



Housing Trust Fund of Santa Barbara County

**Revolving Loan Fund
Program Guidelines**



2021

Housing Trust Fund of Santa Barbara County
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About the Housing Trust Fund of Santa Barbara County

Mission: The Housing Trust Fund of Santa Barbara County (HTF) helps maintain the socio-economic fabric of Santa Barbara County by addressing the fundamental building block of healthy communities--housing that is affordable to local workers and residents. HTF creates innovative partnerships and new sources of private and public revenue permanently dedicated to expanding the supply of affordable housing for low-to-middle-income residents of Santa Barbara County. HTF supports housing projects that enhance the quality of life and preserve the long-term affordability of the housing as a community resource.

History: Santa Barbara County's high housing costs affect families and individuals across a broad range of income and socio-economic status. To address our regional affordable housing needs, a broad-based coalition of community leaders created a countywide non-profit financing initiative for affordable housing, the Housing Trust Fund of Santa Barbara County. HTF helps bridge the housing 'affordability gap' by partnering with the private, public and non-profit sectors to raise financial resources to expand affordable housing opportunities.

Since 2005 HTF has operated a \$7.2 million *Revolving Loan Fund* in partnership with community-minded lenders that provides below-market interest rate loans to facilitate the production, rehabilitation and preservation of affordable housing. In 2012 launched a Workforce Housing Program that provides down payment loans to help workforce homebuyers purchase an entry-level home. HTF initiated a new Housing Innovations Program in 2019 to promote innovative housing construction techniques and use of sustainable building materials.

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Robert Pearson, Retired Executive Director, Housing Authority of the City of Santa Barbara

President/CEO:

Jennifer Bigelow McGovern
(805) 685-1949, j.mcgovern@sbhousingtrust.org



Revolving Loan Fund for Affordable Housing

Program Purpose:

The HTF Revolving Loan Fund is designed to provide seed capital, construction and bridge and permanent financing loans to support rental projects and homeownership opportunities that create, maintain, preserve, or expand the County's affordable housing stock. Loan funds are used to support the initiation of affordable housing projects by community groups that might otherwise not proceed, to facilitate projects sponsored by experienced developers, and to help reduce project development costs.

Established in partnership with community lenders and private foundations, the HTF Revolving Loan Fund lends funds to eligible affordable housing sponsors for site acquisition, predevelopment costs, project construction and bridge financing. Loans are structured as short-term, below-market loans that are repaid from project construction or permanent financing and revolve back into the fund.

Projects funded by the short-term Revolving Loan Fund provide needed housing for working families, single parents, minimum-to-moderate wage earners, farmworkers, senior citizens, homeless individuals and persons with special needs.

Qualified Applicants:

Eligible borrowers include qualified non-profit and private developers, public entities, non-profit organizations, faith-based and other community groups.

HTF loan funding may be made to projects sponsored by nonprofits, public agencies, social service agencies or community groups or to a partnership between a private developer and qualified 501(c)(3) where the project's exempt purposes are protected through legal agreements.

HTF may also fund projects sponsored solely by private developers provided that: 1) Loans to projects must be made to assist units within a project that serve residents that meet the requirements of a charitable class; 2) Loans are not available from conventional sources to provide the needed financial assistance and the HTF loan does not compete with conventional lenders; and, 3) The long-term affordability of the assisted housing is maintained through executed legal contracts, deed restrictions, covenants, certifications or other servitude.

Eligible Projects & Targeted Clientele:

Housing project types can include new construction rental and homeownership projects, acquisition and rehabilitation projects, conversion of non-residential buildings to housing, SRO (single-occupancy room) projects, mixed-use projects, group homes, assisted living projects, homeless facilities (shelters, transitional housing and safe havens), residential treatment facilities, co-housing and self-help housing developments. HTF may also provide funding for acquisition of unimproved or improved property where development of the land for one of the eligible types of housing listed above will be initiated within 36 months.

The project ownership structure may be varied, including rental, For Sale (single-family, condominium or townhome) or cooperatively owned. Projects may serve a variety of needy households, including families, single parents, local employees, farmworkers, senior citizens, handicapped and disabled persons, homeless individuals, persons in substance abuse recovery and other persons with special needs.

