Below-market financing of affordable housing development overview

Below-market financing reduces the costs of servicing debt incurred in the development of rental or for-sale properties, thereby reducing the level of rents or sale prices needed for the development to be economically sustainable.

Below-market financing typically involves providing funds at a lower rate of interest (or with lower fees) than would be required from a market-rate funder. Compared with capital subsidies, below-market loans may have a much smaller impact on affordability on a dollar-for-dollar basis since the loans ultimately must be repaid. However, funds loaned out at a low interest rate can be recycled to help subsequent borrowers as the funds are repaid.

This section reviews some of the key considerations involved in creating and administering a below-market debt financing program.