



LHTF Program Guidelines¹

These guidelines apply to the Local Housing Trust Fund Program (LHTF Program) of the San Luis Obispo County Housing Trust Fund (HTF). The HTF's LHTF Program is based upon a \$575,000 grant from the Local Housing Trust Fund Program² of the California Department of Housing and Community Development (HCD) that was announced on October 30, 2014. The HTF's LHTF Program also includes \$1.15 million in other funds that were pledged to match the HCD grant funds.

For the purpose of these Guidelines, "LHTF Loans" means loans that are funded using either LHTF grant funds or matching funds. "LHTF Fund Loans" means loans that are funded in whole or in part with the actual LHTF grant funds. "Matching Fund Loans" means loans that are funded exclusively using matching funds. The grant funds have slightly different requirements than the matching funds. These guidelines do not apply to other funds administered by the HTF.

In addition to these guidelines, applicants should also refer to HTF's Instructions for Applicants and Loan Review Process & Underwriting Guidelines, which are both online at www.sloctf.org/loans.htm.

1) Eligible Projects.

The HTF may provide financing for the following types of projects under its LHTF Program.

- a) **Rental Housing Projects.** LHTF Loans may be used to finance the development, acquisition, preservation, or rehabilitation, including adaptive reuse, of rental housing projects, including supportive housing and group homes.
- b) **Safe Havens and Transitional Housing.** LHTF Loans may be used to finance the development, acquisition, or rehabilitation, including adaptive reuse, of safe havens and transitional housing, including residential treatment facilities.³
- c) **Emergency Shelters.** LHTF Loans may be used to finance the development, acquisition, or rehabilitation, including adaptive reuse, of emergency shelters only if the project has an acceptable source of repayment.
- d) **Ownership or For-Sale Housing Projects.** LHTF Loans may be used to finance the development, acquisition, rehabilitation, or conversion, including adaptive reuse, of ownership or for-sale housing. These projects will have the lowest priority for financing under the HTF's LHTF Program.
- e) **Property Acquisition.** LHTF Loans may be used to finance the acquisition of improved or unimproved property that will be used within two years for one or more of the above purposes.

¹ These Guidelines are subject to change.

² The LHTF is funded from Proposition 1C, which was approved by the voters in 2006. The enabling legislation for the LHTF is Section 50843.5 of the California Health and Safety Code. The program is being implemented through Sections 7150 to 7160 of the California Code of Regulations. The 2014 funding round was authorized by AB 532 of 2013. The HTF must comply with these laws plus our contract with State HCD when we operate our LHTF Program.

³ Emergency shelters, safe havens and transitional housing are defined in the California Health and Safety Code.

(Revised 11/3/15)

The HTF does not finance individual home buyers or home owners.

2) Eligible Borrowers.

The HTF will provide LHTF Loans to a wide range of developers and sponsors of affordable housing including individuals, partnerships, corporations, LLCs and government agencies. Both for-profit and nonprofit entities are eligible to borrow. The HTF is primarily concerned about the borrower's financial strength, management capacity and ability to complete the project as planned rather than the borrower's legal structure.

3) Income Targeting.⁴

The income targeting requirements for the HTF's LHTF Program are based on a combination of HCD's legal requirements and the commitments we made in order to receive the LHTF grant. HCD requires that at least 30% of both its grant funds and the matching funds must be used for extremely low income housing. We have committed to use 50% of our funds for extremely low income housing. While HCD allows up to 20% of both its grant funds and the matching funds to be used for moderate income housing, the HTF committed to limit all of the financing under its LHTF Program to extremely low and low income housing (below 80% of AMI). Subject to confirmation by HCD, the HTF assumes that group homes, safe havens and transitional housing serve extremely low income households.

Projects that include units for higher income groups are eligible for LHTF Loans provided that the LHTF financing only assists the units for income eligible households.

4) Available Funds.

A total of \$1,725,000 is available under the HTF's LHTF Program. The funds are divided into the following categories. Individual loans may use funds from multiple categories.

