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## Leveraging of 502 Funding

# Facilitators

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# Today's Outcomes

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- ❑ Explore the use of leveraged funds to bridge the gap.
- ❑ Meet the very-low-income requirements.
- ❑ Use deferred loans and grants to qualify more participants.

# Introductions

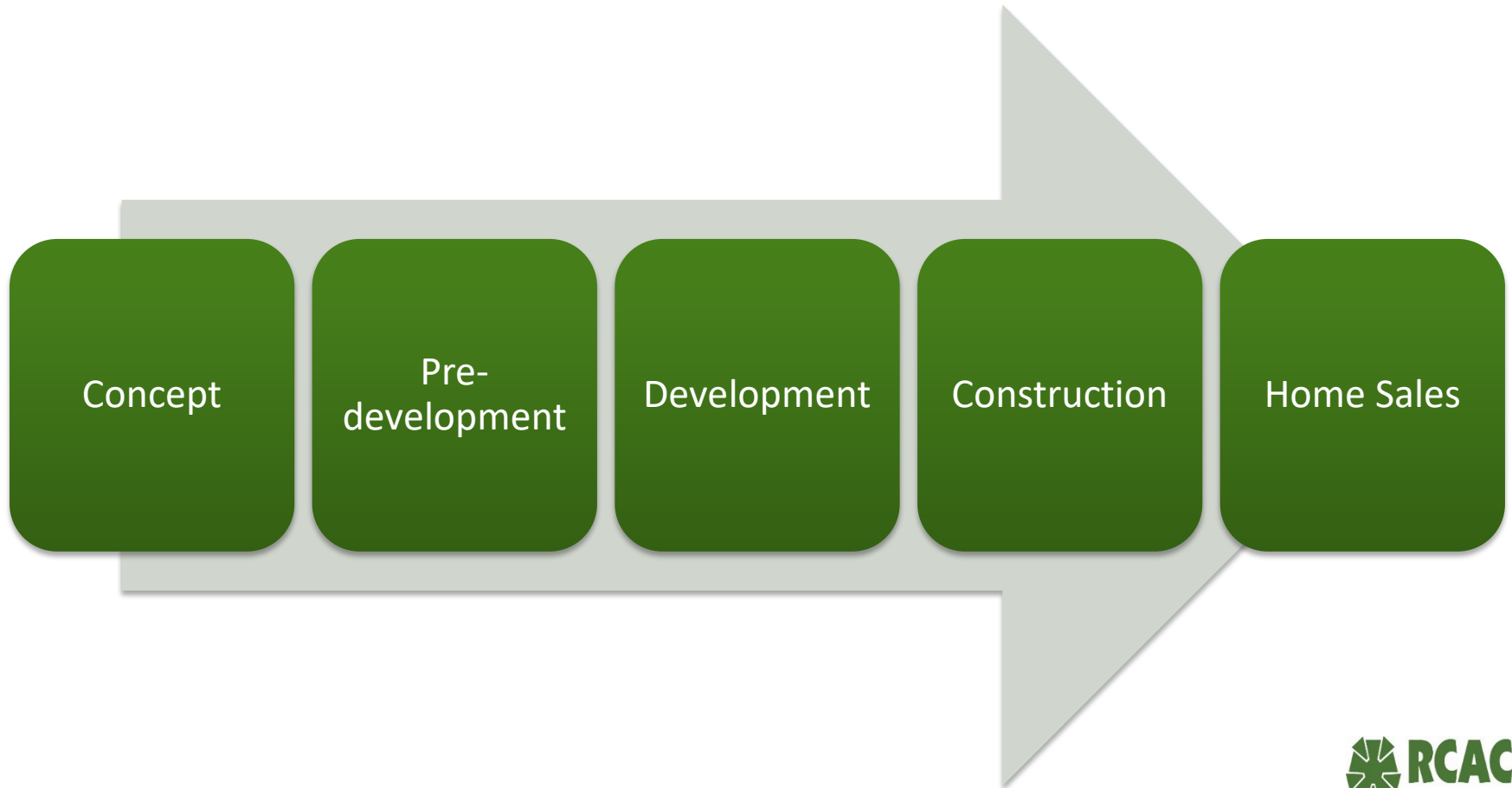
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- ☐ Name
- ☐ Organization
- ☐ 1 expectation for today

# Development Process Phases

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# Sales: Decisions

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- Eligibility
- Gap financing
- Deed restrictions
- Other
- Lenders -more funds, if needed



# Affordability Gap

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- The difference in what the applicant can afford and the actual cost to purchase the land and build the home
- Sometimes this is called subsidy, down payment assistance, grants, and/or forgivable or deferred loans





