

CITY OF PORTLAND, OR

APPLICATION FOR SECTION 108 LOAN GUARANTEE

FROM

**U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

FOR AN

AFFORDABLE HOUSING LOAN FUND

IN THE AMOUNT OF \$35,000,000

DRAFT FOR PUBLIC COMMENT

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I. Executive Summary

The City of Portland (City), by and through the Portland Housing Bureau, is submitting this Section 108 loan application for \$35 million to assist with affordable housing development and preservation activities in Portland, Oregon. The Section 108 funds will be used to create an Affordable Housing Loan Fund targeted to projects that create or preserve housing affordable to low- and moderate-income households. Loans will be available citywide, however, projects may leverage local tax increment financing (TIF) district resources.

The proposed Affordable Housing Loan Fund will address Portland's need to add 63,000 units affordable to households earning 0-80% AMI by 2045, as described in the City's 2023 Housing Needs Analysis. Preservation efforts are also critical to avoid displacement of low-income tenants and ensure housing production gains are not offset by loss of existing affordable housing. Potential eligible project types to be funded include:

- Rehabilitation of existing regulated affordable rental housing and units owned by low- and moderate-income homeowners;
- Acquisition/rehabilitation of existing office or residential buildings for conversion to affordable housing; and
- Activities to facilitate new affordable housing development including land acquisition, clearance, site preparation, infrastructure, remediation, relocation, or other eligible uses.

As each project becomes ready for commitment, the City will submit a loan proposal to HUD with a full description of the project, an explanation of the eligible activity and national objective to be achieved, and analysis of the project's compliance with the City's underwriting guidelines. The City understands that such information will be required prior to release of funds for an individual project.

II. Requested Amount of Section 108 Funds

The City is requesting \$35,000,000 in loan authority.

III. Loan Pool Description

The City of Portland wishes to establish an Affordable Housing Loan Fund using Section 108 financing from the Department of Housing and Urban Development (HUD). The loan fund will assist in creating and preserving affordable housing for the benefit of low- and moderate-income households in Portland. The City may elect to support non-income producing projects by using a portion of annual CDBG allocation as a source of repayment.

A. Eligible Project Types. The City will make funds available for the following types of potential projects:

- Rehabilitation of existing regulated affordable rental housing and units owned by low- and moderate-income homeowners;
- Acquisition/rehabilitation of existing office or residential buildings for conversion to affordable housing; and

- Activities to facilitate new affordable housing development including land acquisition, clearance, site preparation, infrastructure, remediation, relocation, or other eligible uses.

Projects may be mixed-use or mixed-income. The City anticipates that most units funded through the Affordable Housing Loan Fund will be affordable at 60% AMI or below, with a smaller share at 80% AMI.

- B. Eligible Borrower Entities.** Public agencies, nonprofit organizations, and for-profit companies will be eligible to receive funds. Individual homeowners may also be served through a housing rehabilitation program.
- C. Geography.** Funds will be available citywide. However, projects may leverage local tax increment financing (TIF) resources from the Gateway, Central City, East Portland, and Cully TIF districts.
- D. Demonstrated Need**

New Affordable Housing

In 2023 the Portland Bureau of Planning and Sustainability (BPS) completed the 2045 Housing Needs Analysis to quantify current undersupply and projected growth by 2045. Sources included U.S. Census Bureau data; data collected locally by City bureaus including PHB, BPS, and Portland Bureau of Transportation; and state agencies such as Oregon Housing and Community Services. Overall, the study found that Portland needs to add more than 63,000 units affordable at 0-80% AMI by 2045, including 26,370 at 0-30% AMI and 23,487 at 30-60% AMI. This includes an immediate need to add 9,385 units to address current undersupply, of which 94% should be affordable to households at or below 80% AMI.