Affordability Requirements:

Eligible projects must serve households that meet federal definitions of poverty and housing affordability, with incomes between 0-30% of the County Area Median Income (AMI) for extremely low-income, 31-50% for very low-income, 50-80% of AMI for low-income households and 81-120% AMI for moderate-income households, adjusted for household size¹. All assisted units must be structured with long-term affordability provisions.

A minimum of 25% of the project units must be in the affordable category to be eligible for HTF funding. HTF will give priority to projects with a higher percentage of affordable units and may assist projects to achieve a greater degree of affordability. HTF assistance will apply only to the affordable units serving a charitable class within each project. Projects must be structured so that their affordability is maintained for the longest feasible period, with the minimum standard being 30 years. Longer periods of affordability between 55 to 90 years are encouraged. When using State or federal funding sources that require 55-year affordability, HTF will adhere to this affordability standard. Applicants must agree to execute a Regulatory Agreement restricting the affordability of the project for the applicable period of time.

Use of Funds:

Generally, funds will be used to make short-term loans up to a maximum of 36 months for the acquisition, new construction and rehabilitation of affordable housing throughout Santa Barbara County (some longer term loans up to 60 months are available, depending on availability of capital). Permanent financing loans to Tax Credit and special needs affordable housing projects may have terms up to 30 or 40 years. Eligible types of loans are for:

- Site acquisition or land take-out;
- Project predevelopment expenses (architecture, engineering/soils, environmental reports, financial consultants, etc.);
- Construction and rehabilitation (site preparation, construction, materials);
- Bridge financing loans (availability is limited)²
- Tax Credit permanent gap financing loan (availability is limited)³
- Permanent financing loans for small-scale projects that serve populations with special needs.

Loans will not be made for agency operating expenses, social services or project reserves.

¹ The County Area Median Income (AMI) as published annually by the U.S. Department of Housing and Urban Development (HUD) is \$90,100 for a family of four in 2021. Priority for the use of Revolving Loan Fund capital resources is currently given to projects serving extremely low, very low to low-income households earning between 0–80% of Area Median Income, adjusted for household size. This is due to the HTF preference of meeting Community Reinvestment Act guidelines for the lenders participating in the fund. HTF may also fund mixed income projects as long as the percentage of affordable units in the project meets the threshold requirement of 25% and the affordable units are primarily targeted to very low and low-income households.

² Currently permanent bridge-financing loans would be limited to a maximum term of 3-5 years, depending upon the source of HTF funding.

³ Tax Credit loans up to \$500,000 per project are available up to a 20-year term, depending upon project need and funding availability. Projects applying for federal low-income housing tax credits are eligible.

Funding Availability:

HTF currently has \$3 million in capital available for qualified affordable housing projects. HTF will receive and process eligible applications until all current funding is exhausted. HTF is seeking additional private and government capital for the Revolving Loan Fund.

Selection Criteria⁴:

Funding Priorities: Funding is available on a rolling, first-come, first-served basis. Generally, eligible projects that meet threshold requirements will receive equal funding consideration and priority. However, funding decisions by HTF may take into account geographic dispersion and any lender or donor requirements. HTF will give priority to projects with a higher percentage of affordable units. HTF will also consider project readiness as well as the timeliness in repayment of loan proceeds, so that the Revolving Loan Funds recycle in an optimum manner.

Geographic Area To Be Served: It is the intention of the HTF to support projects throughout Santa Barbara County. HTF will fund eligible projects located within the five (5) distinct county housing submarket areas that include the South Coast, Santa Ynez Valley, Lompoc Valley, Santa Maria and Cuyama Valley. Projects may be located within the eight incorporated cities or unincorporated rural and suburban areas. Projects located in jurisdictions that contribute to the HTF may receive funding priority due to the requirements of the contributing entity. The HTF Revolving Loan Fund is restricted to assisting projects located within Santa Barbara County.

Lender/Donor Preferences: HTF may also give priority to projects that meet the preferences or requirements of participating lenders and donors. Such conditions may include project affordability or household income targeting as well as the project's geographical location.

