

Somerville Affordable Housing Trust

Guidelines revised April 2008

Introduction

The Somerville Affordable Housing Trust was formed in 1989 by City Ordinance 89-3 to help Somerville deal with the shortage of affordable housing. The Trust was charged with the preservation and creation of new affordable rental and homeownership units in the City of Somerville and the creation of programs that directly assist renters and homeowners.

The Somerville Affordable Housing Trust is an important resource for the City of Somerville in expanding and preserving the stock of affordable housing. Through the loans and grants of the Trust, Somerville has a flexible vehicle to respond to the affordable housing crisis.

This document reviews the history, purpose and regulations of the Trust. It sets forth the types of assistance offered by the Trust and establishes a process and criteria for Trust review of loan and grant applications.

Background of the Trust

Eligible purposes.

The purposes of the Trust as documented in Ordinance 8-3 and the Declaration of Trust are:

- To assist in the creation of new affordable homes and rental units in Somerville
- To assist in the preservation of existing affordable homes and rental units
- To directly assist renters and homeowners.

To guide the Trustees the Trust documents elaborate upon the purposes by listing permissible uses:

- Funds to assist in the development of affordable housing such as site acquisition, site clearance, site improvements, and/or option money;
 - Funds to assist in the preservation of existing housing; including arson prevention and rehabilitation subsidies;
 - Funds to assist renters, such as loans for security deposits and/or monthly subsidies or rent;
 - Funds to assist new homeowners, such as loans and/or grants for down payments or closing costs;
 - Funds for research projects to determine other appropriate uses of the Trust Fund
 - Seed money for new programs or new organizations, such as limited equity cooperatives, a community land trust and/or a community loan fund
 - Any other programs or projects that fulfill the purpose of the Trust.
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The list is intended to be illustrative and not to limit the discretion of the Trust. In setting criteria the document instructs the Trustees to consider the following:

- Whether the program or project will help to insure long term affordable housing
- Community need for the project
- Organizational capacity within the community to facilitate the program or project
- Current Trust assets;
- Other sources of funding available for the program
- Such other criteria as may be included in the Rules and Regulations.

Overlaying the purposes for which the Trust can distribute funds are specific requirements governing how linkage, or project mitigation payments, can be used. The Linkage Ordinance specifies that Project Mitigation payments may only be used for the following purposes:

- Increasing the supply of housing that is available and affordable to low and moderate income people
- Ensuring that such housing is affordable over the long term
- Mitigating the impact of large-scale development on the supply and cost of housing in the City of Somerville.

Income criteria

Affordable housing for Trust purposes is defined as housing that is affordable to a “family having an income of no more than 110% of the Area Median Income (AMI) for the Boston Standard Metropolitan Statistical Area (SMSA). The Trust further requires:

- at least 20% of the funds serve households below 50% of AMI;
- at least 20% serve those with incomes between 51% and 80% of AMI;
- and at least 10% serve those with incomes between 81% and 110% of AMI.

The Trust regularly reviews its allocation of funds by income category to insure that the income requirements of the Trust are met. In addition, the Trust encourages deeper affordability where possible consistent with project feasibility. Many housing development loans and grant-funded programs serve households with incomes below 30% of AMI. The Trust also seeks to encourage projects and programs that serve homeless households.

Members

The ordinance establishing the Trust calls for 9 Trustees. Three of the Trustees are ex-officio and include the Mayor or designee, the President of the Board of Alderman or designee, and the Executive Director of the Somerville Housing Authority or designee. The other six members are appointed by the Mayor subject to the approval of the Board of Alderman as follows: two Somerville residents (one of whom shall be a tenant whose household is eligible for state or federal public housing programs), two representatives of Somerville non-profit organizations, one professional in the field of housing or real estate and one professional in the field of banking or finance.

The Board members who are not ex-officio serve for staggered terms of three years.

Source of Trust Funding

The Trust has received money from an initial capitalization by the city, from linkage payments, from inclusionary zoning payment in lieu of units, from an Emergency Shelter Grant, a betterment payment and interest on the corpus.

Soon after the Trust was formed, the City enacted a linkage ordinance on commercial development. The linkage ordinance specifies that all payments, called Project Mitigation Contributions, go to the Somerville Affordable Housing Trust. The payments are made in either a lump sum or five annual installments.