Income Targeting	Percent of AMI	Percent of Funds	LHTF Funds	Matching Funds	LHTF Program
Extremely Low Income	30%	50%	\$287,500	\$575,000	\$862,500
Low Income	30% - 80%	50%	\$287,500	\$575,000	\$862,500
Moderate Income	80% - 120%	0%	\$0	\$0	\$0
Combined		100%	\$575,000	\$1,150,000	\$1,725,000

5) General Loan Terms and Conditions.

The HTF will generally provide short-term, subordinate loans with interest only or deferred payments under the LHTF Program. The general loan terms and conditions for our LHTF Loans are listed below. The HTF reserves the right to vary and make exceptions to these terms and conditions.⁵

⁴ The income limits are based on percentages of area median income (AMI) adjusted for household size. The income limits are adjusted annually by HCD and are posted online at: www.sloctf.org/files/income-limits.pdf.

⁵ The HTF may approve lower interest rates and points, and other more favorable terms, on a waiver or exception basis for projects that exclusively serve extremely low income households.

- a) **Interest Rate** –LHTF Loans will generally have interest rates of between 5.0% and 7.0%.
- b) **Loan Fees** – LHTF Loans will have loan origination fees of between 0.5% and 2.0%. Borrowers will also be charged the actual costs for document preparation fees, appraisals, environmental reviews, legal expenses and other expenses related to the loan origination.
- c) **Collateral** – All LHTF Loans must be secured by real estate. LHTF Fund Loans must be secured by the assisted project. Matching Fund Loans may be secured by different property.
- d) **Security** – LHTF Loans will generally be in a junior position. The HTF will review each project individually to determine what lien position is acceptable.
- e) **Loan to Value (LTV) Ratios** – The amount of the LHTF Loan plus any senior debts may not exceed 100% of the value of the collateral under any circumstances. The HTF is likely to require a lower LTV based on a variety of factors.
- f) **Combined Loan to Value (CLTV) Ratios** – The HTF may occasionally allow the total debt on projects that we finance to exceed the value of the collateral provided that the amount of the LHTF Loan plus any senior debt does not exceed the value (See Loan to Value (LTV) Ratios).
- g) **Term of the Loan** – LHTF Loans are generally for five years or less. Longer terms may be considered on a case-by-case basis.
- h) **Loan Payments** – LHTF Loans will generally have monthly payments of interest only. Higher payments may be required if the project has sufficient cash flow to afford higher payments. Interest reserves may be considered if the project does not have sufficient cash flow to make regular payments and can provide sufficient loan collateral.
- i) **Take Out Financing** – All projects that receive LHTF Loans must have a source of or plan for repayment that is acceptable to the HTF.
- j) **Regulatory / Affordability Period** – The affordable units in all projects that receive LHTF Loans must be affordable for at least the following periods:
 - i) Affordable rental units must be affordable for at least 55 years.
 - ii) Affordability ownership units must be affordable for at least 30 years, unless the unit will be subject to an acceptable shared appreciation agreement.⁶
 - iii) Emergency shelters, safe havens and transitional housing units will be assumed to serve extremely low income households and must serve their target populations for at least 10 years.
- k) **Regulatory Agreement / Deed Restriction** – Projects that receive LHTF Loans must generally have a regulatory agreement or deed restriction recorded against their title to ensure that some or all of the units will be affordable to and occupied by income eligible households as required under Health and Safety Code Section 50843.5.
- l) **State Prevailing Wages** – LHTF Fund Loans must comply with state prevailing wage laws. Matching Fund Loans are not subject to state prevailing wage law. The HTF will only provide LHTF Loans for projects that must pay state prevailing wages or Davis-Bacon wages if the borrower has experience successfully administering these requirements in the past.
- m) **State Relocation Laws** – Projects that receive LHTF Fund Loans are subject to state relocation laws.
- n) **Equal Housing Opportunity** – All projects that receive LHTF Loans must comply with all applicable Equal Housing Opportunity laws.

6) Tax Credit Project Loan Terms and Conditions.

Our Tax Credit Project loan product is currently suspended due to insufficient funding.

⁶ Section 50843.5(d)(3) of the California Health and Safety Code allows a waiver of this requirement if the deed restriction would conflict with the requirements of law or another public funding source. Waivers must be approved by HCD.

7) Loan Limits.

