

**REQUEST FOR ACTION
BY
BOARD OF COMMISSIONERS**

**Approval of Extension and Amendment of Revolving Construction Loan
for S.W.A.P., INC. (STOP WASTING ABANDONED PROPERTY)**

A. SUMMARY OF ACTION

This Request for Action is to authorize Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) to: (i) extend the S.W.A.P., INC. (STOP WASTING ABANDONED PROPERTY) (“SWAP”) existing revolving construction loan facility (the “Master Construction Loan Facility”) for an additional 36-month term; (ii) increase the borrowing limit under the Master Construction Loan Facility to \$2,500,000; and (iii) amend the household income limit under the Master Construction Loan Facility to allow for an income limit up to 120% of area median income (“AMI”) for potential homebuyers (collectively, the “Extension Request”). Approval of the Extension Request will support the development and rehabilitation of new single and two-family homes in South Providence and its surrounding neighborhoods, as well as other opportunities as they arise.

B. DISCUSSION

The Master Construction Loan Facility in the amount of \$2,000,000 was initially approved by the Board of Commissioners in February 2014 and has been extended twice; once in November 2017 and again in December 2019. To date, SWAP has entered into seven master construction loan facilities with RIHousing. Since 1999, when SWAP and RIHousing entered into the first Master Construction Loan Facility under this program and its predecessor, the Demonstration Home Development and Homeownership Loan Program, SWAP has borrowed more than \$14,600,000 and built approximately 125 homes for first-time homebuyers, including approximately 28 duplexes.

Currently, SWAP has four homes under construction; two of which are nearing construction completion and have an executed purchase and sale agreement. SWAP’s current outstanding loan balance is approximately \$602,000. SWAP uses a combination of construction financing, Building Homes Rhode Island (“BHRI”) funds, City of Providence HOME funds, and similar subsidy funds to make these homes affordable for first-time homebuyers. Historically, the availability of these subsidies has not been consistent, which can impact how many homes SWAP can build at any given time.

Borrowing authority under the Master Construction Loan Facility expired in October 2022; six months prior to the expiration date of April 2023. Given SWAP’s past success, the Development Division is recommending that the existing Master Construction Loan Facility be extended to fund SWAP’s homeownership development projects for three additional years. SWAP has identified a sufficient number of properties to construct 15 new homes containing 25 units over the next 24 months and anticipates additional development in successive years as new opportunities present themselves.

The Development Division is further recommending that the borrowing limit under the Master Construction Loan Facility be increased from \$2,000,000 to \$2,500,000 to address recent increases in construction costs and the effect on overall development costs. With this increased borrowing limit, SWAP will be able to develop up to 14 homes and/or condominiums at any time; 7 of which must be pre-sold to qualified buyers while up to 7 homes can be built on a speculative basis.

The Development Division is further recommending an amendment to the Master Construction Loan Facility to allow sales to households with incomes up to 120% of AMI. SWAP's goal is to sell these homes to first-time low and moderate-income homebuyers with incomes at or below 80% of AMI. Given rising costs and interest rates, that has become more challenging. SWAP's current pipeline assumes sales prices based on 100% of AMI with the understanding that in order to lower the sales price, additional subsidies will likely be needed. The Master Construction Loan Facility currently allows the sale of homes to buyers with incomes up to 115% of AMI. SWAP has requested that this income limit be increased to 120% of AMI; which is consistent with the program guidelines for BHRI, the Acquisition Revitalization Program and the Housing Investment Fund.

The interest rate for each individual loan under the Master Construction Loan Facility will be set at closing based on the 2-Year Treasury rate plus 0.75%, with an initial rate floor of 4.00% and cap of 7.00%. SWAP will pay interest monthly on the outstanding principal balance on each individual loan, to be repaid at unit sale. The total outstanding loan balance cannot exceed \$2,500,000 at any given time. All other terms and conditions contained in the current Master Construction Loan Agreement will remain the same.

By this RFA, staff recommends: (i) a 36-month extension of the existing revolving Master Construction Loan Facility; (ii) an increase in the Master Construction Loan Facility borrowing limit to \$2,500,000; and (iii) an amendment of the income limit under the Master Construction Loan Facility to allow homebuyers with household incomes up to 120% of AMI, subject to certain conditions as set forth therein.

C. ATTACHMENTS

- A. Credit Summary
- B. Resolution

**Attachment A
Credit Summary**

**Approval Loan Recommendation Summary – SWAP Master Construction Loan
Facility Extension**

Preliminary ____

Firm X

Date: December 15, 2022

Project: Extension of existing Master Construction Loan Facility; increase in total borrowing limit from \$2,000,000 to \$2,500,000; and amendment to household income limit for homebuyers.

