

**DEVELOPER  
ACQUISITION/ REHAB  
LOAN POOL**

**HOUSING FOR ALL**



CITY OF CLEVELAND  
Mayor Justin M. Bibb



# DEVELOPER ACQUISITION/ REHAB LOAN POOL



CITY OF CLEVELAND  
Mayor Justin M. Bibb

## HOUSING FOR ALL

### OVERVIEW

To create a revolving loan pool to provide low-interest capital for small, mostly minority contractors and CDCs seeking to rehab structures in places where private banks don't typically provide funding

### AMOUNT REQUESTED

\$5,000,000

### DETAILS

The competition from out-of-state cash investors has led to difficulty for local investors in competitively obtaining properties to redevelop. Further, lack of lending capital has led many small developers to use hard money lenders to obtain working capital. The high interest rates charged by these lenders limit profitability and growth for these small, mostly majority-minority developers. This fund would create a revolving loan pool to provide low interest capital for developers working in Cleveland neighborhoods to deliver beneficial outcomes by preserving affordable housing units and assisting with the growth and prosperity of local contractors.

The City has also been working with Cuyahoga County, the County Land Bank, and CDC partners to identify vacant homes on the state forfeiture list which can be diverted from the annual forfeiture auction and rehabbed for occupancy and sale. Developers – both nonprofit and for profit – will benefit from flexible funding to enable the rehab of these structures which are not in neighborhoods where private banks will typically provide lending.

This will provide flexible, low-interest loans to help developers rehab and preserve housing units. ARPA funds may be used as a loan loss reserve to generate additional lending leverage and impact.

### GOALS

To create a revolving loan pool/line of credit, potentially including a loan-loss reserve component to address the lack of capital available for small, mostly minority contractors and local CDCs seeking to renovate homes. This has the critical side benefit of making local entities more competitive with out of state cash buyers who have begun to control significant portions of the market and have led to increasing rents and decreasing housing stability for Cleveland residents.

### DESIRED OUTCOMES

100+ loans and properties rehabbed per year. 100+ vacant properties per year returned to tax duplicate with residents paying income taxes.

### IMPLEMENTATION

RFP; banks and local CDFIs. While administered by a 3rd party selected by RFP or NOFA, the City's Community Development Department will work closely with the administrator to track and monitor lending activity to ensure that maximum leverage is being obtained and that synergy is created with adjacent public and private investments. Spring/Summer 2023 is the expected program launch.



## **Why is this needed?**

Bank capital for local rehabbers is difficult to obtain-many rehabbers work with hard money lenders who charge more than 10% interest with additional points

Small developers with rehab skills want to work in familiar neighborhoods but lack the capital to compete with cash investors

Community Development Corporations lack capital to make strategic acquisitions and in their service areas  
State Forfeiture could provide a pipeline of properties with little to no acquisition cost

## **Critical Priorities and Assumptions**

To be designed as a revolving loan fund, not a grant program

Can be designed as a line of credit or a short term project based loan underwritten based on the after-rehab value of a specific property

Developer should have skin in the game (10% of purchase price at a minimum)

Funds can be used as part of a loan-loss reserve to create leverage

City to issue an RPF or NOFA (notice of funding availability) with flexibility to help shape the program design to create the greatest innovation

Can be layered with other funding, such as gap, to create a workable pro forma in weaker markets

This proposal has already created interest from philanthropy and financial institutions