



Section 108 Loan Guarantee Program Case Study

Avondale Trace Apartments – Section 108 and LIHTCs

The Avondale Trace Apartments is a seventy-two (72) unit property currently under construction in High Point, North Carolina that demonstrates a creative use of the Department of Housing and Urban Development’s (HUD) Section 108 loan guarantee program to leverage resources for much needed affordable rental housing for residents of the community. This is an innovative example of how the City of High Point was able to leverage \$650,000 of federal funds with \$10.4 million of private capital, creating a public private partnership to facilitate the construction of new affordable rental housing.

Why Use Section 108?

Leverage - Avondale Trace Apartments is the fourth Section 108 project executed by the City of High Point in partnership with HUD, the first of which was initiated in 2016. The Section 108 program permits a CDBG grantee to leverage the annual allocation of a CDBG grant at a 5:1 ratio, as further described below:

Leverage of Section 108 Loan Guarantee - City of Highpoint, NC

2020 CDBG Allocation	5:1 Leverage Capability	Avondale Trace Section 108 GAP Loan Amount	Cumulative Section 108 Gap Financing	Avondale Trace Units	Cumulative Units Created
\$939,549	\$4,697,745	\$650,000	\$4,694,000	72	298

Flexibility - The City of High Point initially allocated \$650,000 of HOME funds to the Avondale Trace project, and upon approval by HUD of the Section 108 loan, was able to preserve the HOME funds for other eligible activities in the city. The terms of the Section 108 loan between the City and HUD provided the flexibility to accommodate the provisions of the multiple sources of capital necessary to produce seventy-two (72) units of rental housing. With the \$650,000 Section 108 loan for the Avon Trace apartment property, the City of High Point has generated \$4,964,000 of gap financing to facilitate the financing of a total of 298 units in four affordable rental housing properties.

Project Details

Location - 5206 W. Wendover Avenue, High Point, NC

72 multi-family apartments located on a 7.75-acre site targeted for families with incomes at or under 60% AMI.

The development plan includes the construction of a clubhouse building, playground, and picnic area on the site located in an attractive and growing area of North High Point.

Unit Mix:

(12) 1-BR @ 705 sq. ft

(36) 2-BR @ 967 sq. ft

(24) 3-BR units @ 1,126 sq. ft

Monthly rents (including a utility allowance to be paid by tenants) range from \$322 to \$827. The tenant income band targeted for the development is between 40% and 60% of the area median income (“AMI”).



Avondale Trace Apartments (Under Construction)

Estimated cost of Property: \$10,449,585

Sources of Funds:

Conventional First Mortgage Loan:	\$1,028,000
NCHFA Rental Production Program Loan:	\$800,000
City of High Point Section 108 Loan:	\$650,000
NCHFA Work Force Housing Loan:	\$250,000
LIHTC Equity Proceeds:	\$7,495,575
Deferred Developer Fee:	\$226,010
Total Sources:	\$10,449,585

Uses of Funds:

Building Acquisition/Land	\$425,000
Land Improvements	\$1,801,229
Construction	\$5,875,068
Soft Costs	\$1,167,329
Developer Fee	\$936,000
Reserves	\$236,385
Other	\$8,574
Total Uses:	\$10,449,585

The equity proceeds referenced above is the result of the award of “9%” low-income housing tax credits provided through the North Carolina Housing Finance Agency’s annual competitive LIHTC round. The Rental Production Program (RPP) and Work Force Housing Loans were also awarded from the competitive request for proposals associated with the state of North Carolina’s LIHTC program.

The RPP Loan is in a second priority position and requires the payment of two percent (2%) interest amortizing over a twenty (20) year term. The City of High Point Section 108 Loan is in third position and requires the payment of two percent (2%) interest over a twenty (20) year term. The agreement by HUD on the priority of the payment of City of High Point loan was based on underwriting all loans at no more than eighty (80%) percent loan to value. Both the RPP and the City Section 108 Loan are structured as “soft debt” for the project, and as such are in a subordinate position to the debt service payments of the first mortgage loan.

The NCHFA Work Force Housing Loan is available as the result of an appropriation of the state of North Carolina that has been used in conjunction with LIHTC transactions. The Work Force Housing Loan is structured as a zero (0%) loan that does not require an annual payment out of the cash flow from property operations.