Application Process:

Applicants interested in funding from the HTF Revolving Loan Fund will follow the application process outlined below. All project applications will be accepted, screened and reviewed based on the program's eligibility requirements and priorities established by the HTF Board of Directors and Loan Committee. All loan decisions and underwriting determinations will be made at the discretion of the Loan Committee and HTF Board of Directors. Staff is available at (805) 685-1949 or email: j.mcgovern@sbhousingtrust.org to answer questions and clarify project and sponsor eligibility requirements, funding standards and project evaluation criteria.

Initial Project Review:

- Applicants should first contact HTF staff by telephone or email to discuss the eligibility of the project for loan funding, the project need, and the current availability of funding.
- If the request appears to be eligible and meets the program requirements, staff will invite the applicant to submit a Preliminary Application, along with a cover letter. Copies of the Preliminary application form can be obtained by contacting the HTF office at (805) 685-1949 or by emailing Jennifer McGovern at j.mcgovern@sbhousingtrust.org.
- Staff will conduct an initial review of the project and circulate a preliminary analysis to the Loan Committee for their input and advice. HTF will then decide whether the project will advance to a full loan application.

⁴ Applicants should be aware that the Revolving Loan Fund selection criteria is subject to change as the fund develops.

Full Project Application:

- Applicants whose projects meet the threshold requirements will be invited to submit a full loan application along with documents and analysis required for loan underwriting. A formal loan application will be forwarded to the applicant for completion and may include the following:
 - Evidence of Site Control;
 - Project description and experience narrative;
 - Development team experience, resumes and references;
 - Project pro forma that shows proposed project development or acquisition/rehab costs, proposed funding sources & uses, a 15-year cashflow projection for rental projects or proposed sale prices for homeownership projects⁵;
 - Construction or Rehabilitation work: A description of the proposed construction or rehabilitation work required for the project, if applicable;
 - Environmental questionnaire provided by the participating lender(s);
 - Project development timeline indicating major project development dates (e.g. site control; funding application dates; local review; construction start and completion, occupancy, etc.);
 - Market studies or comparables that justify the rents or home sale prices;
 - A marketing plan, including a description of the income certification process for affordable units;
 - A description of the proposed ownership and management plan;
 - A description of how long-term affordability of units will be preserved, including copies of any legal documents (deed restrictions, covenants, etc.);
 - Most recent audited financial statements and a current agency or firm financial statement;
 - Board of Directors list with a brief indication of Boardmember background and experience if a non-profit; company profile if a private developer;
 - Corporate Resolution to Borrow;
 - Articles of Incorporation and By-Laws, if a non-profit organization.
 - Statement of Good Standing from the Secretary of State;
 - Copies of required appraisals, Preliminary Title Report environmental reports, Flood Determination Certification, rent rolls, market studies, construction estimates, evidence of Liability Insurance and Hazard Insurance and other documentation, as appropriate for the loan type;
 - An appraisal (HTF will work with the applicant to arrange the appraisal); and,
 - Additional documentation as may be required to evaluate the project.
- Staff will receive the application and complete a formal underwriting analysis of the loan with due diligence documentation that is circulated to the Loan Committee for review. Staff may recommend loan terms for the Loan Committee's consideration.
- The Loan committee will then convene to either recommend approval or rejection of the loan, along with interest rate and conditions, to the HTF Board of Directors.
- If the HTF Board of Directors approves the loan, a funding commitment letter will be issued and funds will be reserved for the project.
- HTF will coordinate with the borrower and Title Company and any other lenders to complete Loan closing documentation, escrow closing and funding disbursement.⁶

⁵ A cashflow projection is required for rental projects. For Sale projects should include proposed sale prices by unit size, targeted family incomes, downpayment or other financing assistance and other assumptions used in calculating prices.

⁶ Loan closing and funding disbursement procedures will vary depending on whether the loan is for acquisition, predevelopment expenses or construction financing.

Loan Evaluation and Underwriting:

In underwriting a loan, we evaluate the character in good standing of the applicant, whether the loan request meets our eligibility thresholds, whether the project is viable and will be successfully completed, whether our loan will be repaid on schedule and whether we have adequate loan collateral in case something goes wrong. The general eligibility thresholds are outlined in the following section. HTF, at its sole discretion, may approve a loan that does not conform with all of the underwriting guidelines, or may allow waivers or exceptions to loan underwriting guidelines. Any such approval, waiver or exception is made on an individual project basis, based on the merits of the project, sponsor capacity and benefits to meeting community affordable housing needs.

