



# Credit Enhancement for Workforce Housing

*Issued March 2017*

## **Background**

**The Workforce Housing ("WFH") Program** within the Philadelphia Department of Planning and Development seeks to promote housing affordable to middle-income households. The Philadelphia Land Bank has released several competitive Requests for Proposals ("RFPs")<sup>1</sup> seeking developers to build WFH . The Land Bank intends to issue additional RFPs in 2017. Each RFP is in a neighborhood with appreciating housing and residential property values.

To encourage financial institutions to provide affordable financing to developers participating in the WFH program, and especially to support smaller, locally owned, minority-owned and women-owned developers, the Philadelphia Redevelopment Authority ("PRA") now offers a **Credit Enhancement ("CE")** for secured WFH Construction Loans. PRA's CE facility will provide a twenty-five percent (25%) guarantee (such guarantee not to exceed \$250,000 per WFH project) directly to the financial institution on secured construction loans made to developers selected through the Land Bank's WFH RFPs. The CE facility is essentially a letter of credit to reduce the financial institution's exposure. In the event of default, the CE facility will serve as a first-loss fund on a per-unit basis. All developers selected through the Land Bank's WFH RFPs will be eligible to take advantage of the CE facility.

### **Credit Enhancement for Workforce Housing – Term Sheet**

Purchaser:	Reputable financial institutions that are financing developers selected through WFH RFP process. PRA reserves the right to decline participation if the terms of the loan are deemed unreasonable when compared to other similar products on the market.
Facility:	Up to a twenty-five percent (25%) guarantee on secured construction loans <sup>2</sup> , for WFH projects, in the form of a first-loss fund to be payable to the financial institution in event of default or nonpayment. Guarantees will be on a per unit basis, with a maximum guarantee amount of Two Hundred Fifty Thousand Dollars (\$250,000) per developer per RFP <sup>3</sup> . Developers submitting for several WFH RFPs will be able to have their lenders utilize this facility for multiple WFH projects.
Payment	Financial institution may enforce payment on the guarantee after all secured assets have been liquidated at a loss and the financial institution can demonstrate the effect of such loss. Payment will be on a per unit

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1 To date, the RFPs have required development of for-sale housing. Future RFPs may also allow for rental housing development.

2 The CE facility will immediately terminate in the event that the loan is modified, terminated, refinanced, or converted to permanent debt.

3 Average size of PRA exposure is anticipated at about \$43,125 per unit, based on responses from prior WFH RFPs, average WFH unit size is about 1,500sf and average cost per unit is \$115/sf = average per unit cost of \$172,500.

	basis.
Requirements	Including the PRA's portion of the exposure, financial institutions utilizing this facility must provide at least eighty-five percent (85%) loan-to-cost ("LTC") and at least eighty percent (80%) loan-to-value ("LTV") of the total construction cost.
Price	PRA will charge 150bps on up to a twenty-five percent (25%) guarantee. This will be a one-time cost payable at time of origination. This cost will be refunded if the construction loan fails to go to settlement.
Term	Up to twenty-four (24) months. Guarantees may be extended for an additional twelve (12) months at an additional cost of 50bps on the total remaining exposure at time of renewal.
Termination	PRA may terminate its guarantee if the financial institution or developer fails to comply with the terms of the Land Bank's WFH program.
Eligibility	PRA will consider guarantees on secured construction loans to any developer selected through the Land Bank's WFH program to be eligible for this financing instrument.

**Credit Enhancement for Workforce Housing – Application**

**1. Applying Financial Institution**

Name of institution \_\_\_\_\_  
Contact name \_\_\_\_\_  
Address \_\_\_\_\_  
Phone \_\_\_\_\_  
Email \_\_\_\_\_

I verify that the financial institution listed above does not have any active litigation with the City of Philadelphia, PRA or the Philadelphia Land Bank, and that it does not owe back taxes to the City of Philadelphia.

**2. Workforce Housing Developer**

Name of developer \_\_\_\_\_  
Contact name \_\_\_\_\_  
Address \_\_\_\_\_  
Phone \_\_\_\_\_  
Email \_\_\_\_\_

I verify that my institution intends to make a construction loan to a developer who has applied to build workforce housing, in response to a workforce housing RFP released by the Philadelphia Land Bank. I understand that PRA's credit enhancement is only eligible for developers selected by the Philadelphia Land Bank.

**3. Construction Loan**

Total size of construction loan \_\_\_\_\_  
Interest rate \_\_\_\_\_  
 Fixed rate or  variable rate

If variable what is the interest rate pegged to? \_\_\_\_\_  
Total amount of origination fees \_\_\_\_\_  
Total other fees due during the life of the loan \_\_\_\_\_  
Term of construction loan in number of months \_\_\_\_\_

I verify that this loan covers at least 85% of the project loan-to-cost ratio, and at least 80% of the project loan-to-value ratio.

**4. Loan Guarantee**

I agree that my institution is interested in having PRA guarantee up to 25 percent of this construction loan (not to exceed \$250,000), and I agree to the terms stated in the attached term sheet.

Desired amount of guarantee \_\_\_\_\_

If the developer listed above is awarded this workforce housing project by the Philadelphia Land Bank, and if my institution makes a construction loan to the project, I agree to pay 150bps on the total amount shown above for PRA's guarantee.

Signature \_\_\_\_\_

Printed Name \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_