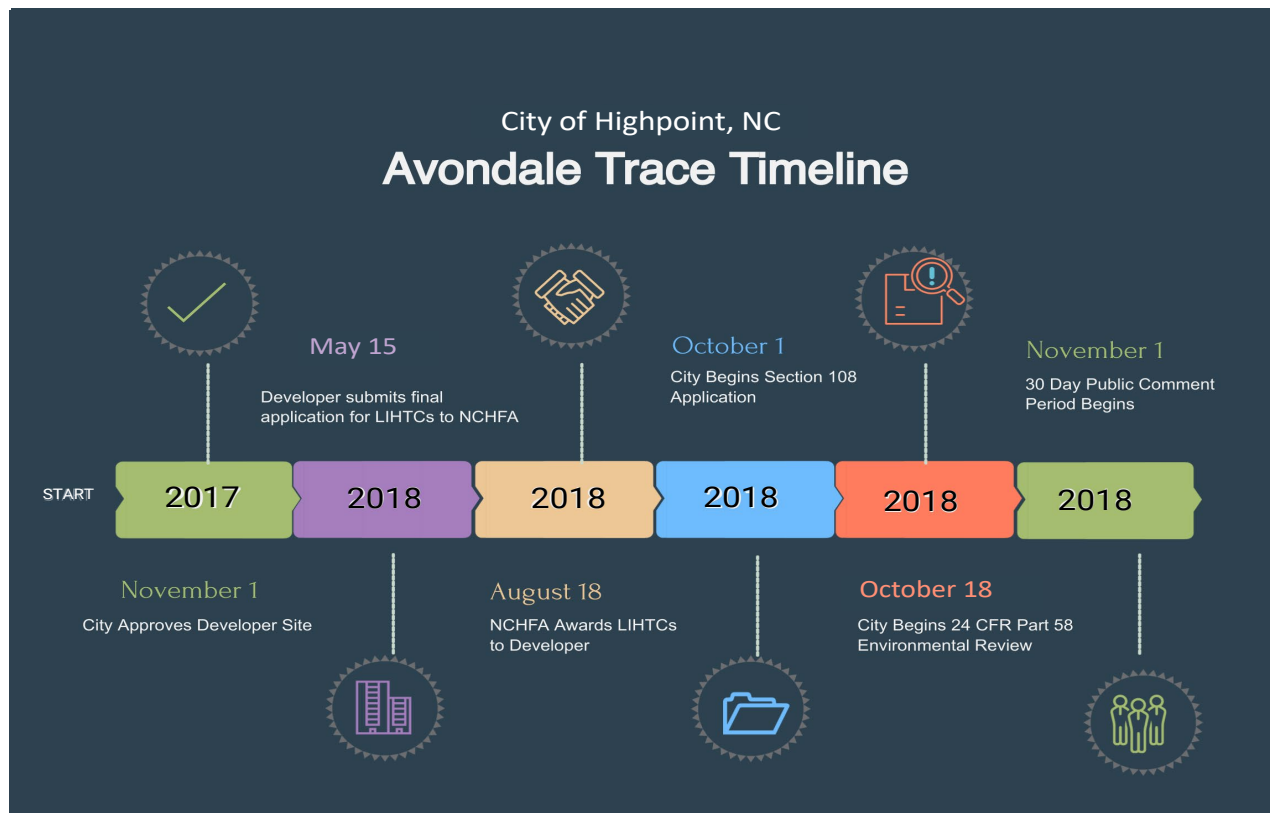
Avondale Trace Apartments

Financing Process and Timing Coordination

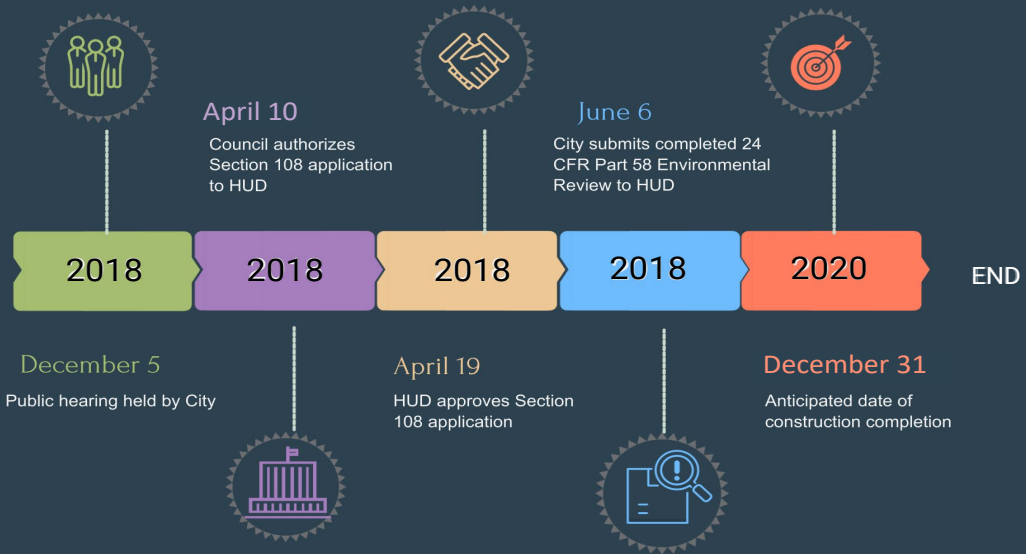
The development of affordable rental housing typically requires resources from multiple sources and as described below the Avondale Trace Apartments is no exception. The timing of the submission of applications to varied funding sources requires careful calibration, and the rules of the varied sources of funding requires coordination between all project partners and those sources of funding.