Preservation of Existing Affordable Housing

Much of Portland's existing affordable housing was constructed 20 or more years ago and has capital needs exceeding what replacement reserves can support. In PHB's portfolio, representing only a portion of all affordable housing in Portland, approximately 9,000 units at 280 properties were built 20 or more years ago. Several buildings, particularly in the Central City, are approximately 100 years old. These aging assets require improvements to address fire and life safety issues, modernize the building, and increase livability for residents.

In 2023 PHB released a Notice of Funding Availability (NOFA) for preservation funding. The solicitation made approximately \$5 million in funding available and received requests totaling \$31 million. We anticipate that PHB's recently released Spring 2025 Preservation NOFA will be similarly oversubscribed.

Repositioning of Existing Buildings

Portland's Central City has had a mixed recovery following the pandemic. The downtown core, Old Town, and other commercial districts continue to experience record-high office vacancy rates. The City has identified office-to-residential conversion as an opportunity to add needed housing near transit, employment, retail, and neighborhood services and contribute to the Central City's revitalization. In addition, lower investment returns at market-rate multifamily residential properties have created a unique opportunity to purchase relatively new buildings for far less than the cost of new construction. In 2024, PHB released a Request for Proposals and awarded funds for acquisition

of three multifamily properties by nonprofit sponsors. Ongoing market conditions in Portland offer additional opportunities to reposition properties to meet affordable housing needs.

E. Alignment with Community Plans; Community Engagement.

Housing Production Strategy and Consolidated Plan

In August 2024 the City adopted its 2024 Housing Production Strategy (HPS) to address the immense need outlined in the Housing Needs Analysis. The HPS drew policy guidance from the City's 2035 Comprehensive Plan which outlines the following priorities related to housing: (1) Provide adequate access to housing for a socially- and economically diverse population; (2) Support fair, equitable, healthy, and physically accessible housing; and (3) Maintain and expand a supply of permanently affordable housing for Portland's most vulnerable residents.

This Section 108 loan proposal implements several strategies from the adopted HPS, which directs the City to (among other strategies):

- Leverage federal funds to promote affordable housing;
- Explore infrastructure investments and strategies to reduce barriers to affordable housing development;
- Preserve existing affordable housing; and
- Promote commercial-to-residential conversion and adaptive reuse.

It also aligns with goals outlined in the City's 2021-2025 Consolidated Plan, particularly the goal to (1) Increase and preserve affordable housing choice, but also (2) Reduce and prevent homelessness and (3) Improve livability through infrastructure, employment, and anti-poverty strategies.

Community Engagement

The City's Section 108 loan proposal is informed by community engagement conducted for the Housing Production Strategy and 2021-2025 Consolidated Plan (described below), as well as ongoing engagement with technical advisors and industry partners including other public agencies, developers/owners, lenders, and service providers. In addition, PHB will post this draft proposal for public comment and hold a public hearing to include planned Section 108 resources and activities in the 2024 Action Plan. The final draft will incorporate feedback received from this outreach.

The priorities outlined in the Housing Production Strategy and Consolidated Plan were informed by years of prior community engagement and project-specific outreach. Outreach for the HPS included an online open house and survey for community members, as well as workshops and presentations with Community Based Organizations and their members. Outreach for the Consolidated Plan followed the requirements outlined in the Consortium's Public Participation Plan and included two hearings on public needs and three Action Plan hearings. All events were advertised in the Portland Tribune, the Gresham Outlook, newsletters, email lists and on the jurisdiction webpages. Citizen participation was also encouraged via surveys and comment cards.

Lastly, outreach for the Consolidated Plan included consultation with community services and housing partners including: 211, Home Forward (the Housing Authority of Multnomah County), African American Alliance for Homeownership, Housing Development Center, Worksystems Inc, Hacienda CDC, Cascade AIDS Project, Multnomah County, Oregon Housing and Community Services, State of Oregon Department of Human Services, Fair Housing Council of Oregon, Enterprise

Community Partners, Proud Ground (Portland Land Trust), Cascadia Behavioral Healthcare Inc., Clark County Public Health, El Programa Hispano Católico, International Refugee Center of Oregon, City of Gresham, Habitat for Humanity Portland Region, Janus Youth, Lutheran CSNW, Unlimited Choices, Southeast Works, Native American Youth Association, and Our Just Future (fka Human Solutions).