In addition, developers subject to the city's Inclusionary Housing ordinance can make a payment in lieu of units. The first such payment was received in September 2002.

The Trust has made a total of over \$2.96 million available through loans or grants since its inception.

Goals of the Trust

In 2008 the Trustees undertook a review of the performance of the Trust and an analysis of the current housing needs of the City of Somerville. After outreach to the community and an internal visioning process, the Trustees developed an updated set of goals and procedures to guide the deliberations of the Trust. Consistent with the requirements of the Ordinance, the Trust will use the Trust funds to:

- Create rental housing for Somerville residents with incomes up to 110% of AMI
- Make special efforts to insure housing opportunities for elderly households and families with incomes below 50% of AMI.
- Create more homeownership opportunities for residents with incomes up to 110% of AMI.
- Preserve existing affordable housing and encourage innovative efforts to acquire and preserve unassisted stock for affordable housing.
- Be a voice for affordable housing in Somerville and encourage awareness through public forums and outreach and through innovation in grants and loans.
- Insure that any housing created is affordable for the long term through the use of deed restrictions particularly on rental and homeownership development projects.
- Be a unique source of financing, providing funds that other programs cannot.
- Effectively leverage state, federal and private funds.
- Support projects and programs with measurable goals and positive outcomes

Types of Assistance

The Trust will offer grants and loans in the categories listed below. Depending upon the amount of funding available and the demand for the funds, the Trust may limit the types of awards from year to year.

Loans

Development loans. The development loans are in two categories:

- Short term financing for acquisition or development soft costs.

- Longer term gap financing. These can be subordinate debt and may leverage state, federal and private money.

Loans to Individuals:

- **Down payment/Closing Cost Assistance.** Eligible homebuyers may access this fund for help with down payments or closing costs for ownership in Somerville. The loans will not incur interest and will be forgivable at the rate of 20% per year up to 5 years as long the borrower remains in the home.
- **Tenancy Preservation Assistance.** This fund’s purpose is to help preserve tenancies or to help tenants access housing. It has been used for tenants for rent arrearages, first and last month rent and security deposit to stabilize their housing situation. The program administrators will negotiate re-payment terms if any. The goal of this program is to create sustainable tenancies, and recipients may be required to complete self-sufficiency activities in connection with this program.

Grants

Program Grants

Program grants are available on a limited basis for programs that support activities and services that help Somerville residents with housing problems. Priority is given to programs that help low and moderate income residents to sustain affordable housing, help them gain access to affordable housing and/or preserve or increase the supply of affordable housing.

Allocation of Funds by Program Activity

The amount of money in the Trust Fund may vary from year to year depending upon new payments under the linkage and inclusionary zoning initiatives and repayment of existing loans. Bi-annually, the Trust will allocate the funding within the following ranges based on a percentage of the overall funds available. Annually, the Trust will review the housing pipeline and the target allocations and will adjust the future awards within the range based on expected applications and a determination of the current housing needs in Somerville. The Trust is aware that development projects may take a number of years to assemble and will factor those timing expectations into the allocation process.

Activity	Percentage of Annual Budget
Development Project Loans, including short and long term project loans. <ul style="list-style-type: none"> • Rental development (2/3 of total allocation) • Homeownership development (1/3 of total allocation) 	70-80%
Individual Loans <ul style="list-style-type: none"> • Homebuyer loans • Tenancy Preservation Assistance Loans 	10-15%

Grants	10-15%
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The Trust has income targeting requirements (see above) and may from time to time re-allocate funding among categories to insure that the required income levels are served.

Terms of Assistance

The Affordable Housing Trust fund is a revolving fund, with the exception of funds that are explicitly given in the form of a grant. In general, the Trust makes loans at favorable interest rates that must be repaid. The specific terms are negotiable. Return on the Trust's investment can be measured in a number of ways including the impact of the project, the social or economic importance to neighborhoods and the improvement of the quality of life in Somerville and for its low and moderate income residents. In determining the specific terms of repayment, the Trust will take the above factors into consideration.

Amount of Loan. The amount of the loan will depend on a number of factors including amount of Trust funding available, minimum amount necessary for feasibility, demand for the fund and how well a project meets the criteria established.

