



## **EXECUTIVE SUMMARY**

### **DEVELOPER ACQUISITION/REHAB REVOLVING LOAN POOL**

#### **Ordinance 898-2022**

Date: August 9, 2022

Name of Requesting Entity: Integrated Development

Address of Requesting Entity 601 Lakeside

Geographic Scope of Project: City Wide

Primary Contact Name: Sally Martin

Email Address: smartin3@clevelandohio.gov

Phone Number: 216-570-3984

#### **AMOUNT REQUESTED \$ 5,000,000**

#### **DESCRIPTION**

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.

The developer acquisition/rehab revolving loan pool will be administered by a third party selected by RFP and will provide flexible, low-interest loans to help developers rehab and preserve housing units in the City. ARPA funds may be used as a loan loss reserve to generate additional lending leverage and impact.

#### **TIMELINE**

Fall/winter 2022 for launch of RFP; Spring 2023 for program launch. The goal is that this product would continue for years to come and be self-sustaining.

#### **IMPLEMENTATION**

RFP; banks and local CDFIs. While administered by the third party, the City's Community Development Department will work closely with the non-profit 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.



## **GOALS**

To create a revolving loan pool/line of credit, 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 in Cleveland neighborhoods. 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.

## **EQUITY**

This initiative will help develop the capacity of small contractors and local CDCs to engage in neighborhood rehab/resale at greater scale, resulting in stronger neighborhoods, especially on the eastside where homeownership opportunities and generational wealth have significantly declined. This will allow units that might have been demolished to be saved and preserved as affordable housing.

## **COMMUNITY IMPACT**

Pre-leverage, this initiative could support 100+ developers and CDCs with a \$50,000 line of credit, potentially doubling or tripling the impact depending on amount of leverage obtained.

## **DIFFERENTIATION**

This is an innovative approach to substantially increasing the capacity of local, small businesses and community development corporations and would set Cleveland apart nationally and serve as a best practice for other cities.

## **FINANCIAL LEVERAGE**

The goal would be to launch this in partnership with local lenders and/or a CDFI with the hope of significantly leveraging additional lending capital, by having the ARPA investment serve as the basis for a loan-loss reserve.

## **ENVIRONMENTAL SUSTAINABILITY**

Preserving units of affordable housing rather than demolishing blighted units is inherently sustainable.

## **ADDITIONAL COMMENTS**

The city's recent focus on diverting properties from the State of Ohio Forfeited Lands Inventory will be bolstered by having this initiative in place to give CDCs and small developers the capital needed to take on projects. Currently, many of the parcels that could be rehabbed in the forfeited lands inventory, are not being addressed due to lack of funding. This would help fill that gap and allow those projects to move forward, creating beneficial outcomes.