IV. CDBG Eligible Activities and National Objectives

A. CDBG Eligible Activities. Each of the projects to be assisted with the Affordable Housing Development Fund will be eligible under 24 CFR 570.703. Because this application is for a loan pool, the individual loans will qualify under several eligible activities that align with the project types outlined in Section III, including:

- Acquisition of improved or unimproved real property (570.703(a))
- Rehabilitation of real property owned or acquired by the public entity or its designated public agency (570.703(d))
- Payment of interest on obligations guaranteed under this subpart (570.703(c))
- Relocation payments and other relocation assistance (570.703(d))
- Clearance, demolition, removal, and remediation of buildings and improvements (570.703(e))
- Site preparation and installation of public and other site improvements (570.703(f))
- Payment of issuance, underwriting, servicing and other costs associated with private sector financing (570.703(g))
- Housing rehabilitation eligible under 570.202 (570.703(h))
- Eligible economic development activities under 570.203 and 570.204 (570.703(i))
- Construction of housing by non-profit organizations for homeownership (570.703(j))
- Debt service reserves (570.703(k))
- Payment of Section 108 loan fees charged by HUD pursuant to 570.712 (570.703(n))

B. CDBG National Objectives. Projects will meet the CDBG national objective of benefit to low- and moderate-income persons or households. Specifically, most projects are anticipated to meet the housing activities criteria (24 CFR 208(a)(3)). Projects may also meet the area benefit or job creation criteria (24 CFR 208(a)(1) and (4)).

None of the projects assisted with the Section 108 loan fund will be used for the ineligible activities provided in Section 570.207(a): buildings used for the general conduct of government, general governmental expenses, or for political activity.

C. Appropriateness Determination for Economic Development Activities. The City anticipates limited situations in which a project financed through the Affordable Housing Loan Fund would qualify under the economic development activity provisions of Section 570.203 or 570.204. Any projects selected will comply with applicable public benefit standards in Section 570.209 and HUD's guidelines for evaluating project costs and financial requirements pursuant to Appendix A of 24 CFR 570.

V. Organizational Information

The City of Portland, through its Portland Housing Bureau (PHB), will administer the Affordable Housing Loan Fund. PHB has a regulated portfolio of 355 projects with 17,897 units, including 276 projects with active loan servicing exceeding \$873 million (as of February 2025). The City will act as the Section 108 borrower and issue the guaranteed debt obligations. PHB has been successful in implementing a prior Section 108 loan fund for affordable housing preservation, administering more than \$11 million across 11 projects starting in 2009. As a longtime entitlement jurisdiction, PHB has significant experience with federal funding requirements including but not limited to CDBG eligibility, Davis-Bacon, NEPA Environmental Review, Section 3, Uniform Relocation Act, Build America Buy America, and the administrative and financial requirements of 2 CFR 200.

PHB's Housing Investment and Portfolio Preservation (HIPP) team will oversee underwriting and loan documentation for each loan in accordance with the underwriting criteria outlined below. The HIPP team comprises 9.0 FTE including the Housing Investment Manager, five Housing Portfolio Finance coordinators, and three Sr. Loan Coordinators. A third-party underwriting consultant may be utilized to provide additional capacity. The HIPP team is supported by 2.0 FTE City Attorneys for loan documentation.