Development Team

	Name	Location (city/state)	Risk Rating (low/med/high)
Developer/ Mortgagor	S.W.A.P., INC. (STOP WASTING ABANDONED PROPERTY)	Providence, RI	Low
Architect	TBD per house		
General Contractor	TBD per house		
Legal	TBD per house		

Executive Summary

	Address	City
Property Address	Multiple Scattered sites	Providence and other communities
Proposed Loan Amount(s) and Terms		
	Amount	Interest rate
Master Construction Loan Facility*	\$2,500,000	2-Year Treasury rate plus 0.75%

*Individual loan amounts are based on the lower of appraised value or purchase price.

Finance Summary

Sources and Uses for a Typical Single-Family Construction

Source	Amount	Budget Item	Budget
Construction Loan/Sales price	\$209,000	Acquisition	\$67,000
Gap Funds	\$202,750	Construction	\$276,000
		Soft Costs	\$29,750
		Developer Fee	\$39,000
Total	\$411,750		\$411,750

Sources and Uses for a Typical 2-Family Construction

Source	Amount	Budget Item	Budget
Construction Loan/Sales price	\$314,000	Acquisition	\$150,000
Gap Funds	\$355,240	Construction	\$428,400
		Soft Costs	\$30,000
		Developer Fee	\$60,840
Total	\$669,240		\$669,240

Attachment B

Resolution of the Board of Commissioners of Rhode Island Housing and Mortgage Finance Corporation

- Whereas,** Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) is authorized to make loans to sponsors for such developments as in the judgment of RIHousing have promise of supplying well-planned, well-designed single family and two-family homes and condominiums which will provide housing for low and moderate-income persons or families or others in locations where there is a need for such housing;
- Whereas,** RIHousing is authorized to provide construction and permanent financing with assistance, as applicable, to homebuyers;
- Whereas,** S.W.A.P., INC. (STOP WASTING ABANDONED PROPERTY) has presented an application to RIHousing requesting: (i) an extension to their existing revolving construction loan facility (the “Master Construction Loan Facility”); (ii) an increase in the borrowing limit of the Master Construction Loan Facility; and (iii) an amendment to the household income limit for potential homebuyers, all in furtherance of constructing residential housing for homebuyers;
- Whereas,** RIHousing staff has reviewed the submission, will inspect the sites, and will determine that these developments may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines, and policies; and
- Whereas,** RIHousing finds that:
- (1) That there exists a shortage of decent, safe, and sanitary housing at rentals or prices which persons and families of low or moderate income can afford within the general housing market area to be served by the proposed housing developments;
 - (2) That private enterprise and investment have been unable, without assistance, to provide an adequate supply of decent, safe, and sanitary housing in the general housing market area at prices which persons or families of low and moderate income can afford or to provide sufficient mortgage financing for residential housing for occupancy by those persons or families;
 - (3) That the housing sponsor or sponsors undertaking the proposed housing developments in this state will supply well-planned, well-designed housing for persons or families of low and moderate income and that those sponsors are financially responsible;

(4) That the proposed housing developments to be assisted pursuant to the provisions of this chapter will be of public use and will provide a public benefit; and

(5) That the proposed housing developments will be undertaken and the housing sponsor or sponsors regulated pursuant to the authority and within the restrictions provided for by the Rhode Island Housing enabling act, Chapter 55 of Title 42 of the Rhode Island General Laws.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that, subject to the special conditions listed below, RIHousing be and hereby is authorized to: (i) extend the current Master Construction Loan Facility for 36 months; (ii) increase the Master Construction Loan Facility borrowing limit to \$2,500,000; and (iii) amend the household income limit in the Master Construction Loan Facility to allow for an income limit up to 120% of area median income, structured generally in accordance with the description contained herein, with such changes as the Executive Director, Deputy Executive Director, or the Director of Real Estate Development may, in their sole discretion determine to be necessary or advisable.

Resolved, that the Executive Director, Deputy Executive Director, or the Director of Real Estate Development, each acting singly, be and hereby is authorized, empowered and directed to take any and all action to execute, file and deliver any contract, agreement or other instrument as each in his/her sole discretion shall deem necessary or advisable in connection with this Master Construction Loan Facility.

Resolved, that the foregoing resolutions are subject to the following conditions:

- Execution of an amendment to the current Master Loan Agreement by SWAP satisfactory to RIHousing.
- Submission of all construction contracts, plans and specifications, marketing plans, construction budgets, schedule of payments, lien releases, gap financing approval, homebuyers' applications and other documentation necessary for loan funding and construction loan and end loan approval.
- Assurance that RIHousing's Homeownership Division is afforded the opportunity to provide end loans for homebuyers.

Resolved, that the Executive Director, Deputy Executive Director, and Director of Real Estate Development, each acting singly, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.