

Financing Affordable Housing

A lot of people believe that the main obstacle to creating affordable housing is the lack of financing. The problem is stated as if everyone understands and agrees that if only financing were available, we could create more housing.

This so-called "unavailability of financing" is not the problem. Financing is available all around us. The trick is figuring out how to use the financing that is available for our particular housing development and keeping all the moving parts going in the right direction until the transaction is completed. Financing can come from a variety of sources and a non-profit housing provider must research which financing will work best for each project. Listed below are financing sources and programs that can be used to create affordable housing, including not only financing itself, but also enhancements that may make financing easier.

In some cases the sources listed may provide only one layer of the multiple layers of financing needed to complete any housing development, especially housing that is affordable to low- and moderate-income families. The list will give you an idea of the multitude of sources available.

Keep in mind also, that some of your funding requirements can be sliced off, to make it easier for a specific funder to help you and your development take a small step in the right direction. Examples of these include the following:

Predevelopment funding: Typically predevelopment funding is a grant or short-term loan to complete feasibility studies, engineering reports, environmental reports, architectural plans, or an appraisal. This type of funding can also provide option money or an earnest money deposit required to get the property under option or under contract.

Infrastructure: Grants are sometimes available to install infrastructure including grading, sewers, utilities, streets, and sidewalks.

Training: Grants can be obtained for resident and board training and to provide educational opportunities that are part of the creation of the housing project.

Energy-efficiency: Funds can be accessed to make an existing property more energy-efficient can be used for caulking, weather- stripping, adding insulation, installing storm windows, or replacing windows.

Bridge financing: Bridge financing is the difference between the permanent mortgage and the total funds required. This is usually necessary, because most conventional lenders will lend only up to 65 percent of the appraised value of the project. Bridge financing can be provided through the use of a second or third mortgage on the real estate. A second or third mortgage (sometimes called a soft loan) is subordinate to the first mortgage and is riskier to the lender; therefore, many conventional lenders do not provide this type of lending. Some social investment organizations are willing to lend their funds as soft loans, thus providing bridge financing.

This layer-cake approach to financing doesn't make it easy to finance the project, but it may make it possible. The secret is to figure out how to get ownership or control of the property as one of the initial steps, so you don't lose the property in the process of putting the whole thing together.

When you start asking these questions, keep in mind that many lenders have no experience lending to a non-profit housing organization. In addition to proving that your project is viable, you will probably have to show those on the other end of the conversation how your project is eligible, explain why it is a good idea, and describe how it accomplishes the goals, objectives, and priorities they have set out for their organization.

Sources of Financing and Grants

Federal

- CMHC mortgage insurance
- CMHC Project Development Funding (PDF)
- Residential Rehabilitation Assistance Program (RRAP)
- GST reduction for newly constructed rental housing
- New Federal Rental Housing Program (\$25,000 per unit)
- Sustaining Community Partnerships Initiatives (SCPI)
- RSP's for first time homebuyers
- Energy conservation/weatherization grant funds
- HRDC - Young Canada Works
- HRDC - Aboriginal Housing Programs
- Charitable Status (New Rules)
- Heritage Tax Credits
- Housing Tax Credits

Provincial

- Retail Tax Grant (Ontario) (\$2,000 per unit)
- Sales Tax Rebate (Ontario) for charitable organizations (3.4% of construction)
- First time homeowners' grants (BC)
- Rent Supplements

Municipal

- Waiving development charges & permit fees (Toronto, Ottawa)
- Forgiving municipal taxes
- Discretionary funds
- Toronto Atmospheric Fund
- Municipal Housing Programs (eg Toronto's Let's Build, Ottawa)
- Free land

Non-Profit Organizations

Homegrown Solutions (<http://www.hgrown.org/>) (administered by CHRA)
Affordability and Choice Today (ACT) Program. (www.fcm.ca/newfcm) (administered by FCM)
Co-op Housing Federation of Canada's Risk Underwriting Fund (RUF)
Churches

Social Investment Organizations (often pension funds)

Labour Sponsored Funds (Quebec)
Canadian Alternative Investment Co-op (CAIC) (<http://www.caic.ca/>)

Foundations

Co-operative Development Foundation
Real Estate Foundations (Alberta & Man.- funded by land transfer tax)
Atkinson Foundation - (public housing conversion projects)

Vendor

Vendor-take-back-mortgage (interest-free or at below market rates prior to occupancy)

Member Equity

Limited Equity Co-ops can use member equity (member loans or shares)

RSPs

Using a mortgage fund
Setting up an eligible business corporation

Capital Cost Allowance

The non-profit group leases the building from a developer who uses the Capital Cost Allowance (CCA) to reduce their taxes. The value of this tax write off is used to reduce the lease price to the group. The group often has the right to buy the building after a fixed period of time (usually 15 or 20 years).