Implementation of the Affordable Housing Fund will also be supported by the following teams at PHB:

- Housing Development and Construction Services, 7.0 FTE, responsible for approving scope of work for multifamily construction/rehabilitation projects, completing the NEPA Environmental Review, monitoring construction process, and approving disbursements.
- Neighborhood Housing Preservation team, 9.0 FTE, responsible for assessing homeowner eligibility, approving scope of work for single-family rehabilitation projects, monitoring construction process, and approving disbursements.
- Finance and Accounting team, 9.0 FTE, responsible for loan disbursements, long-term loan servicing, and Section 108 repayment to HUD.
- Risk Analysis and Compliance team, 9.0 FTE, responsible for approving borrowers' asset and property management plans and monitoring projects for compliance for the term of the CDBG affordability period.

VI. Loan Delivery System

The City will establish a delivery system for the Affordable Housing Loan Fund consisting of the following components.

- A. Outreach.** PHB will select third-party projects through one or more Notices of Funding Availability (NOFA). NOFAs may target one or more of the proposed eligible project types based on market conditions, other funds available, and emergent needs/opportunities. Information about upcoming NOFAs will be published online, shared through email blasts, and made available through industry partners such as Housing Oregon and Oregon Housing Alliance. For each NOFA, staff will host an informational session for prospective applicants. The City will provide translation, interpretation, modifications, accommodations, and alternative formats upon request. Any proposals for a homeownership repair program must include information about outreach to low-income homeowners.

- B. Screening and Underwriting.** Projects will be screened for CDBG eligible activity, national objective, public benefit, and federal cross cutting requirements. The Housing Investment and Portfolio Preservation (HIPP) team will complete underwriting and due diligence in accordance with the criteria outlined in Section IX below. Staff will prepare a credit memo for each project to be presented to the Housing Investment Committee, a standing advisory body to the Mayor, City Administrator, and Director of PHB that makes recommendations regarding housing related investments. The City will also complete an Environmental Review for each project consistent with 24 CFR Part 58.
- C. HUD Application Review.** Following approval by the Housing Investment Committee, HIPP staff will package the credit memo for HUD review including documentation of CDBG eligibility, adherence to underwriting criteria, and pre-submission requirements. Credit memos will be submitted to the HUD Field Office for eligibility determination. The HUD Program Office must give final approval prior to closing of the transaction. If applicable, the City will submit the completed Environmental Review to HUD for issuance of HUD’s Authority to Use Grant Funds prior to closing.
- D. Closing.** PHB will seek final approval from the City Administrator/Deputy City Administrator to complete the transaction. HUD will close on Section 108 note(s) with the City of Portland. PHB to negotiate and close on loan documentation with third-party borrowers including a promissory note, deed of trust, and regulatory agreements.
- E. Disbursement and Loan Servicing.** The City will use its existing Loan Guarantee Custodian Account to accept wire transfers from the HUD’s fiscal agent. PHB’s Finance and Accounting team will oversee disbursements to third-party borrowers and long-term loan servicing in accordance with established policies and procedures. PHB will continue to monitor projects during construction/rehabilitation, at lease-up, and for the duration of the affordability period.

VII. Loan Portfolio Information

A. Sources and Uses

Individual project financing dependent upon selected projects. The City anticipates leveraging at least 20% of total development costs from other sources.

SOURCES	
Section 108	\$28,000,000
Other sources: Debt, equity, and public subsidy	\$7,000,000
USES	
Individual transactions	\$35,000,000

- B. Interest Rate.** Each HUD promissory note will bear a floating interest rate until fixed by public offering. The floating rate is based on HUD’s formula of the three-month Treasury Auction Bill rate plus 35 basis points (0.35).
- C. Repayment Schedule.** In requesting approval of this loan guarantee the City of Portland is

requesting a commitment for a 20-year term. PHB expects to fund a pipeline of projects over a 5-year period. The first loan is anticipated to close by December 31, 2026. The expected City repayment period should run December 2026 through December 2051 (20 years from the date of the final loan closing). An example repayment schedule is attached as Exhibit A; actual repayment is dependent on individual projects and loan terms.

