

CITY OF CHARLOTTE
SECTION 108 LOAN GUARANTEE APPLICATION
COMMUNITY PARTNERSHIPS INVESTMENT FUND

Requested Loan Amount: \$25,000,000

Applicant: City of Charlotte

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EXECUTIVE SUMMARY

The City of Charlotte requests a Section 108 Loan Guarantee of \$25,000,000 from the U.S. Department of Housing and Urban Development (HUD) to establish the Community Partnerships Investment Fund (Partnership Investment Fund). This fund will primarily address housing and neighborhood stability across Charlotte's six designated Corridors of Opportunity and areas planned for Transit Oriented Development (TOD). Partnership Investment Fund will provide critical financing for property acquisition, rehabilitation, infrastructure enhancements, and strategic economic development activities aimed at significantly improving housing options, economic prospects, and community vitality for low- and moderate-income (LMI) residents. The proposed uses are consistent with the City of Charlotte's Consolidated Plan which include the goals of providing affordable housing, improving existing housing stock and creating neighborhood stability. The requested amount includes HUD financing fees.

MARKET ANALYSIS

Charlotte, North Carolina is experiencing dynamic changes in its housing and commercial landscape fueled by rapid population growth, especially among young knowledge workers and retirees attracted to Charlotte's climate and excellent health care. Current trends, including higher interest rates and construction costs, indicate rising housing inventory, steadying prices, and sustained buyer engagement. Concurrently, redevelopment efforts and commercial opportunities present critical needs that require strategic investment in land acquisition and infrastructure development. This assessment, directly supporting a Section 108 revolving loan fund application, highlights these crucial needs.

Affordable Housing Shortage

Charlotte faces a significant deficit in affordable housing. As of February 2025, the median home price in Charlotte stands at \$415,000, marking a 2.5% increase year-over-year. While inventory levels have risen by approximately 50%, indicating a shift toward a healthier market balance, affordability remains a persistent issue. Charlotte's housing supply, currently at 2.1 months¹, suggests persistent high demand despite inventory growth. This condition underscores the need for substantial investment in affordable housing through strategic land acquisition and redevelopment.

Increasing Inventory and Land Acquisition

¹ Canopy Realtor Association – February 2025 Report

Recent data indicates improved inventory levels, with total available for sale homes in Charlotte up nearly 47% to 2,100 units. This growth offers an opportunity to address affordable housing directly. Strategic land acquisition, particularly in emerging residential corridors and areas identified for growth such as Charlotte's opportunity corridors, would capitalize on current market shifts and facilitate housing stability and affordability.

Redevelopment of older multifamily properties and underutilized commercial areas represents another critical area for investment. Data from the Charlotte apartment market indicates that older, Class-C multifamily properties offer prime opportunities for redevelopment into affordable or mixed-income communities. Investing in such projects aligns with the city's broader goals of enhancing housing stability and increasing the affordable housing supply.

Housing stability is closely tied to economic and social outcomes. Targeting investments that leverage other funding such as Low-Income Housing Tax Credits (LIHTC), private equity and philanthropic investment has proven beneficial for both housing stability and leveraging catalytic outcomes such as improved mobility and self-sufficiency through programming such as job upskilling and reskilling. Utilizing Section 108 funds to quickly secure opportunities and complement other financing would maximize impact, promoting sustained economic and community stability.

Revitalizing Commercial Corridors

Charlotte's commercial corridors, particularly in historically under-invested neighborhoods, require strategic redevelopment. Focusing redevelopment efforts on these areas not only rejuvenates local economies but also complements residential redevelopment projects, creating cohesive mixed-use communities. Investments will prioritize areas near expanding residential neighborhoods, thus stimulating local employment and enhancing community vitality.

Small businesses in Charlotte, face limited access to affordable commercial spaces. Acquiring and redeveloping properties into affordable commercial incubators or co-working spaces could significantly bolster economic resilience. This strategy would foster entrepreneurship, job creation, and local economic growth.