Wynnefield Properties was approved for a LIHTC allocation in August 2018 by the North Carolina Housing Finance Agency (NCHFA), using the City’s letter of intent for HOME funds. The City decided to apply for a Section 108 loan to allow it to replace the HOME funds and applied to HUD in mid-December 2018. HUD approved the loan request in mid-April of 2019, and the loan closed shortly thereafter. During the time period between the allocation of tax credits and the issuance of the Section 108 loan commitment the Developer completed the final plans and specifications for the project, negotiated equity financing for the sale of the equity associated with the LIHTCs, and worked on other related housing development and finance matters. The Developer of the Avondale Trace Apartments expects the construction to be complete by the end of 2020.

While timing and order of processes will depend on individual projects and funding sources, the general process and timeline of the steps initiated by the City for the Avondale project and the timeline are as follows:



City of Highpoint, NC
Avondale Trace Timeline Continued



Supporting New Housing Construction with Section 108

Section 108 funding expenditures must follow the rules applicable to the Community Development Block Grant (CDBG) program, which has restrictions on the construction of new rental housing. Because of these restrictions, the Avondale Trace Apartments project required the creative structuring of the financial resources. The structuring of CDBG assistance followed the same use of funds employed for the three other projects initiated by the City of High Point that used Section 108 loan proceeds.

The Developer of the property is Wynnefield Properties, a for-profit developer active in the High Point market area. The CDBG rules permit the funding of Community Based Development Organizations (CBDOs), though they preclude loaning or granting CDBG funds to a for profit developer for the new construction of rental housing. However, there is flexibility in the rules as specified in 24 CFR 570.207(b)(3) that permits a grantee to support the development of new construction through acquisition, site clearance, and site improvements. Of the \$650,000 of Section 108 funds made available to the City of Highpoint, \$425,000 was for the acquisition of the site and \$225,000 was for site improvements costs that were contracted for and paid by the City. The City in turn conveyed the property to the developer of the Avondale Trace apartments.

Upon completion of the site improvements by the City’s contractor, the property was purchased by Avondale Trace, LLC, a Wynnefield Properties entity utilized for the development of the property. The Developer in turn was responsible for some of the site development costs as well as for vertical construction costs. The price of the sale to Avondale Trace LLC was based on the appraised value of the property plus the amount to pay off the \$225,000 improvement loan that paid for site improvement costs associated with the development.

Section 108 Loan Terms

A summary of the Section 108 Loan provisions follows:

Section 108 Loan Provisions – Avondale Trace Apartments

Phase	HUD Rate to City	Section 108 Capital Cost	Source of HUD Capital	Payment Terms of City	Security
Site Acquisition and Site Improvement Phase	Variable Rate Facility	Three Month LIBOR Plus twenty (20) Basis Points; origination fee of 2.23%	Money Market Funds	Quarterly Payment of Interest; Annual Payment of Principal	Pledge of First Lien Mortgage on Site and Improvements; Pledge of Future CDBG Funds; Best Faith Effort of City to Secure Repayment from General Fund
Completion of Construction/ Operating phase	Fixed Interest Rate	Rate Based on Capital Cost in Bond Market; HUD Aggregates Multiple Section 108 Commitments Prior to Bond Sale	Bond Market Costs for 20 Year Facility/ Remaining Term at Time of Bond Sale	Semi-annual Payment of interest; Annual Payment of Principal	Pledge of First Lien Position of Developer Note to HUD; Secured by Lien on Real Estate; Pledge of Future CDBG Funds; Best Faith Effort of City to Secure Repayment from General Fund

The HUD origination fee is to pay for the credit subsidy and acts like a loan loss reserve for the federal government. The amount of the fee is modified annually based on HUD’s Section 108

portfolio and economic circumstances, as specified in the federal register. The City chose to finance the fee from loan proceeds, alternatively the City could have paid the fee from its CDBG line of credit or used another available source.

Eligible Activity & National Objective

The use of the Section 108 funds was eligible under 24 CFR 570.703(a), acquisition of unimproved real property and under 24 CFR 570.703(f)(1) site preparation. These eligible activities met the CDBG program National Objective of benefiting low- and moderate-income persons by providing permanent residential structures, where at least 51% of the units will be occupied by low- and moderate-income households with incomes at or less than 80% of Area Median Income, pursuant to per 24 CFR 570.208(a)(3)(i).

Summary

The Section 108 Loan Guarantee program is a valuable tool for CDBG grantees to leverage gap financing that is critical to the development of much needed affordable rental housing. The ability to leverage CDBG allocations at a 5:1 ratio allows for CDBG grantees to maximize grant dollars to undertake large scale projects. The Avondale Trace Apartments property is an excellent example of how a City can leverage its federal resources in a creative way to attract LIHTC and state capital for affordable housing development.

Wynnefield Properties President Craig Stone applauds the partnership forged by HUD, the City, and the state of North Carolina Housing Finance Agency for their creative and cooperative approach to facilitating much needed affordable housing in High Point. In recent years, the City has experienced a steadily increasing growth of Area Median Income and providing additional, well-constructed rental apartments at affordable rates is a substantial asset to the community.