



Credit Enhancement

Credit enhancement refers to the backing of a loan or bond for an affordable housing project by a local government. This makes the investment more attractive to a bank or bond investor, therefore lowering the interest rate. The cost savings are then transferred back to the affordable housing developer.

BACKGROUND

Credit enhancement provides leverage to developers creating housing that achieves a jurisdiction’s housing goals. A jurisdiction specifies the criteria a project must meet to qualify for the enhancement program, such as transit-oriented housing development or housing within urban centers. If a project qualifies, the developer must construct a specified amount of affordable housing as a part of the development or pay the jurisdiction in lieu of on-site construction.

Constructing a credit enhancement program requires an ordinance authorizing the program. The ordinance should specify the types of developers eligible for the program (private or non-profit developers) and the intended beneficiaries of the project, such as the specific income levels or populations. Additional review processes required for approval should also be specified. Jurisdictions may choose to assign an application fee.

Once the program is in place, planners and building officials can actively market it to developers as projects are proposed or passively wait for applications to enter the system. The project review team that administers the program will require expertise in housing development and real estate finance and law. Because of the resources required to administer this tool, smaller jurisdictions may want to pursue interjurisdictional cooperation to administer the program and provide sufficient leverage and review.

TOOL PROFILE

Objectives

[Housing in Centers and Near Transit](#)

[Housing Options in Expensive Markets](#)

[Missing Middle Density](#)

Type of Tool

Other Financial Tools

Project Type

Multifamily

Ownership

Rental

Affordability Level

**Most effective for units
<80% AMI**