Infrastructure Enhancement

Infrastructure remains a crucial aspect of redevelopment, particularly in areas earmarked for commercial revitalization. Enhancements in transportation, utility access, and digital infrastructure are necessary to attract businesses and facilitate sustainable economic growth. Infrastructure improvements would directly support both residential developments and commercial viability, contributing to broader economic stability.

Market Summary

Strategic land acquisition and targeted redevelopment represent critical needs for Charlotte's continued growth and community stability. Prioritizing affordable residential developments addresses acute housing shortages, while focused commercial redevelopment stimulates local economies and fosters inclusive growth. Leveraging the Section 108 revolving loan fund to support these initiatives will significantly enhance Charlotte's ability to meet current housing demands and economic development goals, establishing a more sustainable and equitable urban environment.

ALIGNMENT WITH CHARLOTTE'S CONSOLIDATED PLAN

Partnership Investment Fund directly aligns with Charlotte's Consolidated Plan goals to address the affordable housing crisis, increase economic opportunities, and stabilize neighborhoods. The fund responds to the Mecklenburg County Housing Action Plan, which identifies dramatic home price increases (72% from 2017-2022) and substantial rental cost hikes (34%) as critical challenges. Partnership Investment Fund aims to mitigate these pressures by expanding affordable housing supply and fostering economic resilience through targeted, strategic investments.

Amount of Section 108 Request (in increments of \$1,000)

Provide the requested amount of Section 108 Assistance (in increments of \$1,000). If the Section 108 financing fee (the fee that HUD charges for loan disbursements under Section 108 loan guarantee commitments) is going to be paid for with Section 108 loan proceeds, please include that amount in the overall request. (The fee is announced through a Federal Register notice posted on program website each fiscal year.) [Ref: 24 CFR 570.704(a)(1)(iv)]

Include a specific statement on the use of guaranteed loan proceeds.

This amount must be equal to or lower than the local government's or state's available borrowing capacity under the program.

Information for Financial Underwriting

- Sources and uses statement (for the entire project)
 - Should cover total project development cost
 - Identify the specific uses of Section 108 funds
 - Should be in table format
- Section 108 financing fee should be accounted for as a use of funds
- State the source of fund to pay the loan fee (i.e., loan proceeds, CDBG, local funds, other)

- Information on other proposed and committed sources of project financing
- Information on estimated revenue and operating expenses
 - For a real estate project, submit a pro forma
 - For a business loan, submit a financial statements and pro forma cash flow analysis
- Proposed collateral for the Section 108 guaranteed financing (in addition to the primary pledged of CDBG funds)

Proposed Repayment Schedule

Repayment schedule will include the proposed Section 108 principal-only repayment schedule (Maximum of 20 years; each year in \$1000 increments). Submit in table format for year 1, year 2, etc.. This will be for planning purposes and application. HUD understand that the repayment schedule is tied to the Note to be issued. I suggest divide \$25M by 20 yrs.

Expected Sources of Repayment and Loan Fee

The applicant should identify the expected sources of repayment (e.g., grant funds, project income, or third-party borrowers) and estimate the amount of funds that are available for repayment of the Section 108 loan. Additionally, the applicant must identify the source of payment for the Section 108 loan fee and who will pay the fee.

Appropriateness Determination (Applicable to Economic Development Activities)

The applicant must address several issues, including a description of the project costs, a review of the need for Section 108 funding, and an analysis of the public benefit to be derived from the project. This documentation is only necessary when Section 108 loan guarantee funds are used to assist a for-profit enterprise. [Ref: Appendix A to Part 570, Title 24]

LOAN PORTFOLIO INFORMATION

Partnership Investment Fund will support a mix of eligible activities within Charlotte's Corridors of Opportunity, prioritizing housing and neighborhood stabilization, including:

- Acquisition, rehabilitation, and adaptive reuse of residential and commercial properties (24 CFR 570.703(a))
- Infrastructure improvements and public facilities supporting neighborhood revitalization (24 CFR 570.703(l))

- Strategic economic development projects creating sustainable LMI jobs (24 CFR 570.703(i))

Form of Assistance:

- Short-term (up to 5 years) and long-term loans (up to 20 years)
- Loan amounts from \$500,000 to \$7,500,000 per project
- Interest rates set at or above Charlotte's HUD borrowing cost
- Collateral primarily in the form of real estate, with preference for City's first lien position and collateral assignment to HUD.