The HTF has the following loan limits for its programs. In addition, the HTF will not lend more than is necessary for a project to be financially feasible at the specified affordability level. The HTF reserves the right to modify these loan limits from time to time.

Limit Per	HTF Loans (Generally)	LHTF Loans	Tax Credit Project Loans
Unit:	Cost or value of assisted units.	Same as HTF Loans	<i>Suspended</i>
Project:	\$2.0 million	\$1,725,000	<i>Suspended</i>
Borrower: ⁷	\$4.0 million	\$1,725,000	<i>Suspended</i>
Aggregate: ⁸	Available loan funds	\$1,725,000	<i>Suspended</i>

8) Underwriting Standards.

Underwriting is more of an art, than a science. Consequently, the HTF takes a number of factors into consideration when underwriting a loan application. These factors include, but are not limited to, the following:

- a) **Financial Strength** – The borrower must have adequate financial resources – equity, income and cash flow, as well as project financing – to complete the project.
- b) **Management Capacity** – The borrower must have the management capacity either on staff or under contract to successfully complete the project. For rental projects that will be placed in service before the LHTF Project Loan is repaid, the adequacy of the management plan and management staff or agent will be equally important.
- c) **Experience** – The borrower should have experience with housing projects similar to the one they wish to finance. If the borrower does not have direct experience with similar projects, the HTF will consider related experience and the experience of contractors and consultants.
- d) **Market/Need for Project** – There must be a market or need for the project. Projects that serve extremely low income households will be given special consideration.
- e) **Loan to Value Ratio** – While the HTF can provide up to 100% financing, projects with lower LTVs are preferred. The borrower’s financial strength, management capacity and experience increase in importance as the LTV increases.
- f) **Amount of Funds Requested** – As the total and per unit loan request increases, the loan will be underwritten more rigorously to determine whether the project is feasible with a lower loan amount.
- g) **Project Budget** – The project acquisition, development or rehabilitation budget must be sufficiently detailed and documented for the HTF to assess whether it is reasonable and adequate to complete the project.
- h) **Project Cash Flow/Debt Coverage Ratio** – The borrower must demonstrate that the project either has adequate cash flow to service the loan or provides adequate collateral to defer some or all of the payments. If the HTF will provide a bridge loan for an occupied rental or transitional housing project, the debt coverage ratio should be positive after considering our loan payments.
- i) **Take-Out Financing** – The source(s) of funds to repay the HTF loan must be identified and sufficient documentation provided for the HTF to assess whether its loan will be repaid on schedule. While take-out commitments are preferred, they are not required. Adequate marketing budgets and time will be required for home ownership projects.

⁷ Loans to a single borrower or related entities.

⁸ All loans provided under a particular program or allocation of funds.

The HTF's primary concern in underwriting a loan application is that the borrower will complete the project as planned, which includes being on time and on budget. Secondly, we are concerned that the borrower has the financial strength, management capacity and experience to deal with any problems that may arise. So long as these concerns are satisfied, there can be some give and take on other underwriting criteria.

9) Match and Leverage Requirements.

The LHTF Program has no specific match or leverage requirements for the projects that it finances. Because of the high cost of housing in San Luis Obispo County and the nature of the financing provided by the LHTF Program, it is anticipated that every project that receives LHTF Loans will also receive other public or private financing. As a result, all projects will have matching funds and/or leveraging.

10) Geographic Area Served.

The LHTF Program will only provide financing for projects that are located within San Luis Obispo County and in jurisdictions that currently have an HCD-certified housing element.⁹ At this time, every city and all unincorporated areas of San Luis Obispo County are eligible for financing under the LHTF Program. This may change from time to time.

11) Compliance with LHTF Statutes, Regulations and Contract.

These Guidelines will be modified as necessary to comply with the LHTF Statutes and Regulations and the HCD Contract.

12) Additional Information.

Additional information about the Housing Trust Fund is available online at www.sloctf.org. Further documentation on our lending activities and programs is available online at www.sloctf.org/loans.htm. Specific information and announcements concerning the LHTF Program are also available online at www.sloctf.org/lhtf.htm.

For more information, contact us at:

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⁹ Required by Section 50843.5 (f) of the California Health and Safety Code.