Eligibility Thresholds:

Sponsor eligibility: current non-profit 501 (c)(3) agency or public agency status; if a non-profit/private partnership or private developer, legal or ownership structure of the entity.

Site Control: demonstration of site control through an option or purchase agreement, deed of trust or similar legal instrument⁷.

Land Use: ability of the sponsor to develop the project under current local land uses; identification of any needed changes related to the General Plan or zoning;

Funding Sources: Demonstration of committed or proposed funding sources for the project (local, state or federal government, private lenders or philanthropic);

Local Support: Demonstration of local support for the project, including funding commitments or written indications of plans for future funding;

Project Affordability and Targeted Incomes: Number of units and percentage affordable; targeted income levels for extremely low, very low, low and moderate-income households.

Term of Affordability: Commitment to maintaining the affordability of the project for a minimum of 30 years. Projects with longer affordability requirements are encouraged. Projects utilizing State HCD funds will be required to have 55-year affordability requirements.

Development Capacity: indication of the capacity and ability of the project sponsor and proposed Development Team to develop the project in a timely manner.

Proposed Ownership and Management Structure: ability of the sponsor/ownership entity to manage the asset and maintain project affordability over time.

Completion of Project Due Diligence: Completion of project due diligence materials, as appropriate for the project development stage, including but not limited to:

- Preliminary Title Report
- Appraisal
- Phase I Environmental Report
- Identification of barriers to development (e.g. required relocation assistance, environmental issues, necessary land use or zoning changes, development plan requirements, etc.)
- Preliminary project development estimate and proposed sources of funding
- Unusual site conditions

⁷ HTF recognizes issues of timeliness involved in land and acquisition transactions and is willing to work with applicants to evaluate the feasibility of Revolving Loan Fund financing prior to site control.

Program Loan Terms⁸:

In general, the loan terms for acquisition, predevelopment and construction loans are outlined below. The HTF Loan Committee, in consultation with its participating lenders, may at its discretion consider any exceptions or refinements to the loan terms. The Loan Committee recommends the loan terms to the HTF Board of Directors who sets the final loan terms and conditions.

Maximum Loan Amount ⁹ :	The Revolving Loan Fund currently has a \$7.2 million loan pool. Loan amounts are determined by project need, the availability of funding and requirements of participating lenders. Typically acquisition and predevelopment loans would not exceed \$1-1.5 million and construction/rehabilitation loans would not exceed \$2 million. The maximum loan for Tax Credit loans is \$500,000. ¹⁰
Use of Loan Proceeds:	For acquisition loans, costs related to site or property acquisition only. For predevelopment loans, project-related predevelopment expenses only. For construction loans, construction-related costs only. Tax Credit loans may be used for permanent gap financing.
Loan to Value Ratio:	Generally, 85%; however, we may allow up to 100% of appraised value, depending on the project.
Term:	Generally, up to 36 months for acquisition, predevelopment and construction loans. Permanent bridge financing loans may be up to five years. Tax Credit and special needs housing permanent loans may have up to 20-40 year term, depending on project need.
Interest Rate:	Below-market and based on the HTF source and cost of funds ¹¹ .
Repayment:	The take-out source must be identified and, in most cases committed. Under some circumstances HTF may rely on a Loan Guaranty from an entity that can demonstrate significant financial strength in lieu of a committed take-out source.
Collateral/Security:	First Deed of Trust, secured by real property, or other security as approved by the HTF Loan Committee. HTF may consider a Loan Guaranty from an entity that can demonstrate significant financial strength. Under certain circumstances, HTF may consider subordinating its lien position to other lenders. Tax credit loans will be secured by a Second Deed of Trust.
Fees:	A non-refundable commitment fee of \$500 is required with the submittal of the full application for loan processing and in order to reserve any approved loan funds. The commitment fee will be applied towards the loan origination fee. A loan origination fee of 1% of the

⁸ The following general HTF program loan terms are currently effective but may be subject to change, depending upon funding availability and the requirements of participating lenders.

