# Types of Financing for Supportive Housing Development and Operations

This table described the various types of financing available and needed during the different phases of a supportive housing development project: predevelopment, development, and operations. (Note: Many of the terms in this first table (below) are defined further in the additional tables that begin on the following page.)

| | DEVELOPMENT PHASES | | OPERATIONS PHASE |
|---|---|---|---|
| | **PREDEVELOPMENT** | **DEVELOPMENT** | |
| **Type:** | • Grant<br>• Soft Loan – low interest, flexible about how, when, (if?) it gets repaid | • Grant<br>Soft Loan – low interest, flexible about how/when it gets repaid<br>• Hard Loan<br>• Equity<br>• Construction Loans<br>• Permanent Loans | • Subsidies (grants) to project or residents<br>• Capitalized Reserves |
| **Sources:** | • Local Funds<br>• Intermediaries<br>• Foundations<br>• Agency's own resources | • Local Funds<br>• Intermediaries<br>• HUD<br>• State<br>• Tax Credits<br>• Banks<br>• Tax Exempt Bonds | • HUD (most often this is funded with Federal sources)<br>• Local Funds<br>• State Funds |
| **Uses**: | • Deposit on property<br>• Architecture<br>• Legal<br>• Financial Consultant<br>• Appraisal<br>• Environmental Study<br>• Other due diligence activities | • Acquisition<br>• Rehabilitation<br>• New Construction<br>• Indirect (Soft) Development Costs<br>• Furnishings, Fixtures and Equipment<br>• Capitalized Reserves<br>• Finance and Carrying Costs | • To cover the cost of operating the property if the rental income does not fully cover it (in some cases will cover debt service). |
| **Amount (typical range):** | $10,000 - $300,000 | $100,000 – millions! | Calculated on a per unit basis, as either:<br>• Fair Market Rent<br>• An amount equal to the difference between 30% of the resident's income and the cost to operate the unit |

Note: This document is included within the *Development and Finance* section of CSH's *Toolkit for Developing and Operating Supportive Housing*, which is available at www.csh.org/toolkit2.

**Financing Tools for Supportive Housing:**

As illustrated in the preceding table, there are a variety of forms in which funding can be provided to a supportive housing project: loans, grants, equity and subsidies. The following tables provide a brief description of these diverse financing tools and their typical terms.

| DEBT TO PAY FOR DEVELOPMENT COSTS | | |
|---|---|---|
| **1. FIXED PAYMENT LOANS (AKA "HARD" LOANS)** | | |
| **Type** | **Typical Terms** | **Sources** |
| **Below Market Rate Interest Fully Amortized Loans** | Loan payments are required on loan principal and interest, at low simple interest rate (1-3%) for long terms (30 - 55 years). | Government |
| **Below Market Interest Rate Bridge Loans** | 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 |
| **Conventional Fully Amortized Loans** | Loan payments are required on principal and interest at interest rates that are slightly below market for long terms (30 years) | Banks, Bank Consortia |
| **Construction Loans** | 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. | Banks, Bank Consortia, Government |

| DEBT TO PAY FOR DEVELOPMENT COSTS (continued) | | |
|---|---|---|
| **2. "SOFT" LOANS** | | |
| **Type** | **Typical Terms** | **Sources** |
| **Deferred Payment Loan** | 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 (1-3%) | Government and Federal Home Loan Bank AHP Loans |
| **Residual Receipts Loans** | Principal/Interest payments are made annually as cash is available, from some % or all of residual receipts (cash flow after operating expenses and all hard debt service is paid) | Government |
| **Deferred Developer Fees** | Sponsor 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: | | |
|---|---|---|
| **Type** | **Typical Terms** | **Sources** |
| **Low Income Housing Tax Credits** | Corporate investment given to the project in exchange for an ownership interest (99.99%) & delivery of tax benefits | Tax Credit Investors |
| **General Partner Contribution** | 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 |
| **Grants** | Funding from sources that do not require repayment | Some Government sources such as CDBG; foundations; charitable contributions |

| RENTAL AND OPERATING SUBSIDIES TO PAY FOR OPERATING COSTS: | | |
|---|---|---|
| **Type** | **Typical Terms** | **Sources** |
| **Subsidy Contracts** | Funds distributed on a periodic basis, for a pre-determined time, in exchange for serving a particular income group or population to make up the difference between income and expenses | Typically government sources such as HUD (SHP, S+C, Tenant or Project-Based Section 8)* |
| **Capitalized Reserves** | A reserve fund can be capitalized as part of the development budget, to later subsidize rents over a period of time. | Tax Credits, State and local government funders, at their discretion. |

*__**Project-Based Subsidies**__: Project-based subsidies are "attached" to units in a project. Project-based subsidies can be combined with a government program providing low cost capital in order to allow a building to house very low and extremely low income people. For instance, Section 202 and Section 811 supportive housing projects receive federal capital subsidies and a project-based rent subsidy. The contract requires HUD to pay the difference between the tenant's contribution (30% of their income) and the agreed upon operating budget and, therefore, essentially guarantees the rent and allows extremely low income residents to live there.

*Other Examples:* HUD McKinney Shelter + Care
HUD McKinney Section 8 Moderate Rehab SRO Program

*__**Tenant-Based Subsidies**__: Tenant-based subsidies are "attached" to the tenant – that is, if the tenant moves from a unit, the subsidy leaves the unit and travels with the tenant. Tenant-based Section 8 Existing Vouchers are the most widespread type of tenant-based subsidies. This federal rent subsidy program pays a part of the rent for very low-income (less than 50% of area median income) tenants, and is administered by local housing authorities. Tenant-based subsidies will not be considered a reliable enough source of income to be included in your rental income projections for your project.

*Other Examples:* HUD McKinney Shelter + Care
Locally created programs funded through HOPWA , HOME, or local sources.

Note: CSH's *Toolkit for Developing and Operating Supportive Housing* contains many other documents that may be useful for understanding supportive housing financing issues. Please see the tools under *Assembling the Financing* in the *Development and Finance* section of the *Toolkit*, at www.csh.org/toolkit2development. Information about many specific financing programs is available through CSH's *Financing Supportive Housing Guide* at www.csh.org/financing.