- D. Loan Fee.** The City will pay a fee to HUD at the time of each loan advance (0.82% of principal for FY24-25) using CDBG entitlement or program income funds, or another local funding source at the City's discretion.
- E. Additional Security.** The City's primary source of repayment will be payments received on loans made from the Affordable Housing Loan Fund. The City of Portland understands that if borrowers fail to make timely payments and the City of Portland fails to make a required payment on its notes, HUD will deduct that payment from the City's CDBG Letter of Credit. In accepting this loan guarantee, the City will pledge its CDBG entitlement funds and all other applicable grants as security for the guarantee. The City may elect to support non-income producing projects by using a portion of annual CDBG allocation or another funding source for repayment. For additional collateral, the City will assign to HUD the third-party housing loan agreement, note, deed of trust, and other security interests for individual projects as applicable. The City may also repay its Section 108 obligation from other sources at its discretion and subject to availability.

VIII. Third-Party Loan Guidelines

- A. Loan Product.** Loans made through the Affordable Housing Loan Fund will be structured as subordinate, third-party loans. In most cases, loans will be amortizing, but cash flow-based loans may be considered depending on the project characteristics and other financing sources.
- B. Maximum and Minimum Loan Amounts.** The minimum loan amount will be \$750,000 for multifamily projects. PHB will consider a lower minimum loan amount to fund a homeownership repair program/project, if applicable. The maximum loan amount will be determined by the loan to value ratio, consistent with the underwriting criteria outlined below.
- C. Loan Term.** The standard loan term will be 20 years from date of loan closing and shall in no event exceed the useful life of the asset being financed. Any change in the loan term will be discussed in the underwriting analysis.
- D. Interest Rate.** The standard interest rate will mirror the HUD promissory note, with a floating rate until fixed by public offering. The floating rate is based on HUD's formula of the three-month Treasury Auction Bill rate plus 35 basis points (0.35). However, the City may elect to deviate from the HUD loan terms, charging an interest rate that is higher or lower than the HUD rate. Any change in the interest rate will be discussed in the underwriting analysis, including additional security if the City elects to subsidize the loan repayment to HUD.
- E. Payments/Amortization.** The standard amortization period will match the loan term. Amortization greater than the term of the loan may be considered (e.g., 40 year amortization for a 20 year loan) if the anticipated financial condition of the project is sufficient to sustain a balloon payment at the end of the term. In some cases, PHB may elect to structure loans with repayment from project cash flow, provided that CDBG entitlement or other funds are set aside for debt service to HUD.

- F. **Origination Fee.** The City will assess a fee equal to 1% of the principal amount to pay for the direct and indirect costs in underwriting and managing the loan program.

IX. Underwriting Criteria

- A. **CDBG Eligibility.** Projects will be reviewed to ensure compliance with CDBG requirements for eligible activities and national objective, and other applicable federal requirements.
- B. **Evidence of Site Control.** Eligible projects must demonstrate evidence of site control, which may be through an executed purchase and sale agreement, option with sufficient time frame for financing, long-term ground lease agreement or statutory warranty deed.
- C. **Loan to Value.** Section 108 loans should have a loan to value ratio not to exceed 80 percent at project stabilization. This value must be supported by an appraisal prior to funding.
- D. **Ability to Repay.** Economic development projects subject to 2 CFR 570.209 will have at least a 1.20 debt coverage ratio based on stabilized net operating income. A debt coverage ratio lower than 1.20 may be considered if the project's financial condition supports such a lower ratio (e.g., project has commitment of financially strong tenant(s) under long term lease) or if the City elects to subsidize repayment to HUD.

Key repayment risks will be analyzed in detail, including an analysis of the project's financial assumptions compared to actual market conditions. The analysis will consider vacancy rates, absorption rates, projected time frame to stabilization, reserves, and income and operating expense assumptions. If there is a balloon payment at the end of the loan term, the analysis will describe the financial condition of the property on the maturity date, the project's ability to make the final payment, and efforts to mitigate risk. Operating, replacement, and debt service reserves may be required. PHB will reference appropriate supporting documentation, such as a recent appraisal and operating pro forma to support the analysis.

