

Somerville Affordable Housing Trust Fund - Early Action Acquisition Fund: Guidelines

February 16, 2023

Background and Fund Purpose

In July 2022, the City Council voted to approve a request submitted by Somerville's Mayor to repurpose \$8,288,903 originally allocated for the Green Line Extension Fund, to the Somerville Affordable Housing Trust Fund (SAHTF) to serve as an Early Action Acquisition Fund (the Fund). The purpose of the Fund is to help enable affordable and/or mixed-income housing developers to acquire property, whether raw land or containing structures, with the speed and flexibility of terms needed to compete with developers able to pay quickly and willing to do so with their own funds (i.e. without need to incur debt financing). Through Early Action Fund lending, affordable and mixed-income developers would thereby be able to control properties with 'patient capital' during development periods that can extend for several years.

Eligible Applicants and Uses

The types of projects which would be eligible for accessing the Fund include the following:

- Eligible applicants: For-profit and nonprofit developers are eligible to apply.
- Acquisition of vacant sites which will be developed into new affordable housing.
- Acquisition of existing structures which involve demolition and/or new construction to create new affordable housing.
- Acquisition of existing structures for the purpose of providing affordable housing which will involve rehabilitation and/or other capital improvements prior to the units being move in-ready.

Fund Terms

Loan terms and related conditions at the time of Fund launch include the following:

- Interest rate: Loans are expected to be made at rates of 2-2.5% (fixed) interest, consistent with rates for other forms of lending referenced in the SAHT's 2023 Strategic Plan. If the Trust elects to change rates for other lending, it expects the rate(s) likewise to change for Fund lending.
- Interest payments: Payments will be made quarterly.
- Loan duration: Lending period is expected to be for between 2–3-years, with the possibility of to extend as circumstances warrant, contingent on Trust approval.
- Ability to convert acquisition loan to permanent subsidy: The expectation is that the Fund will be a revolving fund and that loans will be paid back in full at the end of the term. In the event that sufficient sources of permanent financing cannot be secured, the Trust may consider conversion of loan(s) to permanent financing at the end of its term. Requests to convert any portion of the loan to permanent subsidy will be considered by the Trust on a case-by-case basis, and any requests should be made at least one year prior to the maturity date of the loan.
- Loan ratios : Loans shall not exceed 100% loan-to-value ratio, with value to be established through an appraisal prior to loan issuance. Projects which leverage other funding sources for acquisition will be prioritized in order for the Fund to be dispersed as widely as possible.
- Carrying costs: A certain percentage of the loan may be used for carrying costs (such as taxes and insurance). The Trust may consider providing additional funding for carrying costs if the terms of the loan are extended.
- Reconveyance agreement: In lieu of a Restriction, projects which receive acquisition lending will need to execute a reconveyance agreement, requiring the project be sold to a developer for

creation of affordable housing on the site in the event a project does not proceed beyond the acquisition phase.

Living Document

- The Guidelines may be updated by the Trust when it sees fit to be responsive to changing market conditions.