

# Habitat for Humanity Revolving Loan Fund

**Indiana Housing and Community Development Authority**

Homeownership: Encouraging New Production

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## Overview

The Indiana Housing and Community Development Authority (“IHCDA”) sets aside a portion of its annual HOME Investment Partnerships Program (“HOME”) allocation for the development of homebuyer housing. Historically, the primary applicants for these funds were local Habitat for Humanity affiliates throughout the State of Indiana. However, IHCDA began seeing a decrease in the quantity and quality of applications received and consequently fewer homeownership units being produced through the HOME program.

Upon engaging in conversations with Habitat, it became apparent that the affiliates were frustrated with the complexity of the HOME program regulations, especially after changes to the program made through the “2013 Final Rule.” Limited staff size and capacity made both the application process and grant compliance burdensome, and as a result the affiliates were increasingly electing to not apply for funding. IHCDA decided to explore an alternative funding source using its flexible state housing trust fund, the Indiana Affordable Housing and Community Development Fund (“Development Fund”).

IHCDA then engaged in multiple conversations with the State Director of Habitat for Humanity of Indiana (“Habitat”) about how to create a program that would be simpler for the affiliates to administer. Habitat originally proposed that IHCDA make a large grant to the state office which would then make sub-awards to local affiliates that applied to access the fund. This would allow the State Director to work with affiliates on capacity building to prepare them to apply and administer the awards.

IHCDA agreed with the overall concept of setting up a statewide pool to be distributed out to the affiliates by the state office, but did not want to create a funding structure that was 100% grant. To leverage its Development Fund investment and create a sustainable funding source for the creation of affordable homebuyer housing, IHCDA and Habitat ultimately agreed to create a half grant/half loan hybrid program that would result in the creation of a revolving loan pool. When an affiliate receives a sub-award from the loan pool held by the state office, half of the award is a grant which is kept by the affiliate and half is a loan that must be secured and repaid to the revolving loan fund. Repayments are kept by Habitat and reallocated to affiliates for further housing construction.



## Fund Structure

The fund was structured as a three year investment from IHCDA in the form of a grant to Habitat for Humanity of Indiana in the total amount of \$1,050,000. All applications for funding from the affiliates were reviewed and approved by Habitat, not by IHCDA. In Year 1, IHCDA awarded \$450,000: \$225,000 to be awarded out to the affiliates as grants and \$225,000 as loans. In Years 2 and 3, IHCDA awarded an additional \$300,000 per year to be structured in the same manner of half grant and half loan to the affiliates. While IHCDA’s total investment was \$1,050,000, due to the recycling of loan repayments and the commitment of additional private investment in Years 2 and 3, the total amount of money made available through the revolving fund was significantly higher. As demonstrated in the chart below, a total of \$500,000 was available for allocation in Year 2 and \$629,716 in Year 3 (with IHCDA’s contribution in each of those years being only \$300,000).

\$450,000 - 30 awards of \$15,000 per unit			
<b>YEAR 1</b>	<div style="display: flex; justify-content: center; align-items: center;"> <div style="background-color: #004A87; border-radius: 50%; width: 20px; height: 20px; margin-right: 5px;"></div> <div style="text-align: center;">1/2 grant</div> </div> <div style="display: flex; justify-content: center; align-items: center; margin-top: 5px;"> <div style="background-color: #4F81BD; border-radius: 50%; width: 20px; height: 20px; margin-right: 5px;"></div> <div style="text-align: center;">1/2 loan</div> </div>		
	<div style="display: flex; justify-content: space-between;"> <span>\$225,000 - 30 grants of \$7500 per unit</span> <span>\$225,000 - 30 loans of \$7500 per unit</span> </div>		
	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding: 5px;">Monthly Loan Payment \$319.05</td> <td style="border-right: 1px solid black; padding: 5px;">Annual Payments / Unit \$3828.60</td> <td style="padding: 5px;">Annual Payments on 30 Loans Back to Fund \$114,858</td> </tr> </table>	Monthly Loan Payment \$319.05	Annual Payments / Unit \$3828.60
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<b>YEAR 2</b>	Annual Payments on 30 loans from Year 1: \$114,858		
	IHCDA Investment: \$300,000		
	Bank Investment: \$85,142		
<b>YEAR 3</b>	Annual Payments on 30 loans from Year 1: \$114,858		
	Payments from Year 2: \$114,858		
	IHCDA Investment: \$300,000		
	Bank Investment: \$100,000		

At the end of Year 3, IHCDA is no longer making an annual contribution into the fund. However, as Habitat for Humanity of Indiana continues to receive loan repayments, those funds will be recycled and awarded out to affiliates in the same half loan, half grant structure. In this manner, IHCDA has been able to successfully assist Habitat in creating a sustainable funding source for the creation of homeownership units throughout the state.

As of April 1, 2019, the initial three rounds of funding have all been deployed, resulting in the creation of 60 Habitat for Humanity homes. Habitat for Humanity of Indiana anticipates that pending loan repayments into the fund will allow an additional 10-12 homes to be funded in the spring and summer of 2019.

### Visitability Standard

While the primary purpose of creating the fund was to encourage the development of homebuyer housing in Indiana and to establish a sustainable revolving loan fund for Habitat for Humanity of Indiana, a secondary and equally important purpose was to move Habitat affiliates in Indiana towards using a visitable model of home design and construction. IHCDA had embraced the visitability standard of new construction for single family housing, but was not seeing developers/contractors voluntarily using visitable design. IHCDA determined that the revolving loan fund would be an appropriate program to implement a visitability mandate for new construction homebuyer activities.

To meet the required visitability standard, every home constructed through the revolving loan fund is required to meet the following three design requirements with the goal of creating housing that is more accessible for residents and visitors with mobility impairments:

- Each unit must contain at least one zero-step entrance on an accessible route. This can be any entrance to the unit;

- All main floor interior doors (including bathroom doors and walk-in closets) in each unit must provide at least at least 31 ¾ inches of clear opening width; and
- Each unit must contain at least one half or full bathroom on the main level that is accessible per ICC A117.1.Section 1004.11.

Since implementation of this requirement, IHCDA has seen significant movement towards embracing visitability. Habitat for Humanity of Indiana is now promoting visitability standards for all Habitat construction in Indiana, including homes built outside of the fund. In addition, after launching this program, IHCDA has since implemented this requirement across multiple programs, and now requires all single family homes built for homeownership or rental through both the HOME and LIHTC programs to implement these visitability standards. The fund therefore was a tipping point in policy for both Habitat and IHCDA and led the way for increased visitability in Indiana.

### **Why should this be considered?**

- The program represents an innovative way of creating housing opportunities through the creation of affordable homeownership units.
- The program effectively leveraged agency funds to create a sustainable loan fund. IHCDA's investment of \$1,050,000 over three years results in a total fund amount of \$1,579,716 during the three year period. In addition, after IHCDA's investment ends the fund will continue revolving funds.
- The program effectively employs partnerships. Through the fund, IHCDA has established a stronger working relationship with the Habitat for Humanity of Indiana state office and found a way to overcome the Habitat affiliates' concern about previous funding mechanisms.
- Since Habitat for Humanity has state and local chapters across the country, the program is highly replicable, especially for housing finance agencies that have state housing trust funds or other discretionary funding sources that allow creative funding structures and reduce regulatory burden.

### **Additional Information**

IHCDA invites the review committee to watch the IHCDA "On Location" video highlighting the revolving loan fund. The video can be accessed [here](#).