When does a Catalyst Loan make good sense for the borrower? When are other options in an owner’s best interest?

Catalyst generally makes most sense for mid-cycle properties – those that can benefit from energy and related health & safety improvements, but are not nearing a property financing event (e.g. purchase/sale, expiring use, or refinancing).

If the costs of energy improvements can be included in a larger construction loan or commercial mortgage, such work can often be financed for longer terms at lower interest rates than that offered by the Catalyst Loan Program. First mortgages and full-property refinancing will always be preferable to subordinate, shorter-term, higher-cost loans, regardless of the type/quality of security accepted by the lender. Therefore, a Catalyst loan is ideal for properties where a new mortgage is not possible, but subordinate financing and other types of security can be approved by the first mortgage lender.

That said, Catalyst Loan terms may be more favorable than mezzanine debt in certain new construction, gut rehabilitation or substantial renovation projects.

If a Catalyst Loan does make sense, what are the restrictions or covenants, if any, on adding new debt to the property?

Restrictions and covenants will vary by property, so owners must identify such restrictions or covenants related to existing debt, equity, grants and forgivable loans, project-based subsidies, and mortgage insurance requirements to determine what level of security is available. Here’s an overview of what needs to be examined:

- **Debt providers**
  These include, but are not limited to, state housing finance agency debt and bond funds, debt from other publicly funded sources, private bank or mortgage debt, etc. Generally, it’s possible to secure approval of non-mortgage backed financing from these sources and to use the security options described in the sections below.
However, IPC has found that Fannie Mae and Freddie Mac do not allow any forms of subordinate financing, including subordinate mortgages. Instead, they encourage owners to use their green financing programs which allow owners to take a second mortgage from Fannie or Freddie for green upgrades. In such circumstances, IPC’s Navigator Pre-Development Loan may be a valuable resource to fund and defer the repayment obligation for the pre-development work necessary to assess, scope and price out work that will qualify under these programs. More information is available at the following links:


- **Equity providers**
  These include low income housing tax credit (LIHTC) syndicators, among others.

- **Grants, forgivable loans or project-based subsidies**
  These can be from any source that may put affordability or other restrictions on a property.

  If there is HUD funding on a property it’s almost certain that HUD approval of new debt will be required, and that HUD will want new debt to be secured via a subordinate mortgage. HUD will likely do a careful review of all loan documents prior to authorizing. IPC has built relationships with the New England Region HUD office and has set precedents with several projects in CT that should make the HUD approval process easier for properties in other regions.

- **Mortgage insurers**
  If a property has HUD-insured debt, HUD will likely require approval of any additional debt regardless of form of security.

### What forms of security are available through the Catalyst Loan Program? How are they used?

The Catalyst Loan is ideal for properties where a new mortgage is not possible, but subordinate financing with other types of security can be approved by the first mortgage lender and other funders. Below is a list of security options IPC will seek. Most preferred, but least available options are listed first, followed by other options in descending order of preference.
1. **Mortgage**
   - A first mortgage – this is usually only available with free and clear property ownership.
   - Subordinate mortgages – these may be available to secure the Catalyst Loan with approval from priority mortgage holders and other funders. If not, a non-mortgage form of security is usually possible; however, IPC will always try to secure a mortgage if we can.
   - HUD approvals - As described above, new loans to properties with HUD financing, subsidies, or mortgage insurance generally require HUD approval and HUD will likely require new debt to be secured with a subordinate mortgage. They also require review and approval of all new loan documents. (IPC will support with PEA efforts.)
   - Mortgages are always required for Catalyst loans to new construction projects.

2. **Income Assignments**
   - Condos/Co-ops – The Catalyst loan may be secured via collateral assignment of co-op or homeowner’s association fee income. This requires association board approval and often requires a majority vote of approval by association members (individual unit or shareholders).
   - 3rd Party Solar – The loan may be secured with collateral assignments of power purchase agreement income and any solar subsidy income.

3. **Corporate or Personal Guarantees**
   - Examples where this solution has been used include properties with existing debt from private lenders. It also includes properties with debt from state housing finance authorities and other state agencies. Catalyst loans to properties with CT Housing Finance Authority debt and other state funded subsidies has been reliably approved in CT. (IPC will support with PEA efforts.)

**Uniform Commercial Code (UCC)-1 Filings**
   - Public notice filing process whereby IPC places liens on specific energy improvements funded by the Catalyst loan. IPC places UCC-1 filings for all Catalyst loans, as applicable, regardless of form of security.