activate the fund. The State could start with providing construction loans in the beginning until the fund is large enough to provide long-term permanent financing.

The State would identify a single department to be the fiduciary for the program. The fund should be operated by one or more certified Community Development Financial Institution (CDFI), of which there are several in Oregon. CDFIs are practiced at adapting underwriting standards and blending capital sources. These organizations would be charged with underwriting, documenting, closing, administration, servicing, and monitoring the underlying loans.

7. Outline the data and information needed for reporting to track the impact and implementation of the recommended action(s).

The data collected for this program should be straight forward. How many loans, type of loans, and product built.

8. Identify any major unknowns, tradeoffs, or potential unintended consequences.

If the State doesn't provide below-market, flexible construction and/or permanent capital source as described here, housing production will be dependent on market forces and will fluctuate year to year.

Issues related to maximum loan terms, deed restrictions, underwriting guidelines and risk tolerance, and sources of funds are some details that need to be addressed.

Please include any relevant reports, data analyses, presentations, or other documents that would be informative and useful for the full HPAC as the recommendation is discussed and considered.