Term of loans. The loans are generally intended to fill short-term gaps or to provide flexible, more streamlined access to funding to enable a developer to seize housing opportunities. In most cases, the Trust expects that funds will be repaid so that new projects or individuals can access the money. Short-term acquisition or pre-development funds will be due upon the closing of the construction loan but may in some cases be deferred until the closing of the permanent financing. Permanent loans will be due at the point of project refinancing (which will vary by project structure) or at end of the affordability period. Repayment from cash flow will be encouraged where feasible.

Interest Rate. For loans to individual homebuyers, the fund will make 0% deferred payments loans, deferred for a period of up to 5 years. Repayment terms will be negotiated based on income of the homeowner and appreciation of the property. The interest rate for short and long term project financing will be set according to the needs of the project. The Trust understands that lower interest rates often translate into higher affordability and will set the interest rate on a case by case basis.

General Terms. For development projects, the Trust understands that the more highly leveraged the funds the more subject to negotiation these terms are with our lending partners. In determining the terms of the loan, the Trust will evaluate the following:

- Level of and percentage of affordability
- Long term use and affordability restrictions
- Ability of the project cash flow to absorb repayment while maintaining affordability
- Leverage of Affordable Housing Trust loan

Criteria for Evaluation of Loan requests

The Trust will evaluate development project loan requests on a rolling basis but may periodically issue RFPs for projects. In addition to specific criteria that may be

established in these RFPs, the Trust will generally evaluate projects based on the following criteria.

Development Loans

- Positive impact of the project on the quality of life in Somerville including the project's ability to preserve economic diversity.
- Capacity of the development entity; (Preference for Somerville non-profit developers)
- Total number of units
- Percentage of affordable units
- Percentage of units serving very low income or homeless households
- Amount of AHT invested per unit
- Leverage of State, Federal and other funds.

Down payment Assistance loans

- Somerville resident who are first-time homebuyers and who will occupy the unit as their primary residence.
- Good credit history
- Have completed an approved Home Buyer Training Class.
- Other assets available for down payment
- Not eligible for other state or federal down payment assistance programs

Tenancy Preservation Assistance Fund

- Somerville residents whose household income is below 80% of AMI.
- Assistance will help to stabilize the housing situation in a sustainable way based on an analysis of the household budget.
- Applicants will participate in an Individual Family Self-Sufficiency Program (ISSP) and agree to monitoring of progress on a monthly basis.

Criteria for evaluating Grant Requests

- The proposed grant demonstrates an innovative approach to the grant program goals.
- The grant will have a measurable impact on the affordability and diversity of housing in Somerville.
- The grantee can demonstrate it can achieve successful outcomes for program activities.
- The applicant demonstrates an ability to leverage the grant funds and to continue the proposed activity beyond the funding period.
- The grantee has the capacity to administer the grant and deliver the services funded by the grant.
- The applicant is a non-profit agency; preference for Somerville-based agencies.

The Process for Applying to the Trust

Loan Requests.

Applicants for Trust development project loans may apply on a rolling basis. Before submitting an application, applicants should send a letter of inquiry/interest to the Fund Managing Trustee and to the Housing Director of the

Mayor's Office of Strategic Planning and Community Development (OSPCD). The Fund will review the request and determine if funding is available at the time of the request and if so, invite an application.

The staff of the OSPCD will review the application. The staff may request additional information. The staff will evaluate the proposal according to the criteria established in the guidelines and make recommendations to the Trust as to the amount of the loan and terms for repayment.

The Trust may review loan requests at each monthly meeting of the Trust. Applicants for development project loans may be asked to appear and make a brief presentation about the project and answer questions.

From time to time, depending on the demand, amount and availability of funds, the Trust may issue a Request for Proposals (RFP) for development loan proposals.

Applications for the Closing Cost/Down Payment Assistance Program are available on a rolling basis through the City of Somerville Housing Division.

Applications for the Tenancy Preservation Assistance Fund are available through the program administrator who is a Non-Profit Agency in the City of Somerville designated by the Trust from time to time based on an RFP selection process. The current program administrator is the Somerville Community Corporation (SCC).

Grant Requests

In each year that funds are available for grants, the Trust will issue an RFP for the Grant awards and establish additional specific criteria at that time. The grant requests will be reviewed by OSPCD staff and applicants may be invited to make a presentation of the proposal to the Trust. The Trust will make the funding decisions and determine the final award amount.

Annual Report

The Trust will issue an annual report listing the loans and grants awarded that year and featuring the work of the Trust in supporting affordable housing in Somerville.