- E. **Development Team Capacity and Experience.** PHB will review capacity and experience of the proposed developer, general contractor, architect, property management firm, service provider, and owner/operator, as applicable. Development teams should demonstrate the ability to complete the project as evidenced by past projects of similar size and scope. The analysis will consider resumes of key development team members, a list of prior comparable projects with a description of project size and cost and whether such projects were completed on time and on budget, and evidence of the developer/owner's financial position. Prospective borrowers should have experience with public funding sources and accompanying regulations as applicable (e.g., LIHTC, Davis-Bacon, subsidy layering review).
- F. **Developer/Owner Commitment.** Commitments may include but are not limited to: developer/owner equity, guarantees of completion, guarantees to fund shortfalls, or guarantees of minimum cash flow. The developer's financials will be examined and analyzed for ability to meet commitments.
- G. **Collateral.** The City's security interest will typically be in the form of a deed of trust. The analysis will first determine whether the loan to value ratio exceeds 80 percent, using the property being financed as the sole source of value. If such calculation exceeds 80 percent, the analysis will then determine whether there is sufficient outside collateral to add as value, in order to meet the loan to

value requirement. In certain cases, HUD permits outside guarantees to suffice for additional collateral, depending on the resources and financials of the individuals or entities providing such guarantees. The Housing Investment Committee will decide whether to accept outside collateral and/or guarantees to meet the loan to value requirement.

- H. Proposed Costs.** The analysis will compare estimated development and operating costs to costs of similar properties. Estimated development costs should be prepared by a credible third party such as a contractor or other cost estimator with appropriate escalation assumptions. Finally, the City's loan commitments will be conditioned on a guaranteed maximum price contract, or other evidence of firm construction costs within the proposed budget.
- I. Construction and Lease-Up Risk.** PHB will assess the construction and lease-up risks to the project. Key mitigation measures such as construction and soft cost contingencies, reserves, guaranteed maximum price contract, and experience of the development team will be considered.
- J. Commitment of Funds.** Developers must have identified sufficient sources of funds to finance the project. PHB will assess term sheets / letters of intent confirming participation and terms by other funders. If private financing includes a right to adjust the interest rate after a certain point in time, the analysis will describe the effect of such a change on Section 108 loan repayment. Loan documents will contain adequate lender protections (e.g., default and cure privileges) for the City, subject to reasonable conditions of other lenders having priority over the Section 108 loan.
- K. Need for Loan Fund Assistance / Developer Fee.** The analysis will determine whether the project can be developed feasibly with other available financing sources or if loan fund assistance is required. PHB will consider reasonableness of the developer fee compared to comparable projects, and reasonableness of return on the developer's investment given industry rates of return, local conditions, and the risk of the project.
- L. Operating Sustainability/Feasibility.** Projects must demonstrate a sustainable projected operating pro forma given the rents achievable based on rent restrictions, targeted tenant capacity, and any committed subsidies. The analysis will review income and expense assumptions to determine that the project's operations are reasonable and sustainable for the financing period and beyond.
- M. Adequacy of Supportive Services (as applicable).** For residential projects involving permanent supportive housing, the analysis will include review of the proposed support services to be provided. The purpose of the review is to ensure adequate coordination and funding for services that are a necessary part of maintaining tenancy, therefore supporting the projected residential income and overall sustainability of the project.

X. Contacts and Certifications

[CERTIFICATIONS TO BE ATTACHED FOR FINAL APPLICATION]

Exhibit A: Example City-to-HUD Repayment Schedule

This repayment schedule is for illustrative purposes only. The actual repayment schedule will depend on the interim and permanent interest rates and the number/timing of projects selected.

Total Loan Authority	\$ 35,000,000									
Year	1	2	3	4	5	6	7	8	9	10
Repayment	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000

Year	11	12	13	14	15	16	17	18	19	20
Repayment	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000