

# Affordable Housing Financing Fund

October 3, 2023

## Proposition 123 Modular Finance Guidelines



**COLORADO**

Office of Economic Development  
& International Trade



## Proposition 123 Modular Finance Guidelines

The Proposition 123 Modular program provides debt financing for modular and factory-build housing manufacturers to fund a new or existing innovative housing manufacturing facility located in Colorado.

## Program Guidelines 10-03-2023

The program provides debt financing for modular and factory-build housing manufacturers.

<b>Eligible Projects</b>	New or existing innovative housing manufacturers, including modular, panelized, tiny homes, kit homes, ADUs, and potentially 3D-printed homes. The end innovative unit that is produced must be attached to a permanent foundation and utilities.
<b>Program Benefits</b>	<ul style="list-style-type: none"> <li>• Below-market interest rates</li> <li>• Flexible financing terms, including traditional loans, lines of credit, and/or Cash Collateral Support</li> <li>• Use of funds includes, but is not limited to, working capital, equipment, and real estate improvements.</li> <li>• Partial loan forgivability will be considered upon request and cash flow need.</li> </ul>
<b>Program Allocation</b>	\$18 million
<b>Program Limits</b>	Up to \$5,000,000 for 10 years
<b>Interest Rates and Fees</b>	<ul style="list-style-type: none"> <li>• Borrowers will propose an interest rate, term, and lien position.</li> <li>• Partial loan balances may be forgiven if agreed performance metrics are achieved.</li> <li>• 1% Origination Fee</li> <li>• Cash Collateral Support Fee: 3% of deposit amount for 3 years</li> <li>• Standard loan closing costs</li> <li>• Phase I Environmental Report required for transactions greater than \$750,000 and secured by real estate</li> <li>• <b>The following fees apply to construction loans only:</b> <ul style="list-style-type: none"> <li>• \$40,000 outside legal counsel (if applicable)</li> <li>• \$15,000 construction monitoring (if applicable)</li> <li>• \$5,000 commitment fee</li> </ul> </li> </ul>

## Priorities

- Existing manufacturers and new facilities with final financing needs.
- New manufacturers that are able to increase the supply of affordable units in less than 12 months of an award
- Sustainability and energy efficiency of units produced: At a minimum, all units should be manufactured to be Electrification-ready, including providing the necessary panel capacity and wiring for all appliances, potential solar and EV-ready/charging. In addition, to the extent that it can be completed by the applicant, all units produced for a project in Colorado should be manufactured to the 2021 IECC Standards.
- Applicant's ability and overall time to produce and bring units to market
- Number of units anticipated to be produced per year
- Percentage of affordable units produced by the factory versus market rate units produced
- Economic impact/jobs created by the manufacturing facility

This chart is intended only to highlight certain program requirements. Loans are subject to other requirements, including the CHFA Credit Policy and applicable operating and replacement reserve requirements. To view all program details, please read the program guidelines.



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## Background

Proposition 123 provides for debt financing for modular and factory build housing manufacturers as part of the Concessionary Debt Program. This program will be coordinated with OEDIT's IHIP factory loan program administered by CHFA to strategically invest in Colorado's modular industry.



## Eligible Borrowers

Applicants may be a for profit or non-profit organization that is a modular or factory-build housing manufacturer whose primary manufacturing location is in the state of Colorado. Out of state applicants are eligible to apply as long as the facility being funded is located within Colorado.

## Eligible Projects and Uses

Applicants may request funds for a new or existing modular manufacturing facility located in Colorado. The end unit that is produced must be attached to a permanent foundation and utilities. Eligible product types include modular, panelized, tiny homes, kit homes, ADUs, and 3D-printed homes.

Funds may be used to finance traditional loan structures, lines of credit, or serve as cash collateral support for a third-party bank or lender loan. Use of funds can include, but are not necessarily limited to, construction, working capital, equipment, inventory, raw materials, factory production deposits, leased-facility deposits, and other uses approved by CHFA and OEDIT. Loans may not exceed \$5,000,000 with a term no longer than 10 years.

## Financing Limitations, Terms, and Fees

Financing from Proposition 123 funds will provide below-market interest rates and flexible financing terms.

The applicant should propose the interest rate, term, and lien position. CHFA will evaluate these items based on the availability of funds, needs of the project, and projected cash flow and liquidity position of the borrower. Interest-only, deferred payment, and amortizing loan structures are eligible structures.

Proposals for partial loan forgivability will be considered based upon cash flow need and must be tied to specific metrics proposed, such as an agreed-upon number of units produced during a year or other alternative proposals. The total amount of loan forgivability will also be measured relative to the total financing awarded to the applicant under the Program.

All loan requests will be compared to the amount of capital being provided from alternative sources. Applicants are encouraged, but not required, to leverage other funding sources. However, all applications must propose a complete and balanced Source and Uses of Capital.

