

# **Interest on Loans for CDBG and HOME funded projects**



**Presentation to Community and Cultural Development  
Committee – January 8, 2015**

# Why we are here?

- Request received to charge 3% interest on a HOME loan, compounded annually.
- Staff has recommend continued use of 0% interest.
- Asking direction from the Cultural and Community Development Committee on applying interest to loans funded with CDBG and HOME funds.
- Would required a change in current City Housing and Community Development loan practice.

# Background

- Loans provided prior to 2012 were interest bearing.
- Most loans only accrue interest but make no payments until maturity.
- At maturity, all have requested forgiveness of the principal and interest. Over one million in interest only has been forgiven to date.
- Only Public facilities and home ownership programs are permitted to forgive both the principal and the interest.
- Interest is permitted to be forgiven on all project types with justification and council approval.

# Steps to forgive loan interest

- Provide written justification as to why the interest cannot be paid by the borrower – review of yearly financial statements and audits, determination of why the project was not able to follow their proforma, what factors contributed to their inability to meet their payment obligations, etc.
- Public comment and City Council Approval.
- Revise Promissory Note, Deed of Trust, and Home Loan Agreement.

# Policy from 2012 to Present

- Provide no interest loans for all HOME and CDBG loans.
- Benefit - Reduction in staff time and resources.
- 0% interest was noted in past hearings and meetings.
- Over 20 loans at no interest.

# If Approval of Policy Change

- We can expect:
  - Request to modify existing loans issued after 2012 and most of the past approved low income tax credit projects that were processed at 0%.
  - Increase in staff time and resources needed.
- Staff recommends denial of this modification.



# **Questions and Discussion**