⁹ Funding limits may be periodically revised based on the availability of loan funds.

¹⁰ Please see Appendix A for the terms and conditions for Tax Credit loans.

¹¹ HTF receives funding from private banks and lenders and the cost of these funds vary. Applicants should contact staff to ascertain current funding availability and interest rates. See Appendix A for Tax Credit loan interest rates.

loan amount will be charged for all loans. The applicant may also pay a documentation fee of \$300-500, depending upon the loan closing requirements, plus other out-of-pocket expenses and legal costs¹².

- Loan Payments:** Loans generally will have monthly payments of interest only. Tax credit loans will be structured with residual receipts payments due on an annual basis. Monthly loan payments will be required to be by automatic loan debit whenever possible. If there is not sufficient cash flow to make regular payments, an interest reserve may be considered.
- Appraisal:** HTF requires a satisfactory appraisal with a maximum loan to value ratio of 100%. HTF will arrange for the appraisal, in coordination with the applicant, so as to satisfy the requirements of any lending partner. In some cases, HTF may rely on an appraisal commissioned by a lending partner. HTF will require a minimum debt coverage ratio of 1.00x based on appraised net income.
- Guarantors:** The loan will be guaranteed by project principal(s), as appropriate. In some instances, the Loan Committee and Board may approve loan guarantees provided by a qualified third party.
- Regulatory Agreement:** All projects receiving HTF funding derived from state or federal sources must have a regulatory agreement recorded against their title to ensure the affordability of assisted units and occupancy by income eligible households.
- Loan Documents:** HTF loans will require an executed Promissory Note, Loan Agreement, Deed of Trust, Affordable Regulatory Agreement, and other documents appropriate to the transaction.
- Documentation and Other Conditions:** The applicant will provide HTF and participating lenders with any other documents, records and information needed and requested in order to determine whether or not to approve the loan request. The applicant will provide the HTF Loan Committee with all appropriate project cost estimates, contracts, income/expense budgets, financial statements and tax returns as required by HTF.

Equal Housing Opportunity:

HTF is an equal opportunity lender. All projects receiving HTF funding must comply with State and Federal Fair Housing and Equal Housing Opportunity laws.

Prevailing Wages and Relocation Laws:

HTF will only make loans to projects that are either exempt from state prevailing wages and Davis-Bacon requirements or where the borrower has experience successfully developing projects that pay state prevailing wages or Davis-Bacon wages. Projects receiving HTF loans from revenue sources derived from local, state or federal sources will be subject to applicable state or federal relocation laws.

¹² Examples of other out-of-pocket expenses may include Escrow settlement fees, Title recording fees, lender endorsement fees, etc., as appropriate for the project. The applicant is also responsible for any legal fees that may be incurred due to negotiations on changes to our standard loan documents or for resolving technical issues related to the loan.

Appendix A

Low Income Housing Tax Credit Loans

In February 2014, the HTF Board of Directors adopted the following revised terms and conditions for a permanent financing loan for affordable housing projects applying for Federal Low-Income Housing Tax Credits under the State of California Tax Allocation Credit Committee (TCAC).

Loan Term:	Up to 20 years, depending on project need.
Interest Rate:	3-4% simple interest (or the maximum rate that the State TCAC will allow for loans that qualify for bonus points as public funds)
Loan Amount:	Range of \$10,000 to \$15,000 per low income unit Up to \$500,000 maximum per loan Up to \$1 million in initial loans. Subsequent loans will be dependent upon availability of funding.
Payment:	Annual payments based on Residual Receipts (payments from net income after debt service). First right to residual receipts. Balloon payment of the remaining balance at maturity.
Collateral:	Second deed of trust on the project—all other soft loans must subordinate.
Use of Funds:	Take-out or permanent financing. Funds may be used during predevelopment or construction phases and rolled over into permanent.
Affordability:	Deed restriction requiring occupancy at 60% of area median income or lower for 55 years or longer.
Funding Sources:	U.S. Treasury CDFI Fund, State Local Housing Trust Fund Program, HTF equity funds and grants and private foundation grants.