# Applicant Affordability

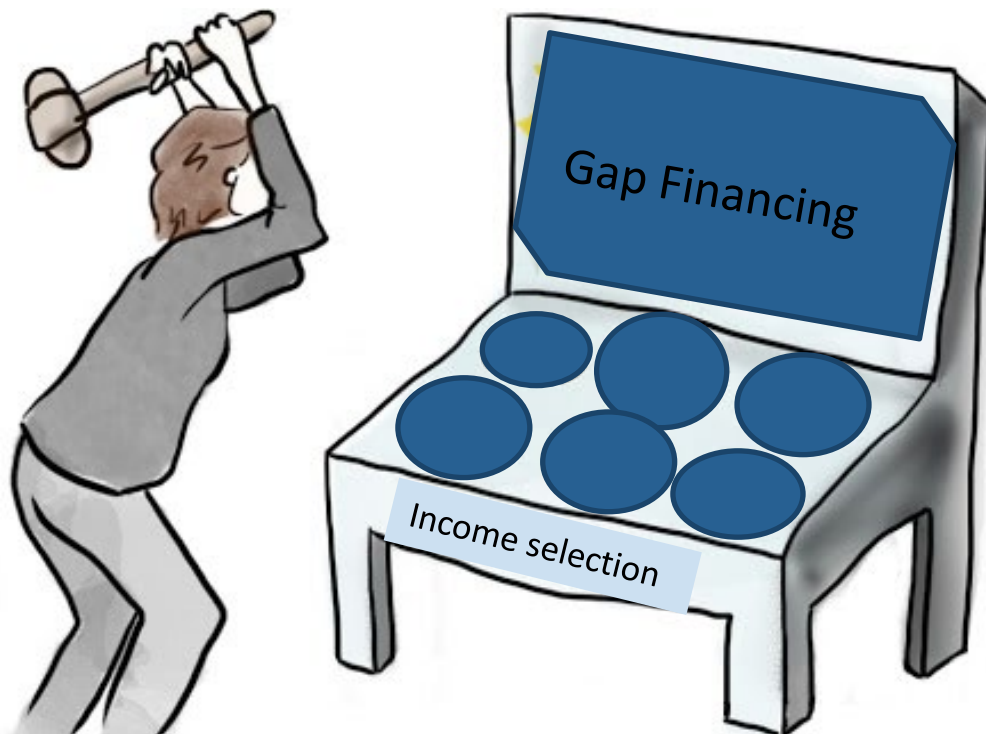
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- Homes sales price (budget) need to be based on what your applicant's can afford.
- Funding sources often also limit the budget to the appraised value.
- Several funding sources also limits budgets to what they consider affordable and modest.
  - USDA 502 Direct – Area Loan Limit
  - FHLB
  - SHOP
  - HOME



# Got GAP?

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# Leverage Loans

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- Interest rate may be “fixed” at one rate for the term of the loan
- Interest rate may “float” or change over the term of the loan
- Interest can be zero, simple, or compound

Fixed interest rates work best for low-income people and affordable housing

# Leverage Grants

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- Interest rate may be “fixed” at one rate or “zero”
- Forgivable, after compliance period
- Due at change in Title
- Non-transferable
- Occupancy requirements
- Resale Restrictions or Shared Equity

# Loan/Grant Security

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- Security refers to collateral pledged or provided for the loan or grant
- Typically, in second position
- Usually
  - Deed of Trust
  - Promissory Note
  - Shared Equity
  - Regulatory Agreement
  - Resale Restrictions
  - Other

# There is not just one way, the options are infinite...

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Depends on:

- Organization's capacity
- Funder requirements
- Need

# Subsidy

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- Organizations may provide their funds as loans instead of grants
- Loans allow for a Deed of Trust and/or covenants recorded against the property to secure **compliance** with affordability restrictions
- Falling out of compliance counts as default on the loan

# Best Funding Sources Support More Than One

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- Provides funding for the development and are ideally grants
- Allows funds to be left in the homes to bridge the affordability gap
- Allows nonprofit developer to cover their cost and earn additional income and/or assets for increased capacity (ideally unrestricted)
  - i.e., SHOP – Early funding for site acquisition and site development. Can be left as homebuyer assistance or revolved out for future homes.



# When to plan - Sources and Uses



Which sources are available and what do they fund



Map out the timing of the funding plan – application cycle, announcement of awards, timing of fund availability



Analyze competitiveness of proposed funding sources



Create a back-up plan, if you are not successful in a funding application or are awarded less than requested

# OTHER PEOPLE'S MONEY

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Tom Collishaw – Self-Help Enterprises  
National Self-Help Housing Conference  
Orlando, FL  
March, 2025



# WHY WE NEED IT

Gap financing – what things cost vs. what our families can afford

Project feasibility – when costs are too close to value of the home

When RD loans are not available – due to geography or scarcity



# SOURCES

Federal – SHOP, HOME,  
Capital Magnet Fund

State – CalHome, Farmworker

Local – includes in lieu fees,  
impact fee deferrals,  
philanthropic



# SHOP

Pass through

SHE uses to build up  
development capital (only  
occasionally for subsidy)



# OTHER FEDERAL SOURCES

AHP

HOME

Capital Magnet Fund



# LOCAL ASSISTANCE EXAMPLES

Housing Trust funds

PLHA

In lieu fees

Fee waivers or deferrals

Private philanthropy





# LOAN TERMS AND DEED RESTRICTIONS

Affordability gap  
determination

Deferred zero interest — due on  
sale

Interest bearing loans (with or  
without interest)

Equity Sharing

Forgiveness clauses

Resale Restrictions — long term  
affordability



# THINGS TO REMEMBER

Primary lender approval  
required

Distinction between home  
ownership and occupancy

Beware of conflict of interest

Monitoring responsibilities



# NON-502 FIRST MORTGAGES

Allowed with 523 funding (income eligibility still required)

Holy Grail – duplicating construction to perm nature of 502

Interest rate risk

Income and credit risks

In periods of inconsistent or scarce funding, needed for versatility and continuity

QUESTIONS?

[www.selfhelpenterprises.org](http://www.selfhelpenterprises.org)



# Group Discussion

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