All loans will have a 1% origination fee along with standard closing costs. These costs could include, but are not limited to, customary legal and third-party report fees. Currently, outside legal fees for construction-related projects are estimated to be \$40,000.00 and construction monitoring fees are estimated to be \$15,000.00. Construction loans will be subject to a \$5,000.00 commitment fee due to CHFA at the time of commitment.

All Cash Collateral Support deposits will have a 3% fee based on the deposit amount for a term of three years. Extensions may be offered with a 1% fee for each year extended. The accrued interest from the cash collateral deposit may be used to offset the interest rate proposed by the lender or accrued and deposited back into the program loan fund. Deviations from this structure may also be proposed by the applicant.

## Evaluation Criteria and Program Priorities

All applicants should have a background in the modular or factory-build housing industry or have experience in a comparable manufacturing industry. Applicants should be prepared to demonstrate their ability to generate industry standard efficiencies, workflows, and quality control.

Applications will be evaluated with an emphasis placed on the following criteria (items in bold are the primary evaluation characteristics).

- **Existing manufacturers and new facilities with final financing needs.**
- **New manufacturers that are able to increase the supply of affordable units in less than 12 months of an award**
- Applicant's ability and overall time to produce and bring units to market
- Number of units anticipated to be produced per year
- Percentage of affordable units produced by the factory versus market-rate units produced
- Economic impact/jobs created by the manufacturing facility
- Sustainability and energy efficiency of units produced. At a minimum, all units should be manufactured to be Electrification-ready, including providing the necessary panel capacity and wiring for all appliances, potential solar and EV-ready/charging. In addition, to the extent that it can be completed by the applicant, all units produced for a project in Colorado should be manufactured to the 2021 IECC Standards.

## Reporting

Borrowers will report quarterly (unless otherwise noted) on development progress as well as production amounts. The specific reporting requirements must include the following:

- Factory Name
- Factory Street Address
- City and County Location
- Number of Units Produced - Market and Affordable
- Number of Jobs
- Financial Statements (annual basis)

In addition, CHFA will be required to report the following information quarterly to OEDIT:

- Total Funded Amount
- Funding Date
- Loan Maturity Date and Interest Rate
- Total Project Cost
- Project Application Status (prospect, declined, term sheet issued, approved, approved and declined by applicant, committed, closed construction percent completed)
- Factory Lease Expiration Date



## Application Process and Loan Distribution

CHFA will begin accepting applications on or about October 9, 2023, through November 3, 2023. Final award announcements will be made between December 2023 and January 2024.

Please send an email to [innovativehousing@chfainfo.com](mailto:innovativehousing@chfainfo.com) or contact the following individuals with questions or to receive an application:

Steve Boice  
Manager of Business Finance  
303-297-7468  
[sboice@chfainfo.com](mailto:sboice@chfainfo.com)

Ryan TerBush  
Commercial Loan Officer II  
303-297-5266  
[rterbush@chfainfo.com](mailto:rterbush@chfainfo.com)

Borrowers will be sent a Proposition 123 Modular Finance Loan Program Application via a secure email platform. The application, in addition to the following information will be required to be submitted:

- Project Plan (Included w/Application)
- Project Narrative
- Letters of Support from Local Government (if available)
- Operational Narrative (details on operating layout/ efficiencies/cost savings, estimated number of units produced - affordable vs market, number of jobs created, etc.)
- Location Map, including Flood Plain Information
- Title Policy, Warranty Deed, Purchase Contract, Letter of Intent
- Final Site Plan with Approval from Local Authority
- Personal Financial Statement (members w/20%+ ownership)
- Sponsoring/Borrowing Entity Financials: For the most recent 3 years (tax returns or audited) and company prepared Interims dated within 90 days
- Proposed Loan Terms
- Construction Budget (if applicable)
- Total Proposed List of Sources and Uses of Funds
- Other Funding Commitments, Equity Commitments, Pledges, etc.
- Projected Operating Income and Expenses for the Term of the Loan
- Proposed Take-out Financing (if applicable)
- Sales Narrative (strategy, key customers, number of units sold in state of Colorado)
- Lease Agreement (if applicable)
- Final Organizational Chart for Borrowing Entity, Including the Individual Principals
- Appraisal (if applicable)
- Team Profiles (resumes/background/experience)
- Phase I Environmental Report for Transactions over \$750,000
- **A Full Construction (if applicable) and Legal Due Diligence Check List to Be Provided Upon Loan Commitment Acceptance**



Once an application is approved, CHFA will provide the applicant with a loan commitment, along with a list of outstanding construction- and legal-related due diligence items to be collected. The commitment will be valid for 12 months and must be signed and returned to CHFA, along with a \$5,000.00 commitment fee (for construction loans) from the borrower or project sponsor.