

June 25, 2008

City of Elk Grove

**Affordable Housing Loan Program
Typical Steps in the Loan Application Process**

1. Developer submits a complete loan application to the Housing Division. . Project readiness is considered during the loan application review; and submittal of an application for any required development entitlements is encouraged.
2. Housing staff will underwrite the loan which includes review of the project pro-forma and due diligence documents. Meetings take place between the Developer and staff in order to discuss general loan terms. Developers should review previously executed loan documents by the City in order to note detailed loan terms. The City's general loan terms are as follows:
 - a) The City issues loans not grants. Loans payments are expected in monthly or annual installments during the life of the loan. The loan term is generally 45 years or less.
 - b) The affordability restriction term applicable to the property is generally consistent with bond financing secured for the project, and is at least 55 years.
 - c) The City provides gap financing for projects. The City's loan is to supplement other financing previously secured for the project. The Developer must provide evidence to the City of the other financial sources secured for the project.
 - d) City loans are for construction financing. The City does not offer pre-development loans/land loans due to the increased financial risk.
 - e) The total loan amount is released in installments, and performance benchmarks must be met by the developer for release of each installment.
 - f) Without exception, developers must obtain payment and performance bonds for the total cost of the project (on-sites and off-sites) :
 - 1) bonds for the offsite/ infrastructure improvements will be reviewed in detail by Building & Public Works departments,
 - 2) bonds for the on-site building and land improvements will be reviewed in detail by the Housing Division, and the Housing Division will also seek proof of bonds for the offsite/infrastructure improvements to compare to the development pro-forma construction cost total

- 3) Evidence of securing payment and performance bonds must be provided prior to release of the first loan installment to the developer.
 - g) The City must approve the limited partnership agreements for the projects to ensure correspondence with the City's loan terms. Cash flow distributions, for example, must recognize the timing and manner for repayment of the City loan.
 - h) The City must review and approve language in the loan documents for the additional lenders to the project.
 - i) Agreements for bond financing (generally the primary financing), investor equity, and other financial sources for project development must reach closing within four months of obtaining a Funding Commitment from City Council.
 - j) Close of the City loan will occur no sooner than the close of primary project financing.
 - k) All building permits for a proposed project must be obtained within twelve months of obtaining a Funding Commitment. An extension of up to an additional six months may be allowed with written approval of the Planning Director, based upon documentation of circumstances beyond the control of the applicant.
 - l) The developer is to submit limited partnership documents, management plans, proposed/ final management agreements prior to loan closing.
 - m) After loan closing, the developer must ensure the City receives copies of other lender loan documents. In addition, copies of quarterly operating reports, such as financial statements and monthly rent rolls should be submitted to the City. Copies of State agency inspection reports or other reports for a project must be forwarded to the City.
 - n) The City will conduct property inspection, which includes review of tenant files, during the life of the loan.
3. Following completion of the underwriting process, the staff analysis and funding recommendation will be forwarded to the Affordable Housing Loan Committee (AHLC) for consideration. In addition to the loan terms, the AHLC's key considerations will also include developer site control, status of the proposed project's entitlement requests, and estimated timing of construction completion.
 4. The AHLC will perform an independent review of the loan application. Possible actions of the AHLC include returning the loan application package to staff for re-negotiation or making a recommendation for loan approval or denial to the City Council.

5. Staff re-negotiates terms with the developer as requested by the AHLC or presents the current recommendation to the City Council.
6. The project loan application will be presented to City Council for approval and receipt of a Conditional Funding Commitment. After the developer obtains all required development entitlements, the project will be presented to City Council again to obtain a Funding Commitment and approval of the final form of the City loan documents. With a Conditional Funding Commitment, the loan amount and loan terms approved for a proposed project will be reserved for a maximum period of one year, then the loan commitment automatically terminates if project entitlements are not received. Without exception, all conditions must be met in order to later obtain a final funding commitment. Should the applicant need additional time to secure development entitlements, a written letter documenting the reasons for the request must be submitted to the City Planning Director for consideration for an additional six months to complete the entitlement process and execute the City loan. If a loan applicant seeks further consideration from the City of their proposed project after termination of a Conditional Funding Commitment, the loan applicant must submit a new loan application. After project entitlements are received, draft loan documents will be prepared by City staff for City Council review in order for the developer to receive the Funding Commitment. A resolution is adopted by City Council to authorize the City Manager to execute the loan documents.