LOAN UNDERWRITING

General Eligibility: All projects funded through Partnership Investment Fund must meet HUD's national objectives as defined under 24 CFR 570.208 and clearly demonstrate public benefits, including job creation or housing stabilization for low- and moderate-income (LMI) populations. Loans are available to experienced for-profit and nonprofit development organizations with extensive housing or commercial development expertise.

Residential Development Underwriting: Eligible residential projects include property acquisition, rehabilitation, new construction (as permitted by HUD), and adaptive reuse. Applicants must demonstrate:

- Site Control (purchase agreements, deeds, leases)
- Zoning and Permits that are secured or attainable
- Environmental Compliance, including HUD-compliant environmental assessments (ESA Phase I, and Phase II if necessary)
- Comprehensive Market Analyses and Property Appraisals completed no more than six months prior to loan closing
- Financial Feasibility and Project Viability including:
 - Development pro forma (minimum 15-year projection)
 - Detailed sources and uses of funds, including evidence of committed funding
 - Rent roll (projected or actual), consistent with affordability restrictions
 - Operating expense budgets benchmarked for reasonableness
 - Stabilized Net Operating Income (NOI) and Debt Service Coverage Ratio (DSCR) with a minimum target of 1.20x

- Loan-to-Value (LTV) ratio not exceeding 80%
- Exit strategy, particularly important for bridge or acquisition/rehabilitation projects
- Developer and Borrower Capacity, including:
 - Developer/borrower organizational profile and track record
 - Development team resumes
 - Audited financial statements for the past 2-3 years, including cash flow and net worth analyses
 - Portfolio summary of existing real estate assets
- Collateral and Loan Security, such as:
 - Deed of trust or mortgage lien
 - Assignment of leases and rents
 - UCC filings on equipment or fixtures, if applicable
 - Personal or corporate guarantees, as necessary
 - Subordination, intercreditor, and participation agreements
- Risk Mitigation and Repayment Sources, with:
 - Detailed repayment plans
 - Stress-tested cash flow scenarios
 - Identified secondary repayment sources, including reserves or guarantees
 - Debt service reserve funds, if warranted
- Developer Contributions, requiring at least 10% equity, operating and replacement reserves, and completion guarantees or bonds

Commercial Development Underwriting: Eligible commercial projects include property acquisition, rehabilitation, and infrastructure improvements that directly support LMI job creation. Eligible applicants include nonprofits focusing on commercial development to support underserved small businesses, and for-profit businesses or developers who clearly demonstrate long-term benefits for qualifying small businesses. Projects must demonstrate:

- Site Control, Zoning, and Permit Approvals along with environmental clearances
- Tenant Pre-Leasing of at least 20%, with tenants demonstrating creditworthiness
- Comprehensive Market Analysis confirming demand and project viability

- Professional Property Appraisals indicating current and projected property values
- Balanced Budgets with detailed funding sources clearly outlined
- Financial Feasibility, including:
 - Minimum DSCR of 1.20x at stabilization
 - Maximum LTV ratio of 80%
- Clearly Identified Repayment Mechanisms for projects that do not directly generate income

CDBG Compliance and Public Benefit per 24 CFR 570.209: Each project must fulfill a CDBG national objective. For housing activities, this typically means benefiting low- and moderate-income individuals through housing as per 24 CFR 570.208(a)(3). Required documentation includes:

- Affordability covenants or deed restrictions
- Established procedures for income certification
- Clear documentation of unit mix by income levels (e.g., ≤60% AMI, ≤80% AMI)

Environmental Review and Cross-Cutting Requirements: Prior to the commitment of loan funds, each project must undergo a HUD-compliant Environmental Review (ER) pursuant to 24 CFR Part 58. Loan disbursement is contingent upon the completion of ER and HUD approval of a Request for Release of Funds (RROF). Projects must also comply with:

- Davis-Bacon prevailing wage requirements
- Uniform Relocation Act (URA), when applicable
- Federal cross-cutting requirements including Section 3, and MBE/WBE regulations

Required Application Documentation: Applicants must submit the following for underwriting review:

- Narrative project summary and development timeline
- Detailed sources and uses of funds
- 15-year pro forma including rent, vacancy, expense, and inflation assumptions
- Evidence of site control
- Third-party market study (if applicable)
- Environmental Review documentation (or a commitment to complete)

- Developer financial statements (audited and interim)
- Organizational chart and team resumes
- Affordability covenant or commitment documentation
- Other necessary third-party reports (appraisal, Phase I ESA, architectural drawings, cost estimates, etc.)

SHORT-TERM DEFERRED INTEREST LOAN OPTION

To support projects requiring immediate financing flexibility, the City of Charlotte's Partnership Investment Fund offers a Short-Term Deferred Interest Loan product. This loan is specifically designed to enable developers to bridge financing gaps during property acquisition, pre-development activities, and initial stabilization periods, with no required interest payments required from the borrower during the deferral period. Interest payments will be made by the city during this time and repaid by the borrower at the end of the loan term.

Loan Terms and Structure:

- **Loan Term:** Up to 3 years, with no extension beyond the original term without explicit City approval.
- **Deferred Interest:** Interest will accrue but require no payment during the deferral period. All accrued interest will be capitalized and payable upon loan maturity, refinancing, or earlier repayment.
- **Interest Rate:** Variable based on the City's borrowing cost from HUD , ensuring affordability and compliance with HUD's financing requirements.
- **Collateral:** The loan will be secured by real estate collateral in the City's first lien position. No subordinate liens or encumbrances will be permitted without express written approval from the City.

Eligible Activities:

Short-term loans under this product can support:

- Acquisition of properties for affordable housing or mixed-use projects benefiting LMI communities.
- Pre-development and initial site improvement activities necessary to achieve project stabilization.

- Infrastructure improvements that directly facilitate housing stability, economic opportunities, or job creation within Charlotte's Corridors of Opportunity (This activity is only allowed to be conducted by eligible subrecipients. Private developers are ineligible).

Eligibility Criteria:

Borrowers must meet the following eligibility criteria:

- Demonstrate site control with clear title documentation or executed purchase agreements.
- Present clear evidence of zoning and permitting status or a credible pathway to securing necessary approvals.
- Submit professional property appraisals reflecting current and projected stabilized market values.
- Provide detailed and credible financial projections showing sufficient capacity to repay the deferred principal and interest at maturity or upon refinancing.
- Commit to achieving HUD National Objectives, particularly benefiting low- and moderate-income (LMI) households or creating jobs for LMI individuals.

Repayment Terms:

- Principal and capitalized deferred interest will be due in a lump sum at maturity, refinancing, or project stabilization, whichever occurs first.
- Early repayment is permitted without penalty to facilitate refinancing to permanent, long-term financing solutions.

Underwriting Requirements:

Applicants must demonstrate:

- Minimum loan-to-value (LTV) ratio not exceeding 80%, verified through current appraisals.
- Credible repayment strategy, including refinancing timelines, permanent financing sources, or demonstrated ability to cover repayment through other available financial resources.
- Developer equity participation of at least 10% of total project costs, evidenced through verified financial statements.

