



### **What is a revolving loan fund?**

A Revolving Loan fund is a pool of money used to make loans to businesses or individuals for specific purposes that are then repaid, usually with below-market interest. The term “revolving” refers to the capital cycling through the fund - being borrowed, then repaid, and then re-lent - as opposed to funds that are a one-time grant and not re-paid. Revolving funds can be self-sustaining if they are large enough that interest earned pays to operate the fund, and the fund has a high repayment rate from its borrowers.

### **How does the Durham Affordable Housing Loan Fund work?**

The existing Durham Affordable Housing Loan Fund (Fund) was seeded with loans from the City of Durham and Duke University (Duke) in 2019. It was initially created to provide funding to substantially renovate or preserve affordable units for sale or rent within the City of Durham.

Self-Help leveraged Duke’s and the City’s seed funding to receive 3x matching loans from a national bank, NC Initiative, and Duke University<sup>1</sup>. Together, these funds created the initial \$10 million Fund. The senior loans from Duke, the Initiative, and the bank are in ‘first position’ on the loans to housing developers, and the seed money from the City and Duke is in second position. (This is similar to having a first and second mortgage on one’s house – the first lender gets paid back in full before the second place lender gets paid.) This means there is more risk to the seed or “top loss” funding, but the Fund has had zero defaults to date, and all loans are collateralized with the subject property.

Together with Self-Help, the funding partners prescribed the tools, goals, restrictions, and other specifications to guide the work of the Fund through loan and operating agreements. The Self-Help Fund Managers market, underwrite, service, report and collect on the loans, earning a percentage of interest from the borrowers. Borrowers receiving loans from the Fund accept deed restrictions guaranteeing the affordability of the project.

The currently proposed expansion of the Fund includes programmatic changes in addition to the new \$20mm in funding. The eligible geographic footprint of the Fund will expand from the City to the County, for-profit entities will be allowed to apply, and there will be a new gap financing loan product added to the current bridge funding loan product<sup>2</sup>. All applicants must meet Self-

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<sup>1</sup> Duke provided two tranches of funding with differing interest rates and risk profiles, one seed or “top-loss” contribution, and one senior debt contribution.

<sup>2</sup> Gap financing is a loan that provides funding to new construction projects that fills the “gap” between what the developers contributes, including their bank loan, and the total cost of the project. This is the type of funding the County has loaned for the development of the 300 and 500 Block Projects. For this Fund, gap financing loans typically have 15-year terms and requires 20-year affordability deed restrictions.

Bridge financing is a loan for land or existing housing that allows a housing developer to buy property at a speed that matches the private sector and gives them time to develop a financing plans to build or renovate the property. Bridge loans typically have 5-year terms and require 10-year affordability deed restriction.



## **Durham County Government**

### **Agenda Action Form Supplemental Document – Background and Explanation of the Durham Affordable Housing Loan Fund**

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Help's strict financial underwriting standards, in addition to meeting the criteria of the program, e.g. accepting deed restrictions.

Since the initial Loan Fund in Durham, Self-Help has worked with other local governments and financing partners to start several other funds, including:

- \$61.2 million Wake Affordable Housing Preservation Fund
- \$40 million Western North Carolina Affordable Housing Loan Fund
- \$32.5 million Greensboro Housing Loan Fund
- \$20 million Chapel Hill Affordable Housing Loan Fund

#### **Next Steps**

Once the currently requested contributions from the City, County, and Duke are committed, Self-Help will be able to finalize the senior debt contributions from their regional and national banking partners. All currently requested contributions to the Fund are anticipated to have 20-year terms from their lending partners. This allows bridge loans to re-circulate up to three times (for a total of four 5-year terms), and gap financing loans to be issued through the first several years of the Fund term, and be repaid over 15 years, or a term that matches the expiration of the partner loans (so, up to a 12-year loan if the fund is in year eight).

#### **Policy Impact**

Supporting housing in Durham County aligns with Durham County Strategic Plan goals involving financial stewardship, community development, and housing. These including DCo Forward 2029 Strategic Plan Objective RL 4 - Support efforts which ensure that Durham residents of all economic backgrounds have access to housing through Initiative RL 4a to Develop strategies to partner with stakeholders and identify funding resources to reduce housing insecurity; and Objective FS 1 – Maintain a strong financial status with a variety of revenue sources through Initiative FS 1a to Strategically align funding and investments with County priorities to improve organizational and community outcomes.

Additionally, Durham's adopted Comprehensive Plan includes a Housing Policy Topic that includes eight policies (Policies 40-47) related to housing access, affordability, and reducing barriers to housing.