This short-term, deferred interest product significantly enhances project feasibility by minimizing upfront cash flow obligations, allowing developers to prioritize immediate project needs and rapidly initiate critical community-enhancing developments within Charlotte's Corridors of Opportunity.

LOAN SERVICING AND COMPLIANCE

Charlotte's Housing and Neighborhood Services Department will manage loan underwriting, servicing, and compliance monitoring, ensuring adherence to HUD regulations and alignment with community development goals. Responsibilities include:

- Escrow management, insurance compliance, periodic financial reviews
- Annual reconciliation of operating and replacement reserves
- Regular project performance evaluations and compliance monitoring

APPLICATION AND APPROVAL PROCESS

Loan Application Submission - Applicants seeking funding through the Section 108 revolving loan fund may submit their loan application via a stand-alone application process or as a component of the City of Charlotte's Housing Trust Fund application. Each application must comprehensively address market analysis, detailed proforma projections, and clearly articulated sources and uses of funds.

City Staff Review - Upon receipt, city staff from Housing and Neighborhood Services, Economic Development, Finance, and the City Attorney's Office will thoroughly review each loan application. Staff analysis will focus on the financial viability of the project, accuracy of market analysis, and completeness of submitted proforma. Staff will also evaluate any requests from applicants to have loan repayments partially or fully covered by City Community Development Block Grant (CDBG) funds.

Loan Recommendation - Following the internal review, city staff will formulate a funding recommendation clearly stating whether to fund or not fund the project. Recommendations will include disclosure of any additional city funding requested or required to support the loan repayment.

City request a Determination Letter from the HUD Field Office - HUD Field Office will review the eligibility of the activity, the national objective to be met and if applicable the public benefit standards pursuant to 24 CFR 570.209.

City Council Approval - Loan recommendations and detailed staff analyses will be presented to the Charlotte City Council for final review and approval. City Council will

evaluate the proposed projects based on staff recommendations, financial and community impacts, and alignment with city development goals and priorities.

Commitment and Loan Closing - Upon City Council approval, city staff will collaborate directly with the developer to prepare a formal commitment letter outlining all loan terms, repayment schedules, and any specific project conditions. City staff will then proceed to coordinate the financial closing of the loan. For time-sensitive projects, the City of Charlotte endeavors to expediting the loan closing process. In these cases, efforts will be made to complete loan closing procedures within 60 days of City Council approval.

NEXT STEPS

Upon HUD approval, Charlotte will finalize Partnership Investment Fund loan terms, conduct required environmental reviews, secure necessary approvals, and initiate the open call for project proposals. Initial project closings will occur within one year, with loan repayments recycling back into Partnership Investment Fund to support continuous community reinvestment.

PROGRAM REQUIREMENTS

Charlotte will implement Partnership Investment Fund in accordance with HUD's national objectives for LMI populations (24 CFR 570.208(a)(3)) and comply with all relevant regulations (24 CFR 570.201(a), 570.202, 570.201(i), 570.201(c), 570.203, and Appendix A to Part 570). All project costs and financial structures will be evaluated for compliance with public benefit standards (24 CFR 570.209(b)) to ensure the prevention of undue enrichment.

CITIZEN PARTICIPATION

A public participation process was conducted in accordance with the City of Charlotte's public participation program.

On April 7, 2025, the Housing, Safety and Community Committee discussed opportunities to encourage innovative approaches to housing affordability including the creation of the Fund by leveraging the city's CDBG allocations through the Section 108 program.

On April 14, 2025, City Council held a public hearing on the city's proposal to submit the Application. Notice of the hearing was published digitally with the Charlotte Observer and LaNoticia, and the draft Application was published on the city's website on April 16 with paper copies available upon request in English and Spanish. No comments were received.

CERTIFICATIONS

The City of Charlotte commits to full compliance with all HUD certifications required under 24 CFR 570.704 and related federal guidelines, explicitly using HUD certification forms for entitlement communities.

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